

**THE IMPACT OF ENTREPRENEURIAL CHARACTERISTICS
AND BUSINESS PRACTICES ON THE LONG TERM
SURVIVAL OF SMALL AND MEDIUM ENTERPRISES (SMEs)**

By

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ABSTRACT

In South Africa, entrepreneurial ventures have a low survival rate as entrepreneurs start businesses but are unable to turn them into sustainable businesses (Foxcroft, Wood, Segal, Herrington and Kew, 2002: 14). Fatoki and Garwe (2010) note that most new SMEs in South Africa do not move from the first stage (existence) of growth to other stages such as survival, success, take off and resource maturity. As such, it is believed that many of these SMEs do not survive in their first years of operation and thus, do not provide their benefits to society (Persson, 2004). Sutton (1984) is of the opinion that if business owners and managers are good at managing their businesses, then they will do extremely well in terms of ensuring their continuous survival of their businesses. For SMEs to survive and succeed in their business operations, it is pertinent that its owners or managers possess certain entrepreneurial characteristics (MacGregor and Varzalic, 2005; Westerberg, Singh and Häckner, 1997) and carry out specific business practices. For these reasons SMEs deserve much more attention, especially with regard to its business practices, which are often developed as part of the entrepreneur's personal life strategies. These business practices and personal life strategies are used as a means of earning a living, which in turn is largely influenced by the entrepreneur's personality characteristics (Littunen, 2000). Hence, an increase in the long-term survival of SME will result in sustainable job creation; poverty eradication and improved standards of living.

The primary objective of this study was to investigate which entrepreneurial characteristics and business practices have a bigger influence on the long-term survival of SMEs, and the extent to which they do so. The argument of this study is that businesses in the SME sector all over the world are more prone to failure due to the specific qualities possessed by the businesses, their owners and managers (Bannock, 2005). It is necessary to establish an understanding of key entrepreneurial characteristics and business practices that can help in the understanding and promotion of SME long-term survival. Another objective was to find out the determinants of SMEs survival and determine the relationship between entrepreneurial characteristics and business practices.

The empirical research was conducted by self-administered questionnaires to entrepreneurs in the **Motheo district** (Bloemfontein; Botshabelo and Thaba’Nchu). The questions were developed through a modification of entrepreneurial self-assessment tools for entrepreneurial characteristics and through a review of the literature on business practices. A total of 353 questionnaires were issued, **218** questionnaires were received but only **200** questionnaires were considered in the study because they were those fully completed by the respondent and thus gave the study a response rate of **56.7%**. The statistical analyses included descriptive statistics, frequencies, chi square, T-test, ANOVA and Pearson correlation. The Cronbach’s alpha was used as a measure of reliability.

The results revealed that:

- In answering the question which entrepreneurial characteristics and business practices have a bigger influence on the long-term survival of SMEs, this study considered characteristics and practices that had a score of 50% and are above to be determinants for SMEs survival. A conclusion was made in terms of **required** and **sufficient** characteristics and practices.
- The **required** characteristics identified by this study were four characteristics; *creativity, self-reliance and ability to adapt (83.8%); tolerance of ambiguity and uncertainty (81%); opportunity obsession (75.8%) and commitment and determination (71.5%)* that influences the long-term survival of SMEs. The **sufficient** characteristics are need for *achievement; risk-taking propensity; self-confidence; innovativeness and motivation to excel*, that influences the long-term survival of SMEs.
- The **required practices** identified by this research are; *marketing practices (84.3%); performance management practices (77.9%); strategic planning practices (72.7%) and teamwork (72%)*. No **sufficient practices** were identified that influences the long-term survival of SMEs.
- Seven variables: **age; number of employees; net profit; equipments/ assets; number of business owners; business location and the office number**, were considered determinants of SMEs survival.
- In establishing a relationship between entrepreneurial characteristics and business practices, it was observed that all the values for entrepreneurial characteristics and

business practices were positive correlated with each other except for the correlation between **team work** and **tolerance of ambiguity and uncertainty** which are negatively correlated with value (-0.02).

- The recommendations included the need to improve the entrepreneur's level of education and business knowledge skills through simplified training programmes and courses. The inclusion of these training courses will certainly foster the survival and growth of SMEs. Business support mechanisms should use the Life Styles Inventory (LSI) measures thinking styles and Brain profiling to identify the way entrepreneurs think and use the results to modify their teaching methods. HRM practices should be enhanced by encouraging SMEs owners to provide performance evaluation in place. In order to promote risk taking and risk management practices, entrepreneurs are encouraged to insure all their investments to enable them take appropriate account of the specific risk and return characteristics of their investment.

DECLARATION

I, the undersigned, Neneh Brownhilder Ngek, hereby declare that the thesis “*The Impact of Entrepreneurial Characteristics and Business Practices on the Long- Term Survival of Small and Medium Enterprises (SMEs)*” is my own work and that all sources or quotations I have used, have been acknowledged by means of complete references

.....

Signature

.....

Date

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I thank the Lord Almighty for all the strength, knowledge and inspiration he provided to me in carrying out this research study,

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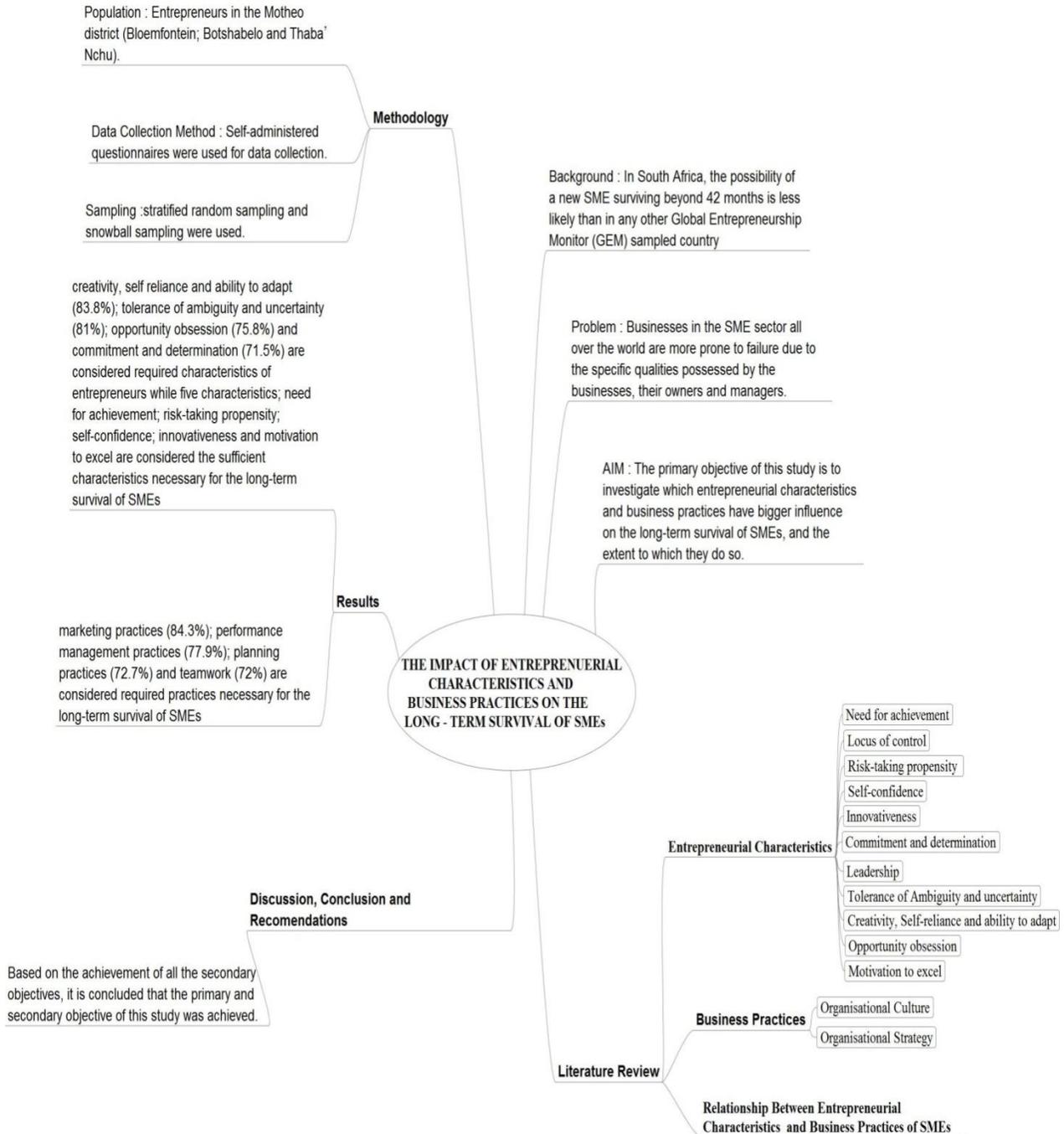
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RESEARCH MINDMAP

Figure 1: Research Mind map



“Your thoughts characterise who you are and shape your life. What you think determines how you perceive reality and how you relate to others, as well as how you solve problems and make decisions... Your level of success and satisfaction is strongly tied to the nature of your thoughts and self-concept”
(Lafferty, 1989).

CHAPTER ONE

1.1 INTRODUCTION

As far back as the 1950s, researchers began linking personality characteristics and entrepreneurship by examining personality characteristics that could determine who was more likely to become a successful entrepreneur (Byers, Kist and Sutton, 2007). McClelland (1961) for example asserted that entrepreneurs possessed certain personality characteristics than non-entrepreneurs. While on the other hand, Carter, Gartner, Shaver and Gatewood (2003: 17) acknowledged that the only main difference between entrepreneurs and non-entrepreneurs is that entrepreneurs want to be in control of their own destiny. This control is indicative and draws attention to the fact that, “there is no set of behavioural attributes that allow us to separate entrepreneurs from non-entrepreneurs”. They argue that anyone wishing to become successful needs to achieve, and that all achievement elements are found not only in entrepreneurs but also in all successful people. Drucker (2007: 23) in concurrence state that “It is not a personality trait; ... everyone who can face up to decision making can learn to be an entrepreneur and to behave entrepreneurially”. Additionally, literature studies on entrepreneurship portray successful entrepreneurs as individuals who possess a personal quality that enables them to make decisions that have far reaching effects in conditions of uncertainty. The ability to make such decisions can be achieved in some people through training, while in others, it is inborn.

From the 1980s and 1990s, research on personality characteristics and socio-cultural backgrounds of successful entrepreneurs were conducted (Byers *et al.*, 2007). Other studies were geared towards defining entrepreneurial characteristics and a research debate emerged on whether these characteristics are innate or can be developed (Gorman, Hanlon and King, 1997; Rasheed and Rasheed, 2003:10). Today, in this twenty-first century, studies on the characteristics

of entrepreneurs have incorporated a number of variables - psychological attributes, personality, attitudes, and the behaviour of the entrepreneur (Rasheed and Rasheed, 2006:10). However, a research by Timmons and Spinelli (2009: 250) encompassing an analysis of more than 50 studies on entrepreneurial characteristics found a consensus around six general characteristics (commitment and determinations; leadership; opportunity obsession; tolerance of risk, ambiguity and uncertainty; creativity, self – reliance and ability to adapt; and motivation to excel), which most authors agree are amongst the distinctive qualities of an entrepreneur.

The long-term survival of SMEs¹ is important in the theory of sustaining entrepreneurship, considering that it can lead to permanent job creation most especially in developing countries (Glancey, Greig and Pettigrew, 1998:250). According to Keeley and Roure (1990) and Feeser and Willard (1990), entrepreneurial characteristics explain why people start up new businesses of their own, but whether or not these businesses are successful, depend upon their integration with a host of other factors. Following this line of discussion, Barringer, Jones and Neubaum (2005) also argue that although entrepreneurial characteristics are essential for the success of a business, other critical business practices when integrated with entrepreneurial characteristics will enhance SMEs success and survival. Pasanen (2006:12) is of the view that owner-managers think the long-term survival of SMEs is equal to success or constitutes a greater part of a firm's success.

In South Africa, the number of SME failures in year 5 varies between 50% and 95% (Willemse, 2010) and about 75% of new SMEs do not become established firms, which is one of the highest in the world. Von Broembsen, Wood and Herrington (2005) affirm that in South Africa, the possibility of a new SME surviving beyond 42 months is less likely than in any other Global Entrepreneurship Monitor (GEM) sampled country. GEM (2008) reports that only 2.3% of South African owned SMEs have been in existence for over 3.5 years; with South Africa ranked number 41 out of 43 countries in the survival rate for established business owner-managers. This signifies a high failure rate among start-ups. It is however, worthy to note that this situation is not only peculiar to South Africa, but is common in the rest of the world (Longley, 2006).

¹ This study focuses on SMEs rather than SMMEs due to the great contribution they offer as employers to the economic growth of South Africa and in Africa at large. Also, SMEs represent over 90% of African business operations and contribute to over 50% of African employment and GDP (Chodokufa, 2009)

When considering the trends of SMEs worldwide, it is evident that, they represent an important vehicle to address the challenges of job creation, economic growth and equitable distribution of wealth (Franz, 2000:16). However, SMEs failure brings with it a reduction in a country's per capita income, poverty, unfavourable balance of trade and payment, increased job losses and unemployment. It is therefore necessary to boost the level of each country's economic growth by encouraging entrepreneurial activities that lead to the creation and sustainability of surviving SMEs. Creating these surviving SMEs requires for total reliance on entrepreneurship and the need for entrepreneurs (both potential and existing) to possess good entrepreneurial characteristics and business practices that can enable them create sustainable SMEs. Consequently, in order for the long-term survival of SMEs to be encouraged, there is the need to critically address, all the various types of entrepreneurial characteristics, as well as business practices.

1.2 PROBLEM STATEMENT

Businesses in the SME sector all over the world are more prone to failure due to the specific qualities possessed by the businesses, their owners and managers (Bannock, 2005). In South Africa, entrepreneurial ventures have a low survival rate as entrepreneurs start businesses but are unable to turn them into sustainable businesses. Also, most new SMEs in South Africa do not move from the first stage (existence) to other stages such as survival, success, take off and resource maturity.

All over the world as well as in South Africa, several characteristics and factors have been identified to be key determinants of SME's survival, although with inadequate empirical results. With SME survival rate generally low across the globe, it is necessary to establish an understanding of key entrepreneurial characteristics and business practices that can help in the understanding and promotion of SMEs long-term survival. It is alleged that if business owners and managers are good at managing their businesses, then they will do extremely well in terms of ensuring the continuous survival of their businesses.

Therefore, for SMEs to survive and succeed in their business operations, it is pertinent that its owners or managers possess certain entrepreneurial characteristics and carry out specific business practices. In this regards, SMEs deserve much more attention, especially with regards to

the entrepreneurial characteristics and the business practices of the entrepreneur, which are often developed as part of the entrepreneur's personal life strategies. These business practices and personal life strategies are used as a means of earning a living, which in turn is largely influenced by the entrepreneur's personality characteristics.

Furthermore, given that entrepreneurial characteristics can influence both the type of firms to be created and the manner in which they are managed, little has been established on which of these characteristics and business practices influence the long-term survival of SMEs and the extent of its impact. Based on the gaps identified, this study seeks to determine which key entrepreneurial characteristics and business practices that entrepreneurs possess, that would influence the long-term survival and sustainability of SMEs. This knowledge will enable entrepreneurs in the SME sector to understand and focus on implementing the key business practices and adopting the key entrepreneurial characteristics that can lead their businesses to long-term survival. Achieving this will contribute to the reduction of the high SME failure rates and increase SMEs long-term survival.

1.3 Primary Objective

The primary objective of this study is to investigate which entrepreneurial characteristics and business practices have a bigger influence on the long-term survival of SMEs, and the extent to which they do so.

1.3.1 Secondary Objectives

- To review the theoretical studies on entrepreneurial characteristics and business practices within established SMEs.
- To determine which key entrepreneurial characteristics and business practices are essential for the survival of SMEs.
- To find out the determinants of SMEs survival.
- To determine the relationship between entrepreneurial characteristics and business practices

- To establish a conceptual framework linking key entrepreneurial characteristics and business practices that ensure long-term survival of SMEs

1.4 CONTRIBUTION OF THE STUDY

Firstly, this study aspires to indicate the type of entrepreneurial characteristics and business practices an entrepreneur will need to have; cultivate and/ or develop, in order to drive his or her venture forward successfully.

Besides, the gains of the research will be of vital importance to the South African economy, not required for the long-term survival of SMEs. Once the discovery is completed, basic educational programs can/will be developed to address the need as inputs into entrepreneurship education. In addition, banks and institutions could use the result to predict SMEs success for loans and other support activities, as well as enabling investors to judge the managerial balance of the ventures to which they are called upon to commit themselves.

In addition, this study will also contribute to the extensive and on-going research gathering of reliable and accurate information about entrepreneurs in South Africa. It will as such offer solid guidance's on the combination of entrepreneurial characteristics and business practices that will make some entrepreneurs more successful than others.

1.5 RESEARCH METHODOLOGY

The research methodology for this study is a recap of the literature on entrepreneurial characteristics and business practices for long-term survival of SMEs. The reason for using this research method is to provide a theoretical foundation for the research followed by an empirical study.

1.5.1 Literature Study

The aim of this study is to examine the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. The literature studies are divided into three chapters. The first chapter focuses on all the various types of entrepreneurial characteristics and their approaches. This chapter at the end identifies some entrepreneurial characteristics which are used for the purpose of the study and various reasons are provided as to why they are chosen.

The second literature chapter looks at the various businesses practices and at the end categorises some business practices which are perceived to have an impact on the long-term survival of SMEs. The last chapter establishes a linkage between the chosen entrepreneurial characteristics and business practices to determine their impact on the long-term survival of SMEs. Primary and secondary data sources from journals and research documents, which are verifiable and published between 1990 and 2010, are also put into use. The following database will be used;

- NEXUS: Current and completed South-African research.
- Sacat: Catalogue of books available in South-Africa.
- SA e-publications: South African magazines.
- International journals:
 - Academic Search Premier
 - Business Source Premier
 - Ebscohost
 - Emerald

1.5.2 Empirical study

This study is a Synchronic study, using the survey method to collect data on the entrepreneurial characteristics and business practices, which have an impact on the long-term survival of SMEs. The empirical study was approached from the viewpoint of a valid research design through defining the study population and sample size, incorporating suitable measuring instruments and reliable techniques for data analysis as specified in Cooper and Schindler (2003:64). The empirical research was conducted through self-administrated questionnaires and interviews to entrepreneurs in the **Motheo district** (Bloemfontein; Botshabelo and Thaba’Nchu). A sample size of **353** was obtained when using the Raosoft sample size calculator and the Demetra (2010) sample size calculator. A total of 353 questionnaires were then issued, **218** questionnaires were received, but only **200** questionnaires were considered for the study because they were those fully completed by the respondent, which gave the study a response rate of **56.7%**. The pair wise deletion approach was used where the researcher deleted the subjects for every missing value in the dataset, and remained with a complete data for all questions answered.

- **Research design**

A research design is defined as the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process (Polit and Beck, 2004:49). Because different research designs attempt to answer different types of research problems, use is made of different combinations of methods and procedures. In this study, the measurement types, sampling size, data collection and data analysis method, will be employed, as stipulated by Cooper and Schindler (2003:64).

This study makes use of quantitative research design, which Ghauri and Gronhaug (2005:204) defines as studies whose findings are mainly the product of statistical summary and analysis. Foster, (1998) notes that quantitative approach involves statistical interferences and mathematical techniques required for data processing.

Furthermore, Descriptive research using a cross-sectional study is used because it provides information that allows for identifying relationships or associations between two variables (Aaker, Kumar and George, 2000). It is also an appropriate technique due to time constraints, and this study does not attempt to examine trends.

- **Population and Sample**

In order to reach a significant number of businesses and entrepreneurs, notable organisations like the Free State development Corporation (FDC) and Small Enterprise Development Agency (SEDA) database of SMEs were used for sampling. The research study focused on a sample size of **353** questionnaires to entrepreneurs in the SMEs sector in the Motheo district. This sample size was chosen in order to facilitate meaningful depth of analysis in light of time and resource limitations, as well as enable a sample with reasonable accuracy, to reflect the thinking, opinions, attitudes and behaviour of the entire population. The sample size enabled the researchers to integrate and critically examine theory and practices.

- **Sampling Technique**

This study made use of both stratified random sampling and Snowball sampling. According to Martins, Loubser and Van Wyk (1996: 260-372) stratified random sampling is used when a population is heterogeneous in the characteristics being investigated, which again can be divided

into strata (group) that are more homogeneous with references to these qualities. They further consider stratification to be of value when the researcher is able to classify the population in to strata (groups) that are more homogenous in the qualities under investigation than the entire population. **Stratified random sampling** was used to ensure that specific groups of business enterprises were represented from the chosen sample and equal chance of being selected in the sample. The **snowball sampling** technique was then applied on these initial respondents as they referred the researcher to entrepreneurs operating in the Motheo district. This procedure was chosen because the researcher was unable to find a complete list of SMEs from the Free State Development Corporation (FDC), Small Enterprise Development Agency (SEDA) database of SMEs, and thus the researcher used snowball sampling as suggested by (Cooper and Schindler, 2006:414 and 425).

- **Data collection Method**

In this study, various combinations of primary and secondary data were used. Primary data collection techniques involved the use of questionnaires and personal interviews completed by entrepreneurs. Secondary data was obtained from existing literature from libraries, internet searches, magazines, reports from the department of Trade and Industry (DTI), journals and articles.

Secondary data was used because of its availability as well as the fact that it was already synthesized and processed. The researcher administered data gathering by hand delivery and through personal interviews. Likert scale questions were used to measure the respondent attitude towards their qualities, as it is friendly and reduces confusion and misunderstandings. Through stratified random sampling, the researcher administered questionnaires to entrepreneurs in the **Motheo district (Bloemfontein, Botshabelo and Thaba’Nchu)** whereby the respondent was contacted in his business, as in an interview survey.

- **Data Analysis**

All statistical analyses in the study was analysed using the Statistical Package of Sciences (SPSS) and GNU PSCP statistical software. The interpretations were done using descriptive statistical tools like percentages, frequency distribution tables, histograms and charts. Also,

inferential statistics, such as cross tabulation, chi-square, one-way analysis of variance (ANOVA), t-test and Pearson correlation coefficient was further used for analyses in this study. Data reliability was tested by the use of Cronbach's Alpha. Cronbach Alpha is a reliability coefficient that indicates how well the items are positively correlated to one another (Sekaran, 2000).

1.6 RESEARCH FRAMEWORK

- Chapter one introduces the background to the study; the problem statement and the research objectives. In addition, the chapter discusses the research contributions to the study, the research methodology and the conclusion to the chapter.
- Chapter two discusses the entrepreneurial characteristics for long-term survival of SMEs.
- Chapter three examines the most important business practices for the long-term survival of SMEs.
- In Chapter four, the relationship between entrepreneurial characteristics and the business practices of SMEs are established.
- Chapter five covers the research approach utilised in conducting the study. In this chapter the sequence of the tasks performed in conducting the research work, was introduced. The research design, research methodology, and the research sample are presented.
- In Chapter six, findings on entrepreneurial characteristics and business practices of SMEs are presented.
- Chapter seven puts forward the discussion, conclusion and recommendations of the entire study, with results from the literature review.

1.7 CHAPTER SUMMARY

This chapter explains a broad overview related to this thesis and the rationale for selecting the study. Subsequently, the background information about the research topic is presented leading to

the identification of problem statement in the literature regarding the entrepreneurial characteristics and business practices for the long-term survival of SMEs. Furthermore, the research objectives and the contributions to the study are presented. Finally, this chapter described the research methodology and the research framework of the study.

“When a proportion of the business community distinguish themselves by their entrepreneurial flair, then the inference that such people must share some characteristics in common is not a surprising one.”(Chell, Haworth, and Brearley, 1991).

CHAPTER TWO

ENTREPRENEURIAL CHARACTERISTICS

2.1. INTRODUCTION

In establishing clearly who an entrepreneur is and the characteristics he/she possess, this chapter commences with the definition of entrepreneurs and entrepreneurial characteristics. Thereafter, the chapter presents the key approaches related to the study of entrepreneurial characteristics and the key contributions in each area is identified. Subsequently, all the various types of entrepreneurs and their characteristics are discussed in detail. The last part of this chapter identifies some entrepreneurial characteristics, which will be perceived from a theoretical point of view to influence the long-term survival of SMEs, and a conceptual framework will be adopted linking these characteristics to long-term survival of SMEs.

2.2. DEFINITION OF ENTREPRENEURS AND ENTREPRENEURIAL CHARACTERISTICS

The problem of identifying an entrepreneur has been confounded by the fact that there is still no standard universally accepted definition of entrepreneurship (Chell; Haworth and Brearley, 2003:1). It is therefore not surprising that there exist many definitions of the entrepreneur and entrepreneurship in the literature (Henry *et al.*, 2003). Ahmad and Seymour (2007), assert that there is a lack of consensus on defining entrepreneurs and no definition can be used to represent today’s entrepreneur profile. However, it is widely thought that there exist certain individual personal characteristics and characteristics requirements for being an entrepreneur (Markman and baron, 2003: 281). Branson describes the entrepreneur as follows:

“I am often asked what it is to be an 'entrepreneur' and there is no simple answer. It is clear that successful entrepreneurs are vital for a healthy, vibrant and competitive economy. If you look around you, most of Britain's largest companies have their foundations in one or two individuals who have the determination to turn a vision into reality. A lot of people tend to forget that some of the blue chip names of the late twentieth century such as Marks and Spencers, Sainsbury's Food, Tate and Lyle were the sole traders of the late nineteenth century” (cited in Henry *et al.*, 2003: 28).

Branson further adds that the most exciting and rewarding aspects of life as an entrepreneur is:

...”the satisfaction of doing it for yourself and motivating others to work with you in bringing it about. It is about fun, innovation, creativity and the rewards are far greater than the purely financial. These were the goals with which we founded the Virgin Group and we have striven not to lose sight of them. Most of all, entrepreneurship is a state of mind. You do not have to run your own company, but you should try to look beyond the obvious and accepted in whatever you do” (Henry *et al.*, 2003: 28)

To Zimmerer and Scarborough (2005:3), an entrepreneur is ‘seen as one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them’. Schumpeter (1934) perceives entrepreneurs as innovators, someone who uses new business creation as a means of exploiting invention. Bolton and Thompson (2004:18) view an entrepreneur as “a person who habitually creates and innovates to build something of recognised values around perceived opportunities”.

Being entrepreneurial is a familiar term used to describe ‘people who are innovative, creative and open to change as well as having the ability to identify opportunities and organize resources to achieve their goals’ (O'Connor and Fiol, 2002: 18-23). According to Drucker (1985):

“To be entrepreneurial, an enterprise has to have special characteristics over and above being new...; ... entrepreneurs are a minority among new businesses. [They]

create something new, something different; they change or transmute values ... they see change as the norm (pp. 35-36)".

The Oxford Advanced Learner's dictionary (Wehmeier and Ashby, 2000:182) defines characteristics as 'a typical feature, or quality that someone or somebody has.

There are numerous definitions for entrepreneurs and no simple definition is generally accepted as 'correct', since the spectrum of meanings covers everything from starting a business, to applying enterprising skills and abilities in almost any context (Henry, Hills and Leitch, 2003). Gartner (1990) raises the notion that, in order to understand entrepreneurship, we need to be able to state clearly; what we believe in, avoid unstated assumptions and be clear about the definitions we are using.

From the above, this study uses three criteria's to define entrepreneurs; being a founder/ owner who is a key decision-maker in the business to ensure that dormant partners are excluded from the analysis; ownership; and the indication of an ability to identify and exploit at least an opportunity for creating or purchasing a business. Entrepreneurial characteristics will also be considered as a typical feature, or quality that someone or somebody has, such as being innovative, creative and open to change, and having the ability to identify opportunities and achieving stated goals.

In the next part, more details will be given on the different approaches to the study and understanding of entrepreneurial characteristics, as it is necessary to explore a full spectrum of meanings.

2.3. APPROACHES TO ENTREPRENEURSHIP: UNDERSTANDING THE ENTREPRENEURIAL PROCESS

Several studies have been conducted to understand the characteristics of entrepreneurs and to explain the functioning of these characteristics. These studies have identified five main approaches in researching the characteristics of entrepreneurs - trait approach,

demographic/social approach, behavioural/ managerial approach (Field, 2005:5), economic approach and human capital approach (Ucbasaran, 2004). More details of these approaches are explained below;

2.3.1 Economic Approach

Over the past years, economists have concerned themselves with entrepreneurship, which they viewed as a function served by a business person in the economy and as a result, several schools of thoughts emerged in regards to the economist' view of the entrepreneur (Chell *et al.*, 1991:12).

Cantillon² (1755) was the first recognised Frenchman researcher to introduce the term entrepreneurs, which was termed the French school of thought. He linked risk and uncertainty to the administrative decision making processes of entrepreneurs (Binks and Vale, 1990). The uncertainties faced by entrepreneurs are of the “unknowable” kind, with the assumption that entrepreneurs cannot calculate the risk faced in making a decision. It is further assumed that the entrepreneur does risk something even if he/she was penniless, which is the opportunity cost of pursuing an entrepreneurial venture, rather than a safe venture (Chell *et al.*, 1991:13). This analysis also raised several issues such as the nature of risk and uncertainty facing entrepreneurs when making decisions; the role of capitalist and entrepreneurs in an economy and the innovative function of the entrepreneur, that were seen as critical to a contemporary understanding of the role of entrepreneurs (Chell *et al.*, 1991:13). To Cantillon therefore, the entrepreneur's role is to be aware of the level of demand and supply and not an innovator (the entrepreneur is not expected to create a demand).

Adam Smith, during the early eighteenth century, in his book “The Wealth Nations”, introduced the British school of thought and stated that the function of the entrepreneur was conflated with that of the capitalist. His work was based on identifying the motives and conditions for wealth creation and acknowledged self-interest as one of such motives. He answered the question: “why

²Origin of the word Entrepreneur by the French school of thought

should a person employ others if no personal benefit is to accrue for doing so and later emphasised that profit was solely a reward for risk taking”. To him the profits accruing to the entrepreneur is not a form of wage arising from carrying out managerial duties, but from the results of the amount of investment made (Chell *et al.*, 1991:15).

The German school of thought sought to answer the question “how an entrepreneur should be compensated for his activity”. They argued that profits should be regarded as a special form of payment, if entrepreneurial talent is a scarce resource. Thunen (1785) made a distinction between an entrepreneurs and a manger. To him, an entrepreneur was both a risk taker and an innovator, given that an entrepreneur is the one who takes the problems of the firm to his home and has sleepless nights (Chell *et al.*, 1991:20).

Carl Menger (1840) was the fourth in developing a concept of entrepreneurs in the Australian school of thought. He highlighted that entrepreneurial activities comprised of obtaining information about economic conditions, since it is the entrepreneur’s awareness and understanding about giving situations, which gives rise to economic changes. According to Menger therefore, risk bearing is not an essential function of entrepreneurs and entrepreneurs must however be willing to act in order to bring about the transformation of higher order goods in to lower order good. They must also make calculations in order to ensure efficiency of production process and be the supervisor of a production plan (cited in Chell *et al.*, 1991:19).

The American school of thought saw its birth after the civil war, with a disassociation by Walker (1799)³. He stated that wealth creation was the entrepreneur’s role, which needed to be distinguished from the capitalist, and believed profit was the return to the entrepreneur for his skills, ability or talent. Knight (1921)⁴, later adopted the theory of profit and stated that it was vital to understand the role of risk and uncertainty. He argued that the result of an outcome will neither be a loss nor a profit if change is predictable (cited in Chell *et al.*, 1991:19). Schumpeter

³ Older sources of Walker (1799) were used because they were the only possible source desired data on the subjects

⁴ Older sources of Knight (1921) were used because they were the only possible source desired data on the subjects

(1934)⁵ suggested that entrepreneurs were the source of all dynamic change and identified five types of innovation - introduction of new goods; the opening of a new market; the discovery/creation of a new source of supply of raw materials or half-manufactured goods; and the creation of a new type of industrial organisation. Accordingly, Binks and Vale (1990) affirmed that Schumpeter analysis enabled certain predictions to be made about entrepreneurial behaviour and potential strategies that could be used by an individual under conditions of uncertainty and incomplete information. They further identified three categories of entrepreneurs in their efforts to summarise and bring shared aims on the characteristics of the entrepreneur to include:

- Entrepreneurs who could be grouped as being “reactive” (entrepreneurs who react to market signals and in doing so convey and ease the market process) formed the first category of entrepreneurs.
- Entrepreneurs who bring economic development by introducing and innovating ideas, which rearrange the allocation of factors of production, were considered the second category of entrepreneurs.
- The last categories of entrepreneurs are those who in their management efforts, cause improvements of a gradual nature to available products and procedures (Binks and Vale, 1990).

2.3.2 Trait/Psychological Approach

The psychological or trait approach to the study of entrepreneurship is perhaps the most widely represented area in the literature studies. The trait approach focuses on personal disposition of individuals and their traits (Nandram and Samsom, 2007:9). Traits such as sociable, anxious, energetic were thought to exist within individuals to whom they were applied (Chell, Haworth, and Brearley, 1991) as well as distinguishing entrepreneurs from other populations of individuals (Westhead and Wright, 2000:285). This is because entrepreneurs were assumed to be a particular fixed state of existence, a describable species that one might find a picture of it in a field guide.

⁵ Older sources of Schumpeter (1934) were used because they were the only possible source desired data on the subjects

To Krueger (2002), entrepreneurs were viewed as the basic unit of analyses and entrepreneurs' traits and characteristics were the key to explaining entrepreneurship as a phenomenon.

According to McClelland's (1987)⁶ report on a systematically psychological study conducted by McBerand Co and funded by the U.S. Agency for International Development, the question as to whether there were key competencies vital for entrepreneurial success needed to be answered. McClelland made a distinction between 'successful' and 'average' entrepreneurs in the manufacturing, marketing/trading and service business sector in India, Malawi and Ecuador and later devised a method called the Behavioural Event Interview (BEI), which required the respondents to recall crucial incidents in the life of their business. Based on the BEI, nine competencies were identified and were believed to be more characteristic of the 'successful' than of the 'average' entrepreneur. These characteristics included: initiative; assertiveness; ability to see and act on opportunities; efficiency orientation; concern for quality work; systematic planning; monitoring; commitment to the work contract; recognition of the importance of business relationships.

Furthermore, researchers (Timmons and Spinelli,2008; Min, 1999:80; Caird, 1991) in their study on the traits entrepreneurs possess, identified characteristics such as need for achievement; the locus of control and the risk-taking propensity; commitment and determinations; leadership; opportunity obsession; tolerance of risk; ambiguity and uncertainty; creativity; self – reliance and ability to adapt; motivation to excel; leadership; need for power; need for affiliation; resourcefulness; creativity; visionary; independent thinker; hard worker; optimistic, as the characteristics of successful entrepreneurs. McClelland added that six of these attributes namely: self-confidence; persistence; persuasion; use of influence strategies; expertise and informative seeking were not more characteristics of successful than average owner managers.

In spite of its great popularity, researchers (Eysenck, 2004; McCarthy, 2000; Carver and Scheier, 2000) identified some criticisms of the trait approach, which has caused considerable debates in

6 Older sources of McClelland (1961 and 1987) were used because they were the only possible source desired data on the subjects. Also, McClelland research received the American Psychological Association Award for Distinguished Scientific Contribution in 1987.

the field of entrepreneurship. The first criticism is based on definitional and methodological concerns, since many studies often employ different definitions of an entrepreneur, with few studies having the same definition. The second set of critics rejected the assumption that individuals behave consistently in different situations (Eysenck, 2004:471) and that the trait approach had very little to say on personality factors, its influence on entrepreneur's behaviour and how a person gets from trait to actions (Carver and Scheier, 2000:86).

However, while these researcher have criticised the trait approach and argued against its complete dismissal, Chell *et al.* (1991:44) provided possible suggestions on revising the personality psychology. These comprised of revising instruments for measuring situational variables so that the interaction between entrepreneurial traits and pertinent situations can be examined. It further included radical ways of conceiving entrepreneurial traits; revising the instruments used in measuring entrepreneurial traits and the development of models on entrepreneurial processes. This was because of the believe that the trait approach towards understanding entrepreneurship still offer opportunities for further discovery. As a result, these criticisms of the trait approach led to the adoption of the demographic or social approach.

2.3.3 Demographic/ Social Approach

An entrepreneur's demographic is often quoted as one of the most important factors related to SMEs performances and its competitiveness (Man, Lau and Chan, 2002). The demographic approach is based on the assumption that people with similar background possess similar underlying stable characteristics that can be used to arrive at an entrepreneur's profile (Kanungo, 1998: 25). Based on this approach, entrepreneurs are considered to be a product of the external environment, whose influencing factors are beyond the individual's control (Field, 2005:14). Henry *et al.* (2003: 50) asserted that research investigating the demographic / social approach focused on the effects of the educational achievement of the entrepreneur, the work experience, the culture and religion and lastly the entrepreneurs age at the time of business start-up. According to Ucbasaran (2004: 28) the demographic approach suggest that an individual's social context such as - family and ethnic background, gender, education, and incubator employment

experience, shape aspirations and career choices. He further stated that several approaches such as (social development model of entrepreneurship, psychodynamic / social marginality models, influence of networks theory) have been used to explain an individual's decision to become an entrepreneur.

Ucbasaran (2004: 31) identified some of the shortcomings of the demographic approach, which have been criticised by other researchers. Firstly, Bowen and Hisrich (1986) argued that entrepreneurs only react to a specific circumstance and not to a given set of demographic characteristics and that demographics are used as surrogates for personality characteristics. Likewise, Amit, Glosten and Muller (1993), rejected the assumption that social development model of entrepreneurship claims to account for the significance of early experiences in forming traits, but that the model is mainly 'situational', as it would appear to lose sight of a person by linking behaviour as a function entirely of social influences. Furthermore, Amit *et al.* (1993) argued that the network theory explained the entrepreneurial process in the context of broad social processes, which is more comprehensive and dynamic when compared to the simple personality-based (trait) theories. While Robinson *et al.* (1991) also came to a conclusion that the demographic approach is limited to its static nature.

However, despite its shortcomings, demographic approach suggests a relationship between the social and economic context of the individual and the resultant entrepreneurial decisions. The unit of analysis is also extended from merely being the entrepreneur, to being both the entrepreneur and the environment (Ucbasaran, 2004: 32).

2.3.4 Behavioural/ Managerial Approach

The behavioural approach to understanding entrepreneurship deals with what entrepreneur's do as opposed to who they are (Henry *et al.*, 2003:58). According to McCarthy (2000), the entrepreneur's interaction with the environment which both shapes, and is shaped by the entrepreneur, is believed to be the focus of the behavioural approach. Researchers adopting this approach turn to focus on the understanding of how attitude, behaviour, management skills and know-how all combine in shaping entrepreneurial success (Henry *et al.*, 2003). This is because

both the trait and demographic approaches focused mainly on attempting to distinguish entrepreneurs from non-entrepreneurs, and assumed that these entrepreneurs possessed unique personality characteristics that can be identified, without linking them to entrepreneurial actions (Shook, Priem and McGee, 2003), while also not providing a clear picture of an entrepreneur.

Gartner and Carter (2003: 195) emphasises that “the focus of research on entrepreneurial behaviour is about exploring ‘how’ various activities undertaken by individuals emerge into organisations.” This is because “organisations are not created by their context”, while differences in individual characteristics and intentions are of great interest “they are likely to be associated with differences in individual behaviours and it is this behaviour that produces the organisation. However, Gartner and Carter (2003) further contend that there is no particular sequence of behaviours associated with entrepreneurial success. Similarly, studies by Carter, Gartner and Reynolds (1996) confirm that a high level of entrepreneurial activity among nascent entrepreneurs is positively related to success.

Some authors (Venkataraman, 1997; Shane and Venkataraman, 2000) identified some of the shortcomings of the behavioural approach. These researchers believed that only very few studies on the behavioural approach has explicitly explored the relationship between entrepreneurial cognition, opportunity identification and exploitation. As such, they emphasise that the boundaries of the field of entrepreneurship research should be drawn around the issue of opportunity identification and exploitation. Lau and Chan (1994) assert that though popular behavioural study methods such as direct observation and diary recordings are more effective than the trait and demographic approaches, they might not constantly be cost effective or even be a reliable means of data collection.

This notwithstanding, the cognitive approach is considered more successful than other approaches in distinguishing the entrepreneur from other groups of individuals and has led to the development of the term entrepreneurial cognition. This approach has now moved from the "state of being" assumption of the trait approach to cognition as a predictor of certain aspects of behaviour (Shook et al., 2003). Cope (2001) on his part expresses his views by stating that

although certain entrepreneurial characteristics are requisite, the entrepreneurs “behaviour is dynamic”.

2.3.5 Human Capital Approach

The human capital theory can be traced from the field of macroeconomic development theory (Schultz, 1993). OECD (2001: 18) defines human capital as the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being”. Schultz (1993) conceives human capital as a key element needed to enhance a firm’s assets and employees in order to increase productive and sustain competitive advantage. Researchers, (Schultz, 1959; Becker, 1964) state that the human capital approach is in support of the view that knowledge offers individuals an increase in their cognitive abilities and as such a more productive and efficient potential activity. This is based on Shane’s (2000) belief that previous knowledge (an aspect of human capital) influences the entrepreneur’s ability to identify opportunities. Based on these researchers’ views, the characteristics of the entrepreneurs were divided into general and specific human capital.

General human capital refers to the acquisition of an inclusive formal education and training that is relatively transferable across firms and industries (Carrera, Gutierrez and Carmona, 2003). With regards to entrepreneurs, general human capital is measured using the entrepreneur’s age; educational qualifications (undergraduate degree and postgraduate qualifications) and the total years of working experience (Colombo and Delmastro, 2001) since entrepreneurs with superior levels of human capital are both in a better position to identify an opportunity and later exploit it. This does not necessarily mean that entrepreneurs with high general education and experience will be able to create companies with higher levels of performance. This is because most individuals who are older than the average age usually start their families and are often not willing to take risky decisions to ensure the company’s growth to greater dimensions but are satisfied with a constant level of performance (Ganotakis and Battisti, 2006). Specific human capital on the other hand, refers to skills pertaining to specific job (or position) that have no effect on the productivity of employees working in other firms (not transferable to other occupations). Mincer (1993) highlights that individual’s acquiring specific human capital must

engage in/within the firm's training programmes and obtain specific job experiences, which might enable them acquire promotions and tenure, as well as provide them with little incentives to leave the firm.

With regards to individual characteristics of the founders, Bates (1998) found characteristics such as: education; career history; occupational background and family to be significant prerequisites for survival. While researchers (Alvarez and Busenitz, 2001; Becker, 1993) in their studies identified factors such as achieved attributes; accumulated work; habits that could either have a positive or negative effect on productivity and the cognitive characteristics of entrepreneurs. Meanwhile according to Moog (2002), "An entrepreneur invests in prior periods in his human capital to increase his productivity and by doing so the entrepreneur will reach in future periods of higher income by being more successful than other less educated entrepreneurs". But Shook *et al.* (2003) noted a shift, in that the human capital of the entrepreneur moved away from personality characteristics and allowed the integration of cognitive approach, with limited research carried out on the relationship between human capital and behaviour (that is the relationship between opportunity identification and exploitation).

The above literature proposed that there exist a number of different ways in which the characteristics of entrepreneurs can be studied. After reviewing four of these approaches, researchers (McClelland, 1961; Rotter, 1966 and Caird, 1991) concluded by suggesting that the innate psychological/trait characteristics of entrepreneurs are a strong dimension to the study of entrepreneurship.

2.4 TYPES OF ENTREPRENEURS

In an attempt to understand the approaches to the study of entrepreneurial characteristics (section 2.3), the trait/ psychological approach was criticised for trying to identify a "typical entrepreneur". Moore, Petty, Palich and Longenecker (2010: 14) consider this criticism as being problematic because they believe entrepreneurship is marked by diversity, which should be encouraged by all potential entrepreneurs and see no need to fit some narrow stereotype.

Several types of entrepreneurs have been identified. For example, Smith (1976) focused on the relationship between the entrepreneur and his firms, with the aim of identifying the possibility that the type of firm owned reflected different types of entrepreneurs. He carried out fifty two interviews with owner-managers and identified two types of entrepreneurs – craftsman (Artisan) and opportunistic entrepreneurs. To him, craftsmen entrepreneurs come from a blue-collar background; had a relatively narrowed education and had a good record as successful worker. These entrepreneurs are motivated by the desire for autonomy; use personal relationships in marketing; follow rigid strategies; restrict their sources of finance to personal savings and money from relatives or friends (Chell, *et al.*, 2001:56-57). Opportunistic entrepreneurs come from a middle class background; had a broader education, and sought many sources of finance. They are motivated by the desire for financial gain, which makes them continually seek new opportunities and thus develop more diverse competitive strategies. Wickham (1998:16) later developed and replaced the craftsman and opportunistic entrepreneurs, with a more definite growth-oriented and independence- oriented entrepreneurs. He considered growth-oriented entrepreneurs to be entrepreneurs that pursue opportunities to maximize the potentials of the businesses and independence- oriented entrepreneurs to be entrepreneurs who prefer working for themselves.

Filley and Aldag (1978) identified three types of entrepreneurs based on their strategies for dealing with the environment, namely *craft*, *promotion* and *administrative type*. The nature of the leadership associated with each of this organisational type was craftsmen, entrepreneurs and professional respectively. The *craftsmen* concentrated on building a comfortable life; were non-adaptive and had a tendency to avoid risk. The *promotion* firms were small in size; had a high growth rate but were often short lived and transitional in nature. The *administrative* firms were larger in size; more formalised and professional; engaged in planning, written policies and budgetary control and less dependent on the person leadership of the chief executive office (Chell *et al.*, 2001:58).

Moreover, Rogers (2003: 2-4) recognised two types of entrepreneurs – Lifestyle and High growth entrepreneurs. Lifestyle entrepreneurs operated their businesses haphazardly with little or no system in place, which made business growth not their main focus. They instead depended on their businesses to provide them with a decent standard of living and accepted whatever their

businesses produced. High growth entrepreneurs proactively looked to grow annual revenues and profits, with the expectations of creating wealth and not simply a means of creating a comfortable life. They ensured the accomplishment of their goals by regularly reviewing and revising their business plans; made sure that their financial plans; cash flow; planning; strategic and marketing plans, where up to standards.

Recently, a number of studies by (Ucbasaran, 2004: 59; Harold, 2004 and Taplins, 2004) have identified three general types of entrepreneurs- Nascent, Novice and Habitual entrepreneurs. Nascent entrepreneurs are people who are engaged in creating new ventures and “who expects to be the owner or part owner of the new firm, who has been active in trying to start the new and independent firm in the past 12 months” (Kessler and Frank, 2009: 4). Novice entrepreneurs are owners of businesses who have no previous business ownership experience in a business that is either new or purchased. Habitual entrepreneurs start or purchase several businesses, one at a time or even sequentially and comprises of two general types- Serial and Portfolio entrepreneurs. Serial entrepreneurs own one business after another but effectively own only one business at a time. Portfolio entrepreneurs are entrepreneurs who own more than one business at a time.

Finally, after examining the various types of entrepreneurs, it becomes clear that all entrepreneurs have different reasons for either starting or purchasing a business as well as different sets of characteristics pertaining to them. It is also possible that entrepreneurs who have additional entrepreneurial experience (habitual entrepreneurs) depend more on information processing that are similar to that of experts (Ucbasaran, 2004: 76). Moreover, entrepreneurs who are inheritors may show signs of entrepreneurial behaviour after their ownership (West head and cawling, 1997), it is however difficult to identify them based on the types of entrepreneur's and their abilities to identify and exploit new opportunities. Accordingly, entrepreneurs examined in this study will be the ones who are believed to have either started or purchased a business and who are the key decision makers in the business.

In the next part, all the various types of entrepreneurial characteristics will be examined based on the four approaches (economic, trait, behavioural and human capital approaches) as seen in

section 2.3, with the aim of finding out if some set of characteristics pertain to the types of entrepreneurs also mentioned in section 2.4.

2.5 CHARACTERISTICS OF ENTREPRENEURS

Characteristics of successful entrepreneurs have been examined in many studies in an attempt to develop a typical personality profile that identifies the key characteristics of successful entrepreneurs. Some of these characteristics are seen to be mentioned in almost each of these studies. (Nandram and Samson, 2000; Nieuwenhuizen and Kroon, 2002; Littunen, 2000, Korunka, Frank, Luegler, and Mugler, 2003; Moore *et al*, 2008; Nieuwenhuizen, 2004:43; Nieman and Bennett, 2002:59, Nieman, Hough and Nieuwenhuizen, 2003:30; Salim, 2004). Timmons, Smollen and Dingee (1985) stated that

“We do not believe there is any single set of characteristics that every entrepreneur must have for every venture opportunity. Significantly, among the growth- minded entrepreneurs with whom we have worked, *not one* possessed *all* of the highly desirable characteristics... to a high degree” (cited in Chell *et al.*, 1991:47).

Of paramount importance to these researchers' argument is the premise that individual's odds of becoming successful can be improved, while entrepreneurial skills and behaviour can be nurtured, developed and acquired. Other studies by (Nieuwenhuizen, 2004:43; Nieman and Bennett, 2002:59; Nieman, *et al.*, 2003:30), suggested that the characteristics of entrepreneurs, can be acquired by birth; through life experiences or through entrepreneurial processes. They emphasise that these characteristics should belong to all entrepreneurs, everywhere he/she lives irrespective of his/her origin because the absence of any one of them could cause a critical weakness in an individual's ability to act entrepreneurially. Moreover, further studies by Kourilsky (1990); Kourilsky and Walstad (1998); Walstad and Kourilsky (1999) assume entrepreneurial characteristics are universal and ageless and can be nurtured and developed at earlier stages of the education process. Rasheed and Rasheed (2006:4) note that these

characteristics perceived to be universal should be recognised and nurtured at an earlier age, in order to enhance entrepreneurial talents.

Individual characteristics of entrepreneurs comprise of ascribed characteristics, achieved characteristics, learnable characteristics and requirement characteristics of being a successful entrepreneur. Ascribed characteristics are traits one is born with and has done nothing to earn. These are attributes people have at birth; develop over time or possess through no efforts of their own, such as age; race; ethnicity; gender and socio- economic origin of the entrepreneur. Achieved characteristics are acquired through some combination of personal choices, efforts and abilities and they include ones level of education; occupation; work experiences (Ferrante, 2008:200). Learnable characteristics are qualities that are highly desired in people with whom entrepreneurs want to surround themselves in building a high potential business (Good, 2003:19).

Table 2.1 shows the characteristics of entrepreneurs classified into ascribed; achieved; learnable and requirement characteristics, adopted by this study.

Table 2.1: Characteristics of entrepreneurs:

Types of Characteristics	Attributes
Learnable characteristics	Need for achievement; Need for power; Calculated risk taking; Commitment and determination; creative tendency; Leader' self-confidence; Innovativeness; Tolerance of risk, ambiguity and uncertainty; Recognizing and taking advantage of opportunities; Resourcefulness; Creativity; Visionary; Independent thinker; Hard worker; Optimistic; Creativity, self-reliance and the ability to adapt; Motivation to

	excel; persistence in problem solving; taking initiative and personal responsibility
Ascribed characteristics	race; ethnicity; gender; socio- economic origin; age, family influence
Achieved characteristics	Education, Experience
Demand and requirement characteristics	Accommodation to the venture; stress; Economic and professional values, Ethics, Team building and creativity; knowledge and experience of the business environment

Adopted by this study

This study adopts this approach as a means of clearly identifying which characteristics entrepreneurs possess that specifically can be nurtured, developed, inherited or acquired, to improve the long-term survival of SMEs.

In the next part, more details will be given on each of these characteristics.

2.5.1 Learnable characteristics

Learnable characteristics are qualities that are highly desired in people with whom entrepreneurs want to surround themselves in building a high potential business (Good, 2003:19). From above, some of these entrepreneurial characteristics are learnable while others may be more difficult to achieve. These characteristics are explained in more details below;

2.5.1.1 Need for Achievement (nAch)

The need for achievement has the longest history of all the psychological characteristics alleged to be associated with entrepreneurship (Shaver and Scott, 1991). McClelland (1961) defines the need for achievement as “a measurable factor in groups and individuals....measured by coding an individual’s spontaneous thoughts.... for the frequency with which he thinks about competing with standard of excellence or doing something better than before.” He states that individuals who had a high need for achievement possessed five important qualities – (individual responsibility; moderate risk taker; knowledge of results of decisions; novel instrumental activities and lastly the anticipation of future possibilities). Also, Chell *et al.* (1991: 37) stresses that these set of persons avoid what they perceive as “very easy or very difficult task” and dislike succeeding by chance but would rather strive to achieve targets, and thus creating a feeling of valuable efforts; satisfaction and accomplishment.

The need for achievement is linked to Maslow’s need for self-actualization and “goal accomplishment”, which is seen as an essential driving trait in the personality of successful entrepreneurs (Darroch and Clover, 2005:327). This characteristic is not only inherent but can be taught and practiced and hence making it a capacity alongside a trait (Wickham, 2001:16). Chell, Haworth, and Brearley (1991) highlight that the need to achieve is a drive to excel, to achieve a goal in relation to a set of standards. According to Kirby (2005:7), Mullin (2002:434) in his study used the Thematic Apperception (TAT) as a tool to measure an individual’s level of motivation and recognised four characteristics possessed by people with a strong need of achievement, which include the following;

- The need for feedback on how well they are performing.
- Higher achievers prefer to work independently than in teams.
- Such individuals are open to new ideas and are innovative.
- A preference for moderate task difficulty and goals as an achievement incentive, which goes to show that higher achievers never give up, until they achieve their stated goals.

Another researcher Koh (1996) found that individuals with a high need for achievement are focused and have a strong desire to be successful and thus more liable to act entrepreneurially. He discovered that 20 out of 23 major studies in entrepreneurship literature reveal a constant relationship between the need for achievement and entrepreneurship. Furthermore, in Mullins (2002:435), McClelland put forth four steps on how to develop achievement drives, which are;

- Endeavour to achieve feedback on performance.
- Develop achievement models by seeking to imitate people who have performed well.
- Attempt to improve upon your self-image and see yourself as a person who is successful and is able to face challenges.
- Avoid distractions and think of yourself from a positive perspective.

He further concluded that the need for achievement is a key psychological characteristic of an entrepreneur, which can be acquired culturally and thus see a need to be present in all entrepreneurs.

2.5.1.2 Locus of Control

Rotter (1966) developed the concept of “locus of control reinforcement” as a component of a wider social learning theory of personality. To him, individuals perceive outcomes of events as being either within or beyond their own understanding and personal control. Shane, Locke and Collins (2003) views locus of control as the extent to which individuals believe their actions or personal characteristics affects their outcomes.

Henry *et al.* (2003:40) made a distinction between internal locus of control and external locus of control. Individuals who possess an internal locus of control behaviour are believed to have a positive influence over their own destinies, through personal abilities, skills and efforts, while the presence of luck in their life is seen to play an important role. People with external locus of control believe that the primary determinant of their life’s outcomes is being influenced by external forces such as fate, luck, or other external circumstances. Henry *et al.* (2003) in their research demonstrated that individuals with internal locus of control take responsibility for their success and failures, attribute positive results to abilities and efforts and that there exists a relationship between the internal locus of control, achievement, autonomy, independence and initiatives.

Another line of enquiry which has been examined is the relationship between need for achievement (nAch) and locus of control. Rotter (1966) established a positive relationship between them, stating that individuals with a high need for achievement believe in their own ability to control the outcome of their efforts. McCarthy (2000) pointed out that entrepreneurs after experiencing a crisis are most likely to have a higher locus of control, particularly if they have come through the crisis in a stronger position. Chen, *et al.* (1998) research on well-established entrepreneurs and managers led to the finding that entrepreneurs had a significantly higher locus of control than managers did. Additional studies by (Chen, *et al.*, 1998; Littunen, 2000; Luthans, Stakovic, and Ibrayeva, 2000) focused on the relationship between the internal locus of control and an entrepreneur's level of self-efficacy, and established that in addition to having a high internal locus of control, it is also important for prospective entrepreneurs to develop a strong sense of self-efficacy that will enable them follow through with their objectives and goals.

2.5.1.3 Leadership

Greenberg and Baron (2000) defined leadership as a process whereby individuals influence others in an attempt to achieve stated objectives. Entrepreneurial leadership means creating an entrepreneurial vision and motivating the team to perform the vision in high velocity and uncertain situations. Leadership plays a vital role in the survival and success of entrepreneurial ventures (Moore and Buttner, 1997).

Henry *et al.* (2003) identified the trait, the behavioural and the contingency approaches, as the three main approaches to the study of leadership. The trait approach is of the view that ‘leaders are born and not made’ and that effective leader possess a set of inherent characteristics that differentiate them from ineffective leaders. The behavioural approach supports the view that effective leaders possess certain personal characteristics but that “what they do” in the context of their leadership style should be considered as important to the business. By way of contrast, the contingency approach is of the notion that “no single leadership style is effective in all situations” but tries to make a distinction between the conditions and factors which determine “whether, and to what extent”, leaders boost the performance and satisfaction of their subordinates (Greenberg and Baron, 2000: 463).

Leadership is made up of three main components- proactiveness, innovativeness, and risk taking (Kuratko, 2007; Chen, 2007 and Surie and Ashley, 2008). Proactiveness is defined by Okudan and Rzasa (2006) as being able to predict future problems, exploit opportunities, being active to influence and lead the future rather than waiting to be influenced by the future (Kuratko, Hornsby and Goldsby, 2007). Innovativeness means the “ability and tendency to think creatively, develop novel and useful ideas in opportunity recognition, resource utilization, and problem solving”(Chen, 2007) which is distinctive characteristic that distinguishes entrepreneurs from individuals who want to be just self-employed (Okudan and Rzasa, 2006). Risk taking is defined by Sitkin and Pablo (1992) as “the tendency of the decision maker to take or avoid risk”.

A dynamic business looks up to leaders who are able to communicate the company’s vision to the team and build the team towards effectiveness (Rwigerma and Venter, 2004: 69). EFCT (2005) emphasises that, “a leader cannot achieve success alone” but that an effective leader must be fully involved and in touch with his/her group members; must be able to recognise good ideas and support them; reward employees on their performance and provide encouragement to motivate them, in order to ensure business success. Timmons and Spinelli (2008:10) highlighted that individuals with leadership traits are experienced; possess an intimate knowledge of the technology and market place in which they compete, honest and reliable, build trust, practice fairness, are superior learners and teachers, team builders, self-starters and treat others the way they also expect to be treated. More so, Zhao, Seibert and Hills (2005) established that prudential and calculated risk taking in the early stages of entrepreneurship process, business practices and personal life strategies are used as is one of the main characteristics of entrepreneurial leaders.

2.5.1.4 Commitment and Determination

Commitment and determination refer to the passion with which entrepreneurs pursue an opportunity (Collura and Applegate, 2000:3). According to Baskerville and Flanagan (n.d), commitment is a founding drive to the entrepreneurs that enables them to overcome setbacks, when faced with challenges. Longenecker, Moore and Petty (2006:16) note that such entrepreneurs are tenacious, decisive and very persistent on problem solving.

Previous studies by Avolio, Zhu, Koh and Bhatia (2004) argue that commitment can manifest itself both as an attitude and as a behaviour since it reflects complete loyalty toward a particular organisation. Likewise, Timmons and Spinelli (2008:7-8) believe that individuals with commitment and determination can overcome many obstacles and also compensate for their weaknesses. To these researchers, these individuals are driven by the willingness to undertake personal sacrifice; are persistent in solving problems; are intensively competitive in attaining goals; are tenacious and decisive and able to recommit quickly. Hatch and Zweig (2000) established in their studies that most of the entrepreneurs displayed a formidable will to succeed in the face of challenges encountered on their pathway to growth.

2.5.1.5 Risk- taking Propensity

Risk-taking propensity is defined as “the perceived probability of receiving rewards associated with the success of a situation that is required by the individual before he/she will subject himself/herself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequences than the proposed situation” (Brockhaus, 1980). Longenecker *et al.* (2006:16) sees these individuals as risk takers, risk minimisers and uncertainty tolerance. They are also able to cope with the stress associated with working in such an environment, which in-turn makes them more likely to survive and succeed (Cunningham and O’Gorman, 1997). Rotter (1966) argues that individuals, who are believed to possess a high internal locus of control, achieve their own goals based on their own behaviour or individual characteristics.

Furthermore, many studies are of the notion that risk bearing is the main factor in the entrepreneurial character and function. For example, Chell *et al.* (1991) exemplified that the degree of risk taking that entrepreneurs possess is *moderate and calculated* where the chance of losing are neither so small, (to be considered a sure thing) nor so large, (to be considered as gambling), but that these entrepreneurs to some certain extent, are willing to take some measurable and predetermined risk. Kuratko (2009:34) believes entrepreneurs take *calculated risk* when they decide to participate in a business venture in a “very calculated, carefully thought- out manner”, while making sure they get the odds in their favour and avoid taking unnecessary risks. Their strategies include getting other investors, suppliers, business partners to

share in their inherent financial and business risk. Thus, to Kolakowski (2011) a *risk averse* person will prefer being a low-paid employee with apparent job security rather than being a self-employed entrepreneur with the possibility of earning a large sum of money. In the same light, Hyrsky and Tuunanen (1999) note that entrepreneurs will be more willing to take risks in the domains they believe they are experts in them and more *risk averse* in areas they think they have little knowledge, so as to enable them estimate predictions for different outcomes. Caird (1991); Cromie and O'Donoghue (1992) found that entrepreneurs are more liable to take calculated risks than are other sectors of the general public, and are also more able to deal with the consequent ambiguity and uncertainty than non-entrepreneurs (Koh, 1996). Other researchers (Baron and Shane, 2004; Bolton and Thompson, 2003; Deakins and Freel, 2003; Kuratko and Hodgetts, 2001; Megginson, Byrd and Megginson, 2003) argue that contemporary entrepreneurship literature should include risk-taking/tolerance as an entrepreneurial trait, although it is yet to be confirmed empirically.

On the contrary, Miner and Raju (2004); Xu and Reuf (2004) have shown doubt on the degree to which the risk-taking propensity is being seen as an entrepreneurial characteristic. They proposed that entrepreneurs are no longer risk tolerant, but in some instances, are even more *risk avoidant*, than other managers and permanent employed persons. Hisrich and Peters' (2002) argue that empirically "no conclusive causal relationships" has been found in regards to risk and entrepreneurs, and that the risk-taking propensity trait does not form an important part of the research on entrepreneurial characteristics. In line with the above contradictory opinions, Stewart and Roth (2001); Deamer and Earle (2004) emphasise the need for clarity and empirical facts regarding entrepreneurial risk tolerance.

2.5.1.6 Tolerance of ambiguity and uncertainty

Tolerance of ambiguity and uncertainty refers to an entrepreneur's ability to handle change, stress and conflict (Collura and Applegate, 2000:4). Teoh and Foo (1997) define ambiguity as one's ability to respond positively to ambiguous situations. Entrepreneurs with tolerance of risk, ambiguity and uncertainty should be viewed as people who are capable of sustaining their commitments and determined to continue with a course of action, even when the results seem

uncertain (Henry *et al.*, 2003:42). Moreover, these entrepreneurs see certainty as unchallenging and actually prefer to work in ambiguous conditions.

Koh (1996) asserts that a person with a high tolerance of ambiguity finds ambiguous situations challenging and strive to overcome unstable and unpredictable situations inured to enhance performance. To Good (2003:21-22), these set of entrepreneurs take change and challenges in stride and strive with the changeability and excitement of such undefined condition, but still do not see job security and retirement as being of a great concern to them. Schere (1982) reckons that tolerance of ambiguity is an important characteristic of entrepreneurs, due to its unpredictable nature of the challenges and potentials for success or failure inherent in new business start-up.

2.5.1.7 Creativity, self-reliance and ability to adapt

Creativity, self-reliance, and flexibility refer to an entrepreneur's capacity to be open-minded, learn quickly, and develop new capabilities and perspectives (Collura and Applegate, 2000:5). Previous research by Devanna and Tichy (1990) asserted that creativity is very important for the success of organisations. Thus, encouraging creativity is a strategic choice which firms should take into consideration, since it creates a significant contribution to organisational innovation (Amabile, 1996).

Timmons, Spinelli and Ensign (2010) highlight that successful entrepreneurs believe their achievements lie within their control and power and that they can determine their outcomes. To them, entrepreneurs possess the following characteristics; self-reliant innovator; adaptive and resilient; and have a strong desire to know how well they are performing. Kruger (2004: 23) reported that Trevisan, Grundling and de Jager (2002:135) in trying to examine the importance of entrepreneurial qualities amongst small business owners and non-business owners, found creativity to be one of the strongest characteristics that distinguish small business owners from non-small business owners. Carrier, Cossette and Verstraete (1999:1) suggest that if entrepreneurs are to survive and grow in a competitive and challenging business world, they are required to demonstrate creativity and innovation.

The ability to adapt to change is an important characteristic for business performance (Andries and Debackere, 2006:81). According to Rwigyema and Venter (2004:55) adaptation to change and flexibility are critical strategies for successful venture, especially when the owners find the environment destabilising. (Morris and Zahra, 2000: 93) stressed that an intolerant response to change will lead to denial, risk averting behaviour and imposition of arbitrary constraint.

2.5.1.8 Self-confidence

Self-confidence is an essential entrepreneurial characteristic that is related to other psychological characteristics (Ho and Koh, 1992). Koh (1996) believes self-confidence is a necessary requirement for successful entrepreneurship, since entrepreneurs have a higher degree of self-confidence relative to non-entrepreneurs (Robinson *et al.*, 1991; Ho and Koh, 1992). Entrepreneurs that display self-confidence, base their feelings on the fact that they can conquer all necessary challenges on their path to success and still attain their desired goal (Good, 2003).

Self-confidence is a key characteristic of an entrepreneur, which enables entrepreneurs to believe in themselves and have the ability to achieve their stated goals and objectives. Entrepreneurs who possess self-confidence do not believe the success or failure of their new business depends on luck, fate or other external factors, but is confident that their personal control and influence enables them achieve their goals, even when faced with setbacks. Robinson *et al.* (1991) believe that entrepreneurs should have a perceived sense of self-esteem and capabilities in conjunction with his/her business affairs, since they consider self-confidence to be linked to tolerance for ambiguity and creativity (Ho and Koh, 1992).

2.5.1.9 Innovativeness

Innovativeness relates to perceiving and acting on business activities in new and unique ways (Robinson *et al.*, 1991). Innovation refers to the creation or adoption of an idea or behaviour new to the organisation (Damanpour 1996). Innovation is the characteristic tool of entrepreneurs as it is a means of exploiting change to accomplish different businesses or services (Mirela, 2008) and also an important factor in a firm's survival, development and business success (Utterback 1996). According to Mirela (2008), the necessary conditions for accomplishing a successful innovation are: the existence of a clear strategy; the availability of all essential resources for the

innovation effort; the realistic evaluation of individual's innovation potential; the detailed knowledge of market demand, the anticipation of future needs; the evaluation of innovation projects criteria; the maintenance of a close contact with beneficiaries; and the settings for limited periods of accurate objectives to which all innovating efforts should be dedicated to.

Empirical literature studies by (Ho and Koh, 1992; Robinson *et al.*, 1991, Robinson *et al.*, 1991b; Cromie, 2000) illustrated that entrepreneurs are considerably more innovative than non-entrepreneurs. Morrison (2000) believes that businesses that act entrepreneurially are those that survive the changes embarked upon by doing things differently and innovatively. Such innovative ideas are usually implemented when traditional systems and ways of doing business are no longer effective. However, research results in organisational innovation literature are inconsistent (Wolfe 1994) and not all entrepreneurs are uniformly innovative, but the degree to which they are innovative depends on their level of formal education and managerial experience (Maxwell and Westerfield, 2002).

2.5.1.10 Opportunity obsession

Opportunity obsession refers to the intensity and passion with which an entrepreneur pursues his or her dream. (Collura and Applegate 2000:4). Opportunity obsession means having an intimate knowledge of customer's needs, market drive, and obsesses with value creation and enhancement (Zacharakis, 2006:12). Longenecker *et al.* (2006:16) believe individuals who possess this attribute are very aware of their market and customers' needs and are not obsessed with money; resources; contacts and networking, but with new opportunities (Timmons and Spinelli, 2008:11).

Shane and Venkataraman (2000) argue that the manner in which individuals explore opportunities appears to be a function of the joint characteristics of the opportunity and the nature of the individual. Venkataraman (1997) identified three areas of differences between individuals - knowledge differences, cognitive differences, and behavioural differences, which he believes help differentiate individuals who recognise opportunities from those who do not. Additional research by Gaglio (1997) indicated that entrepreneurs with limited experience make

use of simplified decision models to guide their search, as opposed to experienced entrepreneurs. Conversely, Ucbasaran, Westhead and Wright (2001) found that experience most often does not boost the ability to recognise opportunities and that habitual entrepreneurs who are over-confident, subject to blind spots, illusion of control, sometimes display limited and narrow information search.

2.5.1.11 Motivation to excel

Motivation to excel refers to an entrepreneur's results-orientation and drives to build and grow a successful business (Collura and Applegate, 2000:6). Entrepreneurs who are goal and result oriented (which is high but realistic); have a drive to achieve and grow; have a low need for status and power; are interpersonally supporting; are aware of their strengths and weaknesses, and have a perspective and a sense of humour (Zacharakis, 2006:13). A research by (Timmons and Spinelli, 2008:14) revealed that entrepreneurs are self-starters and are driven internally by a strong desire to compete against their own self-imposed standards to pursue and accomplish challenging goals. Such set of entrepreneurs are not driven by a thirst for achievement but for power and status. Again, the results from research conducted on 130 members of a small company management program at Harvard business school revealed that motivation to excel was the single most important factor in the long-term successes of businesses.

2.5.1.12 Initiative, Drive and Enthusiasm

Initiative is an important entrepreneurial characteristic, since all businesses depend on the actions of entrepreneurs (Rwigerma and Venter, 2004:54). Henry *et al.* (2003) consider entrepreneurs to be enthusiastic people who take initiative and drive projects forward. These entrepreneurs are also believed to be people who are proactive and constantly searching and finding for opportunities.

O'Gorman and Cunningham (1997) equated the initiative and drive characteristics to what he called the "Type A" behaviour. Entrepreneurs with "Type A" behaviour maintain their level of energy and interest for the product or service idea and even when progress is slow. They are also noted for persistently struggling to achieve more in less time, and may sometimes appear to be impatient, aggressive and competitive. By way of contrast, Mueller and Thomas (2001:56) in their

research identified that many entrepreneurs never get to perform the essential start-up activities for new businesses because they either become triggered by doubts and fear or are lazy, even when the entrepreneurial opportunity is perceived to be desirable and feasible.

2.5.1.13 Self-efficacy

Greenberg and Baron (2000: 107) define self-efficacy as “an individual’s beliefs concerning his or her ability to perform specific tasks successfully”. Bandura (1994) portrays this belief as a determinant of how people think, behave and feel. Erikson (2002) defines self-efficacy as the belief in an individual’s ability to organise necessary resources, skills, competencies and implements actions to attain a stated level of success on a given task.

An individual’s level of self-efficacy plays an important role in how goals, tasks and challenges are approached. These beliefs begin in early childhood when children deal with a broad range of experiences, tasks and situations and continue to develop throughout life with the acquiring of new skills, experiences, and understanding (Bandura, 1992). Bandura (1992, 1994) believes individuals with strong sense of self-efficacy view difficult problems as tasks to be mastered; develop a strong interest in activities in which they are committed to; develop a wider sense of commitment to their interests and activities and recuperate rapidly from setbacks and challenges. By way of contrast, individuals with a weak sense of self-efficacy shun from challenging tasks; believe that difficult responsibilities and circumstances are beyond their capabilities and focus more on their personal weaknesses and negative outcomes.

2.5.1.14 Optimism

Entrepreneurs are believed to have an external optimism that helps them to avoid familiar pitfalls (Rwigerma and Venter, 2004:59). In the face of major setbacks and down periods, entrepreneurs with the optimism attribute belief in their “seldom waver,” maintain their self-confidence and ensure people around them know about it (Kuratko, 2009). This thus helps other entrepreneurs to maintain and create a level of self-confidence necessary for efficient group efforts.

However, while many entrepreneurs do avoid such pitfalls, optimism can as well lead to optimism fallacy, which in turn can contribute to the failure of a business (Baron, 2004:222).

2.5.1.15 Problem solving and Perseverance

Problem solving skills include – time management, all problems solving behaviour and the ability to handle stress and whether SMEs succeed or fail depends on how they handle their various problems (Rwigerma and Venter, 2004:55). Entrepreneurs with a problem solving ability are usually not intimidated by the number of problems they encounter but work with a stubborn determination to solve a difficult problem based on their desire to achieve their stated goals and objectives (Good, 2003).

Closely related to problem solving is perseverance, which is when entrepreneurs make severe efforts and work hard to accomplish their stated goals and objectives. These successful entrepreneurs are characterised by commitment, tenacity, perseverance and endurance (Rwigerma and Venter, 2004:57; Mueller and Thomas, 2001:55) and deterred by risk and difficulties on their path to achieving their ultimate goals (Kumar, Poornima, Abraham and Jayashree (2003:2).

2.5.1.16 Integrity and reliability

Good (2003:21) believes a company's long run survival should be based on the “do what you said you are going to do” approach, because it will enable investors, partners, customers, supplier and creditors to place a high value on these attributes. Personal values such as ethics, code of ethics, integrity, honesty and consistency are vital for the businesses development and thus helps in the building of trust between SME's owners and stakeholders (Rwigerma and Venter, (2004:69). These long-term personal and business relationships according to Good (2003:21) should be built on honesty and reliability.

2.5.1.17 Independence and Autonomy

Entrepreneurs are characterised by Henry *et al.* (2003) as people who are very independent and have a need to control. They choose to do things on their own and actively seek situations and environments that permit them to “do their own thing” and are ready to take responsibility for the results. These successful entrepreneurs demonstrate preferences for autonomy and self –reliance,

independent thoughts and individuality (Mueller and Thomas, 2001: 292; Rwigyema and Venter, 2004:69).

2.5.2 Achieved characteristics

Achieved characteristics are acquired through some combination of personal choices, efforts and abilities and they include ones level of education; occupation; work experiences (Ferrante, 2008:200). These characteristics are explained in more details below;

2.5.2.1 Experience

Experience could either have a positive or negative impact on entrepreneurs (Janssen, 2003). This is because experience can either help the manager to avoid problems or quickly solve previously encountered problems. Experience can also retard the degree of creativity and adaptability of entrepreneurs by pushing them to stick to solutions that have been tried and tested in the past. According to Storey (1994) early experience in the field of marketing stimulates growth and hence survival of SMEs. Other researchers, Dahlgvist, Davidsson, and Wiklund (1999) studied the influence of experience in firm creation and discovered that experience had a positive influence on growth. While on the other hand, Lee and Tsang (2001) suggested that most literature studies confirmed a positive relationship between the entrepreneur's prior experience and survival of their businesses. Likewise, work experience is also considered an important factor in entrepreneurial success, especially if the experience is in the specific industry sector of the proposed business venture (Henry *et al.*, 2003).

By way of contrast, a study by Brush and Changati (1998) does not confirm the influence of previous functional experience on the growth, so does the study by Siegel, Siegel, and MacMillan (1993) which indicated that the number of years of professional experience in a broad sense is not of decisive importance for growth and survival of SMEs.

2.5.2.2 Education

Lussiers and Pfeifer (2001) argued that education assists in the success of entrepreneurial ventures by enabling the nourishment of competencies such as innovativeness and ability to obtain resources. They concluded that entrepreneurs with higher education levels and

experiences have a greater probability of success than entrepreneurs who lack education and experiences. Thapa, Thulaseedharan, Goswami and Joshi (2008) underscored that business successes depend on socio-economic factors such as education, skills, and training. This is in conformity with the research conducted by Thapa (2007) in Nepal, which highlighted the fact that education has a positive effect on entrepreneurial success.

Copper (1998:7) linked education, gender and race of the entrepreneurs to new business performance in a three year longitudinal study in the United States. His studies recommended "... that some dimensions of human capital influence persistence..." and new business survival could be a "... function of both economic performance and threshold effects," which is seen as the minimum level of performance an entrepreneur will accept in order to survive. Levy and Sharma (1994) suggested that higher levels of education do not only help salespeople to become more proficient in the sales process, but as well leads to successful performance outcomes. Additional research by Rose, Kumar, and Yen (2006) established that education, skills, experiences and financial support are some of the most important factors affecting the success of businesses. Moreover, in line with Rose *et al.* (2006) research conducted by Lerner, Brush and Hisrich (1997) on Israeli women entrepreneurs using a sample of 220 businesses, findings were made to the effect that education had significant explanatory power on performance.

Alternatively, Lee and Tsang (2001) observed that the evidence presented in the literature concerning the effects of education on venture performance is inconclusive. Adding to this, Minniti and Bygrave (2003) state that entrepreneurs with more education are not necessarily more entrepreneurial. Whereas Bolton and Thompson (2000) argue that while education may teach analysis and sound judgment, it can as well diminish talents and instincts, which could in turn decrease entrepreneurial spirits.

2.5.3 Ascribed characteristics

Ascribed characteristics are traits that one is born with and has done nothing to earn it. These are attributes people have at birth, which develops over time, or are possessed through no efforts of their own, such as age; race; ethnicity; gender and socio- economic origin of the entrepreneur. These characteristics are explained in more details below;

2.5.3.1 Age

A number of studies have tried to establish a relationship between an entrepreneur's age and the performance of the venture in which they are involved. For example, Reynolds, Hay and Camp (1999) established that countries that have more individuals between the age group of 25-44 years old have more start-ups and that the presence of alleged 'early career' individuals is an essential determinant of the level of business start-ups. Peters, Cressy and Storey (1999) ascertained that on average, younger people are less likely to become self-employed. Blair (1997) highlighted that most entrepreneurs started quite young with most of them becoming millionaires by the age of 30.

Evans and Leighton (1989) attested that many entrepreneurs start a business in their mid-thirties and that the average age of an entrepreneur is over 40 years. Staw (1991) also reckons that age is linked to business success if it comprises of both chronological age and entrepreneurial age. This goes to show that the older an entrepreneur is, the more experiences in business he has. Henry *et al.* (2003) concludes that the more mature and experience an entrepreneur is, the more likely he/she can succeed. Younger entrepreneurs are more likely to take risk in the attempt to grow their businesses.

However, Hatch and Zweig (2000) found that anyone could become an entrepreneur at almost any age. Likewise, a related stream of research by Moore *et al.* (2008:19) established that there are no hard and fast rules concerning the right age for starting a business. This is because young people are often faced with the problem of inadequacy in their preparations and resources, which discourages them from entering entrepreneurial careers, while the older people either develop family and financial problems or are committed to their jobs that makes entrepreneurship seem too risky. For Hatch and Zweig therefore, the ideal entrepreneurial age lies somewhere between the late 20s and early 40s, which is when there is a trade-off between confidence, usually characterised by youth, and wisdom based on years of experience.

2.5.3.2 Culture and Religion

Culture is defined as the values, norms and attitudes in a group (Verheul, Wennerkers, Audrestch and Thurik, 2001). Robert and Wainer (1996) stipulate that entrepreneurs often come from different ethnic religions and types of minority groups. According to Gamini de Alwis and Senathiraja (2003) religion is a mainspring of culture, an inner determination for many of the external manifestation of culture. They believed religion is a major element in the cultural environment and culture in most societies develops because of religion.

Mueller and Thomas' (2001) support the proposition that some cultures are more conducive for entrepreneurship than others, considering that culture is seen to foster an internal locus of control. They carried out a nine-country study and concluded that some entrepreneurial characteristics such as innovativeness, differences in perception of risk, and internal locus of control are universal amongst entrepreneurs. Henry *et al.* (2003:33) noted that the experiences of religious oppressions by certain individuals and groups of people can give rise to creative, innovative and entrepreneurial activities, since they are often forced to become self-employed when no employment option is open to them. Moreover, other studies (Gartner and Shane, 1995; McGrath, MacMillan and Scheinberg, 1992) are in support of the argument that cultural values influence entrepreneurial behaviour. Added to this contention, is the belief that national culture influences a variety of economic/management behaviour, with a growing body of literature supporting this argument (Bygrave and Minniti, 2000; Chrisman, Chua and Steier, 2002; Hofstede, 2001).

However, due to cultural differences, entrepreneurial activities are limited in cultures that are collective and high avoiders of uncertainty. Added to this argument, is a study of entrepreneurs in Finland and Germany by Littunen and Utsch (1999); Utsch, Rauch, Rothfufs, and Frese (1999) which uncovered a similar result in determining entrepreneurial traits. Further studies by Mueller, Thomas and Jaeger (2002) tested a hypothesis on a sample of over 1,800 responses to a survey of third- and fourth-year students at universities in nine countries and revealed that internal locus of control orientation was more common in individualistic cultures than in collectivistic cultures. This research again called attention to the fact that innovative orientation

was more rampant in low uncertainty avoidance cultures than in collectivistic high uncertainty avoidance cultures.

2.5.3.3 Family Influence

Davidsson (1995) established that successful entrepreneurs are most likely to come from families in which either a parent or a relative owns a business. Researchers have (Anderson and Reeb, 2003, 2004; Arregle, Hitt, Sirmon and Very, 2007; Sirmon and Hitt, 2003) found that there exist a positive relationship between family businesses and a firm's performance. This is because of the conviction that they improve unique and valuable resources, maintain survivability capital and have a low agency cost. According to Blackman (2004:38) owner-managers whose fathers were self-employed were more likely to survive in business than non-self-employed own-manager's fathers. He further brought to the fore the fact that owner-managers who as children, experienced stern financial difficulties "... were more likely to own and operate surviving firms than those whose parents were more financially secure". However, other related streams of research (Miller, Le Breton-Miller, Lester and Cannella, 2007; Schulze, Lubatkin and Dino, 2003) indicate that there are negative relationships between family businesses and a firm's performance.

2.5.3.4 Gender

McClelland (1961) stipulated that gender differences in the characteristics of entrepreneurs came in to existence because of a longstanding effort in trying to develop the "trait theory" of entrepreneurship (Greene, Hart, Gatewood, Brush and Carter, 2003). There exist differences in performance between female and male owned businesses (Du Rietz and Henrekson, 2000). Carter, Anderson and Shaw (2001) established that female entrepreneurs differ from male entrepreneurs in that they are less likely to have previous business experience, they are relatively younger, and operate mostly in the retailing and service industries and also perform less well than male owned companies (Carter, 1997). Another related stream of studies by (Boden and Nucci, 2000; Cliff, 1998) reported an indirect gender effect, which goes to show that the effect of gender is determined by other variables. Likewise, other researchers (Watson, 2001; Robb, 2002;

Rose *et al.*, 1996) in their studies, found a direct gender effect on business performance, which again illustrates that the effect of gender is not determined by independent variables.

Conversely, Esters (1997) in his survey of 1,300 women owned businesses publicised that the management styles of women were better suited to managing risk than that of men. Chaganti and Parasuraman (1996) examined the differences in performance, goals, strategies, and management practices in small businesses, and established that women were more concerned with quality, but differed significantly on management practices than their male counterparts. Zapalska (1997) observed the personality characteristics of entrepreneurs in Poland and discovered that though female entrepreneurs were more educated than the male entrepreneurs, they had equal or better levels of business experience. This study again found no gender differences in personality attributes, but revealed that female entrepreneurs were more likely to consider innovation as a commitment to long-term capital accumulation; investment and a success factor, than their male counterparts did.

2.5.4 Demand and Requirement characteristics

Timmons (1989) identified four principal demands and requirements for being a successful entrepreneur, which he believed to be obvious requirements for knowledge, experience of the business environment, team building and creativity. They include;

- Accommodation to the venture: Chell *et al.* (2001:49) emphasis the need for entrepreneurs to be entirely dedicated and give their all to ensure the building of their businesses, particularly in the early years of the business.
- Stress the cost of accommodation: Entrepreneurs need to set a balance between achieving their goals under a short-term stress with the ability to relax and ease off when need arises.
- Economic and professional values: Entrepreneurs need to participate fully in the sharing of key values of the private enterprise system.
- Ethics: Entrepreneurs need to always maintain a reputation for integrity and ethical dealings, in order to ensure their long-term success.

A concluding statement concerning the various types' of entrepreneurial characteristics discussed in the previous section was based on the synthesis of key findings by Thompson (1999). These findings attest to the fact that “not all entrepreneurs succeed. There are failed entrepreneurs, some of whom disappear from the sight and others who return with new ideas and ventures”. Added to this assertion, is a finding by Henry *et al.* (2003) that stated that “characteristics which help the entrepreneur to guide his/her new firm through the development period into the growth stage may be the very same characteristics which eventually lead to his/her own self-elimination”. This therefore means that there exist certain types of characteristics, vital to the long-term survival of SMEs, which this current study intends to bring to the fore light.

In the next part, a conceptual framework will be established in an attempt to link some of these characteristics to the long-term survival of SMEs.

2.6 CONCEPTUAL FRAMEWORK LINKING ENTREPRENEURIAL CHARACTERISTICS TO LONG- TERM SURVIVAL OF SMEs.

The previous discussions and explanations have suggested that entrepreneurial characteristics have an impact on performance, growth and success of SMEs. However, current studies have not specifically looked at how some or all of these characteristics influence the long -term survival of SMEs. Also revealed is the fact that entrepreneurial characteristics required for success of SMEs are often not required either for the growth of SMEs or to manage and grow a business (Acharya, Rajan and Schoar, 2007). More so, there exist certain individual personal characteristics and characteristic requirements for becoming an entrepreneur (Markman and Baron, 2003: 281).

In trying to establish a relationship between entrepreneurial characteristics and the long-term survival of SMEs, this study hypothesises that SMEs and entrepreneurs have particular characteristics that pertain to their long-term survival. Some of these characteristics will be tested to show the extent to which they influence the long-term survival of the SMEs;

Figure 2. 1 : Framework for Linking Entrepreneurial Characteristics to long-term survival of SMEs

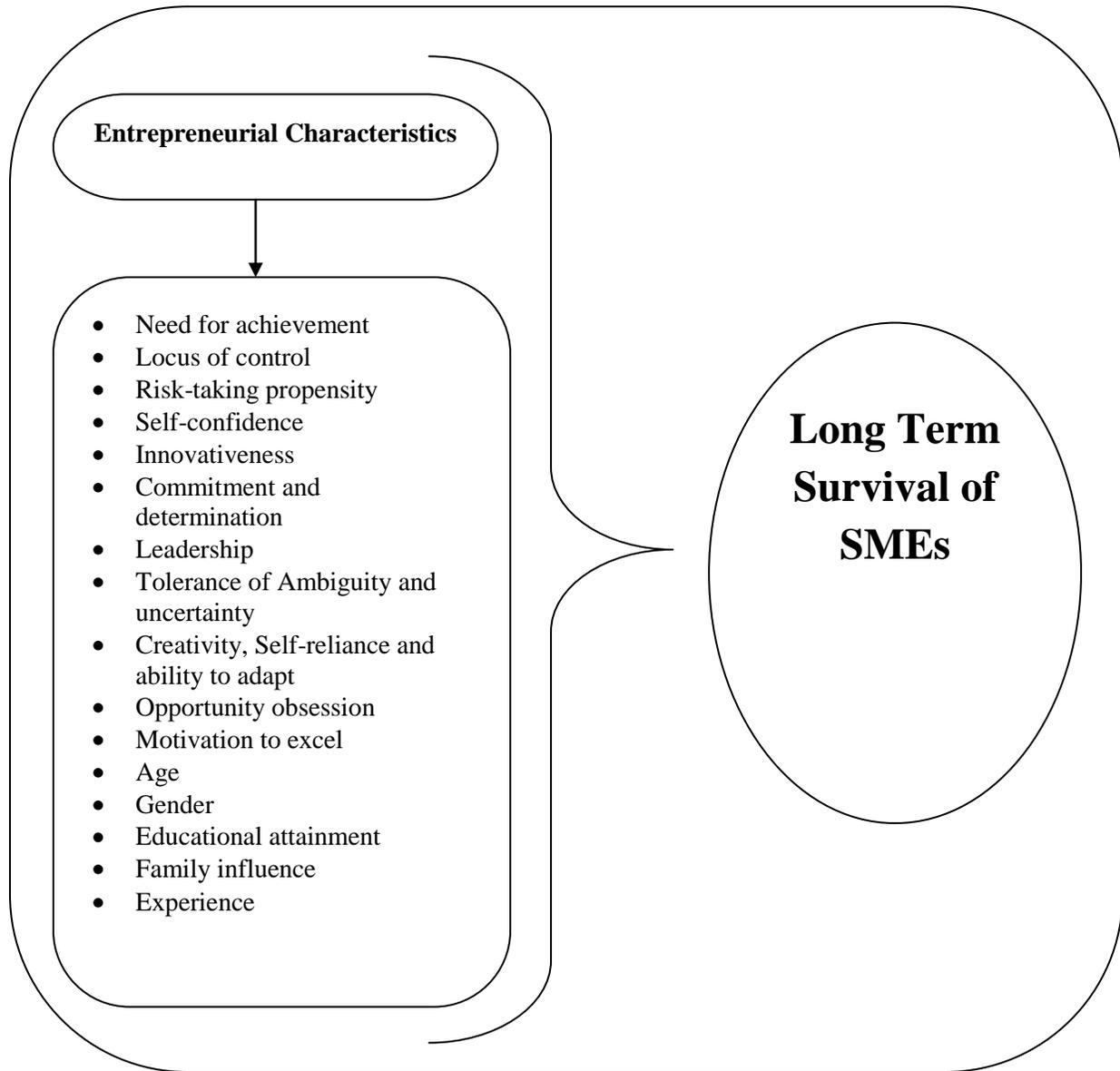


Figure 2.1, shows a combination of learnable, achieved, ascribed and demand and requirement characteristics of entrepreneurs, adopted by this study. These characteristics are chosen because most studies have not specifically looked at how some or all of these characteristics influence the long -term survival of SMEs. In addition, these set of characteristics have received the most

attention in the entrepreneurship literature and are often used to differentiate entrepreneurs from non-entrepreneurs (Shaver and Scott, 1991; Robinson, Stimpson, Huefner and Hunt, 1991; Koh, 1996).

2.7 CHAPTER SUMMARY

This chapter provided the major theoretical background of this study. Starting with a review on the approaches used in the study of entrepreneurial characteristics – trait approach, demographic/social approach, behavioural/ managerial approach (Field, 2005:5) economic approach and human capital approach (Ucbasaran, 2004). The chapter also identified some of their key shortcomings, with its main focus being the identification of all the various types of entrepreneurs and their characteristics pertaining to them.

The literature revealed that there are various types of entrepreneurs such as craftsmen, opportunistic, growth-oriented; independence- oriented; lifestyle; high growth; nascent, novice and habitual (serial and portfolio) entrepreneurs. As a result, entrepreneurs examined in this study were believed to have either started or purchased businesses and were also the key decision makers in the business.

Entrepreneurial characteristics were also grouped into learnable, achieved, ascribed and demand and requirement characteristics. The study thus adopted this approach as a means of clearly identifying which characteristics entrepreneurs possess that specifically can be nurtured, developed, inherited or acquired, to improve the long-term survival of SMEs. The literature studies also revealed that there exist certain individual personal characteristics and characteristics requirements for becoming an entrepreneur. Entrepreneurial characteristics required for success of SMEs are often not required for the growth of SMEs and often not required to manage and grow a business (Acharya, Rajan and Schoar, 2007). Added to this assertion, was a finding by Henry *et al.* (2003) stating to the fact that “characteristics which help the entrepreneur to guide his/her new firm through the development period into the growth stage may be the very same characteristics which eventually lead to his/her own self-elimination”. This therefore means that there exist certain types of characteristics, vital of the long-term survival of SMEs.

Finally, a conceptual framework was presented that took sixteen entrepreneurial characteristics that have received the most attention in entrepreneurial literature and equate them to long-term survival of SMEs with the aim of finding out the extent to which they impact on the long-term survival of SMEs, was also presented.

“There are always two choices. Two paths to take. One is easy. And its only reward is that it's easy” (Lavinsky, 2011).

CHAPTER THREE

BUSINESS PRACTICES

3.1 INTRODUCTION

The rationale of this chapter is to explore existing theoretical and empirical notions on business practices. Thereafter, a conceptual framework is presented and explained based on the assumption that organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up the business practices, which influence business performance (success and survival). SME's long-term survival and its determinants are later discussed in detail and some of these determinants are tested in this study. Furthermore, a relationship between business performance (success and survival) and long-term survival of SMEs is established. The last part of the chapter deals with the impact of the business external environment and its possible implications on SMEs and it is on this framework that a conclusion to the study is presented.

3.2 BUSINESS PRACTICES

Dove and Hartman (1996) maintain that business practices “are the way we do things and why we do them that way”. They consist of ways of transforming business values into practice (Gamini de Alwis and Senathiraja, 2003). Business value formation is influence by socio-cultural and personal background factors (age, ethnicity, religion and education). An entrepreneur's day-to-day business practices are directly related to his organisational performance, and as such differ from that of other entrepreneurs and business sectors (Nezlek, and Hidding, 2000). According to Sharma (1999) the term business practices is used to express different aspects of business and management practices such as total quality management, quality circles, gain sharing, self-managing work teams and empowerment.

Business practices facilitate information strategies and could potentially ensure quality and improvement in organisational performance (Mandal, Venta and El-Houbi, 2009). A research by Hipsher (2010) showed that breaking down business practices into their strategic, tactical, and operational levels might provide a useful guide for setting up initial operations in a foreign environment. Hipsher looked at business practices within a political, cultural, economic and religious context, while Gamini de Alwis and Senathiraja (2003) concluded that most countries are now adopting common business practices because of their interactions at globalised and technological levels. Similarly, Philipsen (1998) identified six critical dimensions of business practice that are used in distinguishing entrepreneurship and administratively oriented management, namely: **strategic orientation; the commitment to opportunity; the resource commitment process; the concept of control over resources; the concept of management; and compensation policy.**

Abringer's (2006) research on business practices in Latin America demonstrated that business practices were related to management practices such as leadership and teamwork. His studies further stipulated that business practices are culturally determined. Abdullah (n.d) through his conducted research also revealed that management practices such as teamwork, counselling, performance feedback; negotiation, leadership and motivation were seen to influence performance assessments and foster achievement. Furthermore, Shuying and Hui (2006) on exploring the effects of Chinese business management practices on business performance concluded that business leaders should adopt certain management practices to enable the strong performance of their businesses. These practices are role-specific and differ in terms of environment analysis, operations planning, control and follow-up as well as the entrepreneur's personality and cultural background. These management practices include defining the vision and mission of the business, setting strategic goals and operational objectives, assessing the business structure and size and selecting strategies that competitively position the business in its environment (at the business level) (Blackman, 2003: 29). Additional research conducted by Jayakody and Sanjeevani (2005) on the best business practices of Sri Lankan firms confirmed that firms best business practices fit into four key performance areas, which are; **external market orientation, internal organisational process, current business performance, and internal customer orientation.**

Story (1994) reckons that six factors, which are, **legal structure, business size, age, industry sector and market, location and ownership**, greatly affects the performance of businesses. Davidsson, Kirchhoff, Hatemi-J and Gustavsson (2002) observe that factors such as business age, beginning size, ownership form, industrial sectors and legal forms are seen as important factors related to a firms growth. Mandal, Venta and El-Houb (2008) in their study also explain that there exist several ways through which business practice can be established in specific areas, which can lead to outstanding performance. The implementation of business practices based on the use of quality management principles and tools in business management, will lead to a systematic improvement in business performance, especially where key practices in business excellence are applicable to all functional areas in an enterprise.

In consideration of the above discussion, this study adopts a framework, as shown in Figure 3.1 that is based on the assumption that organisational culture and organisational strategies enhanced by entrepreneurial/managerial capabilities make up the business practices that influence business performance (success and survival), as well as the long-term survival of SMEs.

Figure 3. 1 : Conceptual Framework linking Business practices to Long Term Survival of SMEs.

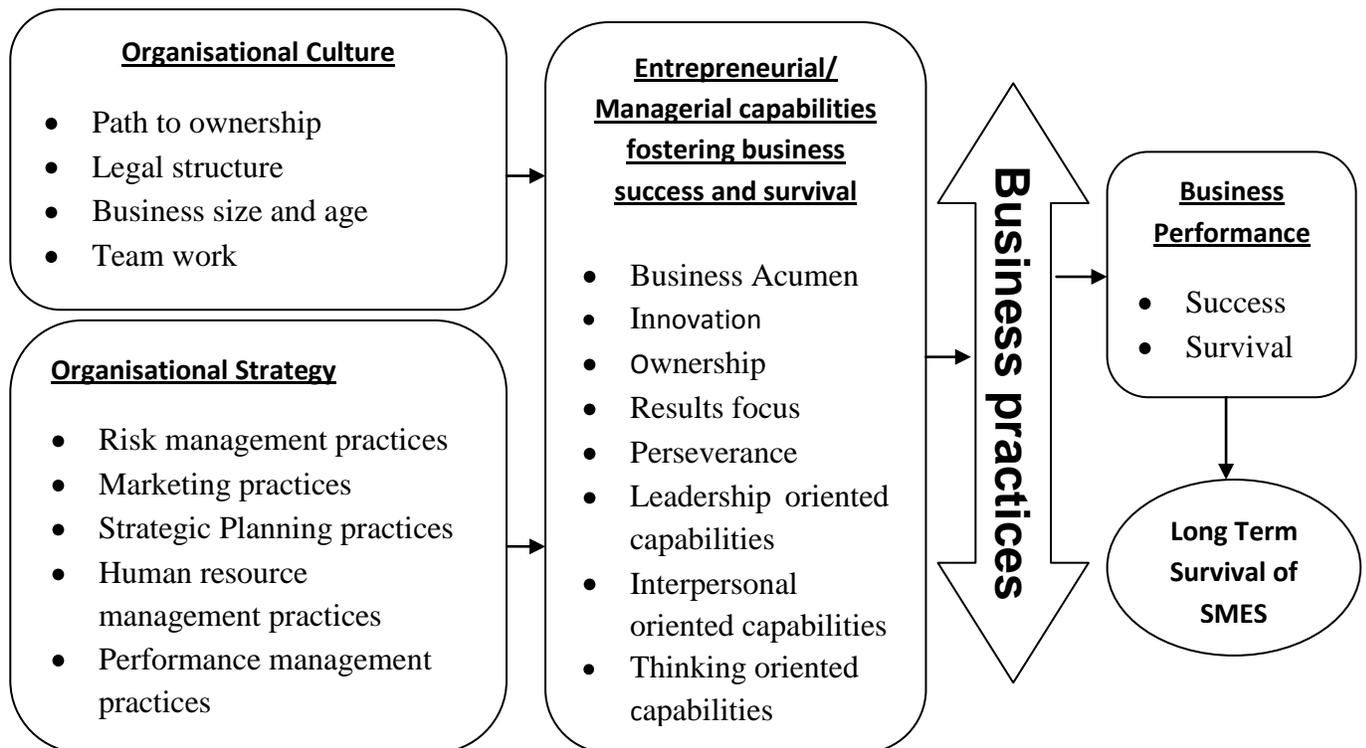


Figure 3.1 is based on the assumption that organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up the business practices, which influence business performance (success and survival) and thus long-term survival of SMEs. These variables are discussed in more details below;

3.2.1 ORGANISATIONAL CULTURE

Williams, Dobson and Walters (1994) define organisational culture as “the way we do things around here” or “the way we think about things around here”. Organisational culture refers to “the pattern of beliefs, values and learned ways of coping with experience that have developed during the course of an organisation’s history, and which tends to be manifested in its material arrangements and in the behaviours of its members” (Brown, 1998). Therefore in order to become an efficient organisation, the importance of culture should not be neglected (Schneider and Barsoux, 1997). This is because culture influences the way people behave and think (Hofstede, 1997) in that it creates the feeling of identity among personnel and commitment to the organisation (Martins, 2000).

Each organisation has its own distinctive culture or set of values, so for the purpose of this study **Path to ownership; legal structure; teamwork; business size and age will be the focus on organisational culture.**

▪ Path to Ownership

Birley and Westhead (1990) assert that ownership structure affects performance in SMEs, both in terms of profitability and growth of employee’s. Firms with a diluted ownership structure would perform in a different way as oppose to those with a few private owners with the same concept of the business. Kirchmaier and Grant (2005) with reference to their findings on corporate ownership structure and performance in Europe specified that ownership has a significant impact on firm performance. They believe ownership structures in Europe are not consistent with value maximisation principles.

Brockhaus (cited in Blackman, 2003:29), stipulates that individuals start-up businesses because they are either dissatisfied with their previous work experience or because they are unemployed. In his view, business owners come to ownership by any of the five ways, which are: starting a business from scratch, purchasing it from another owner, inheriting it from parents or other relatives, acquiring promotion into an ownership position or through transfer from another organisation by existing owners. Rogoff and Lee (1996) categorised business owners/entrepreneurs path to ownership into three the groups as seen in table 3.1;

Table 3. 1 : Business owners/entrepreneurs path to ownership

Creators.	Creators are defined as those who have initiated a new venture with the dream of creating a new product or service
Inheritors	This group includes those who have inherited a business from a family member or who were brought into a business through a family connection
Operators	Operators are those who purchase a business or a franchise. They are motivated by financial goals, lack of options, or a desire to buy an existing business or to franchise a proven formula as a way to minimize risk

Business owners could be either passive or active in their approach to management of their businesses. Passive owners play no part in the day-to-day running and management of their businesses, while active owners are fully engaged in the day-to-day running and management of their business (Blackman, 2003: 29).

- **Legal Structure**

The legal structure of a business can take three basic forms: Sole Proprietorship, Partnership or Corporation (StLaurM, 2002:1). The legal structure is most likely influenced by the perceived risk of failure, the business age, the industry, the path to ownership and lastly the readiness of the

owner(s) to be exposed to risk. Blackman (2003:30) observes that the more formal the legal structure of the business is, the more structured and serious the business will be, and this will in turn lead to a superior performance of the business. According to Roudaut (2006), informal firms (entrepreneurial firms) are all sole proprietorships, while formal firms (managerial firms) may either be sole proprietorships or have a more complex organisational form and can give rise to different problems of monitoring (for example agency costs), which can then be linked to efficiency.

- **Business Size and Business Age**

The effects of a firm's age and size on business performance have been extensively studied with diverse results (Davidsson, 1991). Lots of concerns have been raised in theoretical and empirical research in the economics, management and sociology disciplines on whether larger firms are superior in performance to smaller firms; or whether smaller firms are superior in performance to larger firms; and whether older firms are superior in performance to younger firms, or younger firms are superior in performance to older firms (Majumdar, 1997). Bhattacharyya and Saxena (2009) found out that several alternative measures of a firm's performance are related to size of a business and that a firm's size and profitability were inversely related. Likewise, Punnose (2008) confirmed a positive relationship between firm size and profitability. A firm's age is therefore greatly correlated with both its growth and survival, but there is no correlation between a firm's size and business performance (Birley and Westhead, 1990). According to Ramasamy, Ong and Yeung (2005), a firm's size is negatively related to performance.

With regards to the impact of age, Majumdar (1997) suggested that older firms enjoy superior performance since they are more experienced, and are not faced with the problems of newness. He believed older firms are prone to slowness since they are not likely to have the flexibility to make rapid alterations to unstable circumstances, but more likely to lose out in the performance. Meanwhile, Loderer and Waelchli (2009) hold on to a perspective which indicates a negative relation between performance and firm age, stating that as a firm's age increased, the reliance on administrative concentration decreased.

- **Teamwork**

Employees may regard teamwork as any type of collaboration with colleagues or a clearer idea of a team that works towards a common goal, by means of joint decision making and taking responsibility for the task. Studies by O’Leary-Kelly, Martocchio and Frink (1994) revealed that when the goal of teamwork is to improve the production process, then, group teamwork should be made of complexity, communication and integrative work. Alternatively, when the goal of teamwork is to improve an assembly line, successive work actions should be directed towards the assembling of different parts of a product. The advantages of teamwork are to help improve a company’s performance and to boost employees’ well-being (Hayes, 2005); to reduce fluctuations in performance and improve work morale (Hayes, 2005) and to create an environment that facilitates knowledge, information exchange and so-called knowledge sharing. Other advantages of teamwork are to encourage more job autonomy, greater responsibility and higher job satisfaction (OECD, 2000), improve productivity and company efficiency and to direct employee participation in organisational change (Cohen and Ledford, 1994).

However, Guest (1995) reckons that teamwork is not always an answer to all a company’s problem but rather a form of enterprise intervention required within all levels of organisational changes. He further observed that in order to ensure that teamwork does not become ineffective, there is the need for it not only to be integrated into the entire organisational structure of the enterprise, but also to ensure that the structure adapts to the new model. Based on Guest views, teamwork should then be regarded as an important component of ‘high performance work organisation’ (HPWO) and as one element of the new forms of work organisation.

3.2.2 ORGANISATIONAL STRATEGY

Chandler (1990) defines strategy as “the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”. Strategy means the combination of activities and creating a connection between the activities from the strategy of a company (Porter, 1996). Companies

that pursue a clear and consistent strategy perform better than companies without such a strategy (Gibcus and Kemp, 2003; Baum, Locke and Smith, 2001).

However, every organisation has its own unique scope of activities that can enable them realize a competitive advantage. Therefore, for the purpose of this study, **risk management practices; marketing practices; Strategic planning practices; human resource management practices and performance management practices** will be the focus on organisational strategy.

- **Risk management practices**

A risk management system includes the various policies, procedures and practices that work in agreement to identify, analyse, evaluate, address and monitor risk. According to Tchankova (2002), risk management includes all aspects of the organisation's activities and it covers all level of management, thus helping other management activities to reach the organisation's aim directly and efficiently. He further stated that risk exists as an element of the environment in which organisations operate and should be adopted as risk management practices, so as to avoid the probability of high failure rates of businesses in future. Examples of risk management practices include purchasing insurance; installing security systems; maintaining cash reserves and diversification; recruiting; safety; training; coaching; policy and procedure development; employee complaints of harassment or discrimination, and uniform termination procedures.

Accordingly, Macko and Tyszka (2009) underscore that the risk connected with running a business venture is related to the skills of the entrepreneur. Shapira (1995) after conducting an interview with top managers stressed the difference between risk taking in business and risk associated with chance. This is because the risk managers or entrepreneurs deal with is linked with their own control and skills. According to Aaker and Jacobson (1987) risk has a positive influence on performance. In examining the relationship between risk and performance, Wiseman and Catanach (1997) highlight that risk has both a negative and positive effect on performance in certain circumstances. A study by Ow (2007) further emphasised that in order to enhance business results, risk management practices should be simplified and embedded into normal business operations, planning and budgeting processes, and organisational culture.

Another related stream of research revealed a strong relationship between the willingness to take risks (risk tolerance) and entrepreneurial business success, which stresses the need for including risk in entrepreneurship education and training programmes (Nieuwenhuizen and Kroon, 2002). Hanoch, Johnson, and Wilke (2006) focused on specific subsamples of risk takers and found that individuals who exhibit high levels of risk-taking behaviour in one content area (e.g bungee jumpers taking recreational risks) can display moderate (or low) levels in other risky domains (e.g., financial). However, Janney and Dess (2006) argue that high risk-taking decisions are more apparent in the new venture-creation process and they make a conclusion with regards to three dimensions of the risk construct - risk as a variance; risk as a downside loss and bankruptcy; and risk as an opportunity.

“Without risk-taking, the prospects for business growth wane” (Ward, 1997: 323). It is therefore imperative for entrepreneurial firms to be willing to take risk. In order to survive and be successful in their business operations, entrepreneurs should not just assume the risk of a business venture but must learn to actively manage the risk by incorporating risk management into their planning and operational processes. So before entrepreneurs analyse the risk, they need to determine what degree of risk exist and before identifying the risk, they need to understand at a detailed level, how the business will operate, as well as their competitive and economic environment surrounding them. This practice enables entrepreneurs to gain a broader picture of their business systems by understanding all of the difficulties; interrelationships; feedback devices; internal and external intrinsic risks in any business organisation.

▪ **Strategic Planning Practices**

Every organisation has to make some sort of decisions that addresses the biggest and most important issues facing the business, which might affect the entire destiny of the business for years into the future. This big decision into the future is what is termed planning. Planning is the foundation of every business because without planning, a business will never know where it is heading to and more or less never knows if it will ever get there. Ennis (1998:54) argues that enterprises “must actively plan for the future” to compete effectively and survive. SMEs that engage in strategic planning are more likely to; reach higher sales growth, higher returns on assets, higher margins on profits and higher employee growth than those that do not (Berman et

al. 1997; Carland and Carland 2003; Gibson and Casser, 2005). Thus, SMEs that engage in strategic planning experience increase the firm's performance and are less likely to fail (Gaskill, van Auken and Manning 1993; Perry 2001). According to Rue and Ibrahim (1998), a greater planning sophistication is positively related to sales growth, though there is no significant relationship between planning and return on investment. Schwenk and Shrader (1993) further highlighted that though the size of the effects of strategic planning for specific studies is not that large, the overall relationship between formal planning and performance is significant and positive.

Other research by (Berman, Gordon and Sussman 1997; Orser, Hogarth-Scott and Riding 2000; Sandberg, Robinson and Pearce 2001; Beaver, 2003) has constantly shown that SMEs do not engage in strategic planning. The reasons why some SMEs do not engage in strategic planning is not well understood (O'Regan and Ghobadian 2002). Berry (1998) affirms that SMEs that neglect strategic planning will not attain their full performance and growth potentials, and their survival could as well be placed at risk. As a result, "there is little or no empirical research demonstrating the principal activities which includes the planning practices of selected groups of small businesses that plan" (Ongunmokun, 1996: 2003). In line with this contention, Odame (2007) in his study on the relevance of strategic planning for entrepreneurial businesses in South Africa assert that in terms of planning practices, small businesses in South Africa plan both formally and informally, while other businesses do not plan at all. He further demonstrated that there exists a high prevalence of emergent strategies than prescriptive strategies in South Africa small businesses, of which the small businesses that had business plans increased in their level of formalisation and used the business plans as management tools.

To facilitate business survival therefore, entrepreneurs should ensure that major strategic issues are addressed; they should evaluate to ensure that they do not violate any constraints and rate the strategic options against the objectives. This can be achieved by carrying out the SPADE principles, which stipulate that the following: **START** - Organizing to plan, engaging affected parties; **PURPOSE** - Sizing up the strategic challenge, setting targets; **ANALYSE** – Strengths, Weaknesses, Opportunities, Threats, and generate options; **DECIDE** – Devising Strategies from the options looked at; **EXECUTE** – Evaluating and actioning strategies, should be taken into consideration.

▪ **Marketing Practices**

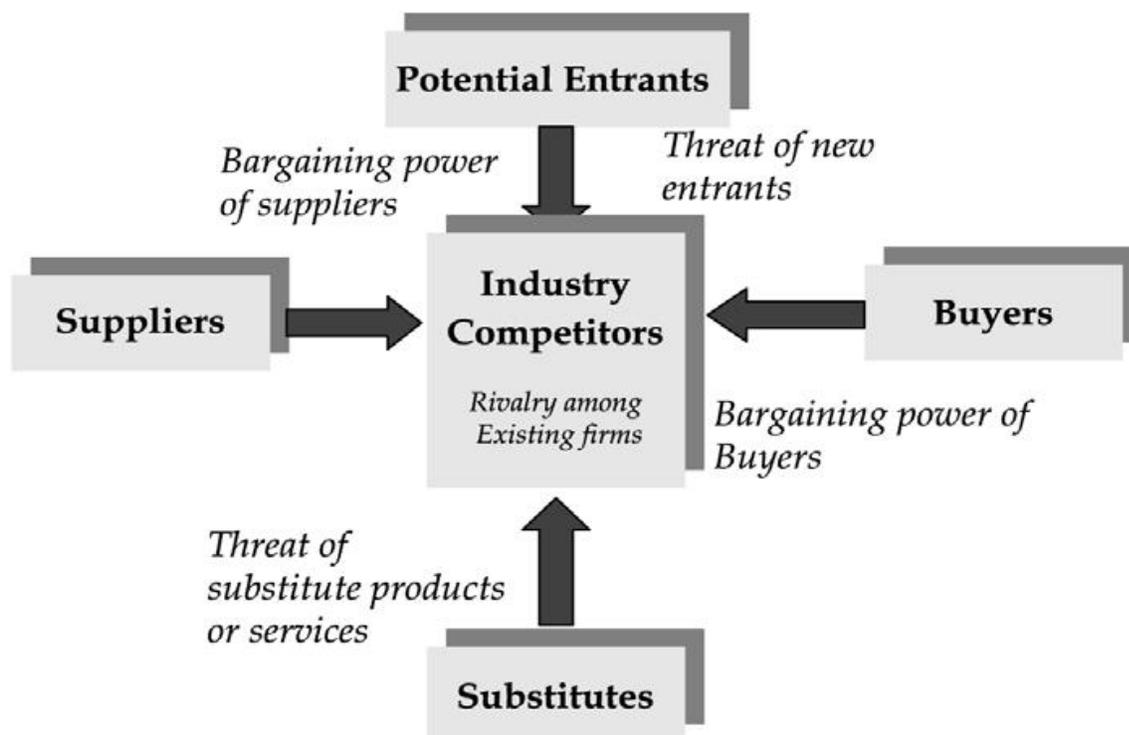
Keefe (2004: 17) defines marketing as “the performance of business activities that direct the flow of goods and services from producers to consumers”. Over the years, the concept of marketing has evolved through three main different frameworks; transactional marketing, relationship marketing, and inductional marketing. According to Blackman (2003:36), at the business/management practice level, marketing involves “the selection, the distribution, the pricing and promotion of products and services”. The transactional marketing gave birth to the marketing mix paradigm, developed by McCarthy in 1960 and referred to as the 4Ps (Product, Price, Promotion, and Place). This paradigm is useful in pursuing certain marketing responses and requires that managers make decisions based on the number and types of products to produce, their number and type of distribution channels and the positioning of their products with respect to substitutes and related/similar offerings from their competitors.

A research by Siu, Fang and Lin (2004) on the strategic marketing practices and the performance of Chinese SMEs in Taiwan revealed that their SMEs marketing practices such as cultural value orientations and mediating environmental factors played an important role in shaping the attitudes and behaviour of Taiwanese owner-managers and, in turn, the marketing practices of Taiwanese. Also evident was the fact that SMEs marketing practices were different from those of their Western counterparts. Another study by Radder (1996) on the marketing practices of independent fashion retailers in South Africa, looking particularly at how these retailers apply aspects of the basic principles of the marketing mix, revealed that 81% had no training in marketing, while 67% were not trained in management. This consequently confirms the need for training among small and independent retailers.

Furthermore, another influence on the marketing practices is the degree of rivalry existing in the industry in which the business operates. The Porter’s Five Forces model can be used to support the strategic understanding of where power rests in a business situation and helps in understanding the strength of a firm’s current competitive position, and the strength of a position a company is looking to get into (Wheelen and Hunger, 1998). As seen in figure 3.2 (below), a firm’s rivalry is influenced by the interplay between the bargaining power of buyers and

suppliers, the threat of substitute products, the threat of new entrants and lastly, the industry competitive rivalry.

Figure 3. 2 : Porters Five Forces that determine industry Profitability



Source: (Turban, King, McKay, Marshall, Lee, and Viehland, 2008)

From Sasikala's (2007:2) perspective, the industry structure plays a significant role in determining the performance of individual firms and the average industry profitability can be considered an important analysis of a firm's performance. He further states that when analysing the industry structure of the firm using the Porter's Five forces, 3 critical questions need to be asked, namely;

- ✓ In which structure of the industry does the firm operates in?
- ✓ How should the firm exploit the structure?
- ✓ What shapes the basis of competitive advantage?

According to Blackman (2003:37), Porter stipulates that an industry's structure and its intrinsic competitive dynamics have a significant impact on a firm's performance potential, but such impacts is also seen to differ considerably among industries. Economists repeatedly have confirmed differences between a firm's performance potentials and industry performance potentials, based on the industry in question. A firm's effects in the manufacturing sector seem to be much more important than industry effects. In the service industries, an industry effects seems to determine at least half of the variance in firms' profitability. Based on this researcher's viewpoint, when a firm's effects dominate, an internally focused 'resource-based' strategy should be most appropriate to use, but where industry effects dominate, a "positioning" approach should be the most appropriate strategy to use.

Therefore, in order for entrepreneurs to survive in their business operations, they must have a clear understanding of who their customers are and how to measure the improvement an innovation can bring. This can be done by mapping out the customers' processes, listening to their needs and desire and thus assessing how more customer value can be delivered.

▪ **Human Resource Management (HRM) Practices:**

Previous studies by (Huselid, 1995; Chang and Huang, 2005; Khatri, 2000; Park, Mitsuahi, Feg and Bjorkman, 2003) have looked at the relationship between HRM practices and firm performance and found that a firm performance is influenced by HRM practices. An organisation's HRM policies and practices supported by the management of the firm create a climate of confidence and trust for the employees, as this climate is consistent with employee productivity (Schuler, 1990). According to Aliouat and Nekka (1999), the presence HRM practices in SMEs, has proved to be related to the characteristics of businesses and is thus a prime cause of competitive advantage. Sang (2005) states that most HRM practices can better improve performance when they are combined together consistently and correctly, since they have a reciprocal effect on one another. Kotler (2001) points out that HRM practices such as tactical practices can be used to align the organisation towards achieving its goals and objectives, which also would result in superior performance of the business. Huang (2000) study on

Taiwanese firms revealed that companies that formulated their own HRM policies through explicit and formal planning procedures, performed better than other companies that did not.

Other researchers, Paul and Anantharaman (2003) identified 9 HRM practices such as (selection, induction, training, job design, work environment, performance appraisal, compensation, career development and incentives) which had an influence on a firm's performance indirectly through one or more intervening variables. Sang (2005) established that skills play a great role in boosting a firm's performance and provided an example that good incentive plans help improve employees' productivity level, but if no training is provided to improve their skills, the firm's productivity level will only rise to some limited level. Ulrich (1998) affirms that individuals are being trained with the objectives of developing interpersonal skills and that the training types have a positive impact on innovation because it facilitates the interactions of the employees with their colleagues and encourages the flow of new ideas and perspectives within work groups. Guest (1997) agrees that a good fit between HRM practices within an organisational context can lead to superior performance. He further proposes a model that can be used to link HRM practices to performance and financial outcomes as indicated in table 3.2;

Table 3. 2: HRM Practices and Firm performance

HRM Strategy	HRM Practices	HRM Outcomes	Behaviour Outcomes	Performance Outcomes	Financial Outcomes		
Differentiation (Innovation)	Selecting	Commitment	Efforts/Motivation	High: Productivity	Profits		
Focus (Quality)	Training		Cooperation	Quality			
Cost (Cost Reduction)	Appraisal	Quality		Involvement	Innovation	ROI	
	Rewards		Flexibility		Organisational Citizenship		Low: Absence
	Job Design						Labour
	Involvement	Status and Security	Customer Complaints	Turnover			
				Conflict			

Source: (Guest, 1997)

This model assumes that behaviour change will occur when all the 3 HRM outcomes are achieved, which will eventually lead to higher performance. However, this model failed to look at how the influence of other variables can weaken the impact HRM outcomes on a firm's performance.

In order for entrepreneurs to survive in their business operations, they must ensure that the core importance and role of every individual in the organisation are properly understood and encouraged deliberately. This is because it is the only way of continuous organisational development through achievement of larger profit, higher quality, lower costs and higher productivity (Đurković, 2009).

▪ **Performance management (PM) practices:**

Performance management is the process of defining goals, selecting strategies to attain those goals, allocating decision rights, and measuring and rewarding performance (Heinrich, 2002; Ittner and Larcker, 2001; Otley, 1999). Performance management permit organisations to attain their goals by aligning the right information and resources to strategic objectives and helping managers create strategies for profit growth (Chenhall and Langfield-Smith, 1998), align strategies with organisational plans, and actively examine the organisation's day-to-day operations (Garengo and Bernardi, 2007). Performance management practices include identifying which goals to achieve, assigning decision rights, and measuring and evaluating performance. PM practices contribute to firm's performance and are critical to the profitability and long-term success of SMEs (Wiesner, Poole and Banham, 2007). According to research by (Van Helden, 2005; Cavalluzzo and Ittner, 2004; Van Thiel and Leeuw, 2002), it was realised that most western countries were/are promoting numerous programs to encourage the use of performance management practices in public sector organisations to serve in political and managerial purposes(De Bruijn, 2002, Kloot and Martin, 2000).

Studies by (Wood and Menezes, 1998; Osterman, 1994) identified Forty-seven HRM practices that affect performance. These includes; high commitment/involvement and quality practices, selection, range of training and development practices, performance appraisal, change practices in relation to numerical and functional flexibility and one item on flexi-place; participative and

individual compensation practices; employment relations practices, team and quality practices; communication practices, electronic practices relating to recruitment and Human Resource Information Systems (HRIS), employee management policies and procedures. Verbeeten (2006) investigated if the use of PM-practices in public sector organisations affects the performance of those organisations and uncovered that a specification of clear and measurable goals provides focus in operations and improves quantity performance (efficiency, production targets), as well as quality performance (accuracy, innovation, employee morale). He also acknowledged that the use of incentives positively relates to quantity performance but does not relate to quality performance.

SMEs differ from larger businesses such as number of employees, capital, and management knowledge. In order for entrepreneurs to survive in their business operations, they must continuously improve and develop their performance by ensuring they maintain adequate resources such as information, employees, and instruments and use them to generate the greater benefit for their businesses (Vichitdhanabadee, Wilmshurst and Clift, 2009).

The above mentioned literature adopted an assumption that organisational culture and organisational strategies enhanced by entrepreneurial/managerial capabilities make up the business practices. The first part of this framework linked organisational culture and organisational strategies to business practices. Several books on general business management each promote some of these practices. However, for SMEs, good business practices are often a matter of using common sense to determine what works in their particular situations. Every business must therefore ensure that its business practices evolve and change to continue meeting the needs of its organisation. This entails re-examining the operations of a number of businesses and determines which operations are most successful. This will help set standards against which similar businesses are measured, to ensure that the plans for progress are directed towards achieving similar goals.

In the next part, the entrepreneurial/managerial capabilities that are believed to enhance organisational culture and organisational strategies, to make up business practices will be discussed in more details.

3.2.3 ENTREPRENEURIAL/MANAGERIAL CAPABILITIES

Successful entrepreneurship lies in good entrepreneurial capabilities that ultimately lead to good business practices, excellent reputation and good association with industry peers and business partners (Hayward, 2009). Bakar, Hashim, Ahmad, Isa and Dzakaria (2009) established that managerial capabilities are essential to sound business practices. Capabilities consist of individual skills, tacit forms of knowledge, social relations that are well established in a firm's routines, managerial processes, form of communication and culture (Pandza, Horsburgh, Gorton, and Polajnar, 2003). Capabilities include skills, knowledge, abilities, and attitudes as visible through behaviour that are trainable (Saravanan, 2002). Capability refers to initiatives that provide owner-managers with practical skills and knowledge to operate the specific firm and are therefore, task-oriented (Massey, Gawith, Ruth and Wilson, 2005: 2).

There is an increasing knowledge about the skills SME's/entrepreneurs need in order to successfully manage their businesses (Storey, 2004). Yet, there is growing evidence that current provision of capability enhancing practices is mostly ineffective, particularly for firms at the smaller end of the scale. Spanos and Prastacos (2004) argue that capabilities creation depends on the firm's abilities to incorporate, merge and reconfigure existing knowledge, skills and assets in order to arrive at higher-order competencies that will address rapidly changing environments. According to Lathi (1999), capabilities, characteristics, knowledge and attitudes are necessary to enhance good business performance. Entrepreneurs who possess favourable capabilities and personal characteristics that allow them to make use of cognitive leadership are often able to run a profitable, successfully growing business (Witt, 2005). To Witt, the quality of the cognitive service an entrepreneur provides depends on the entrepreneur's capabilities and personal characteristics.

Capabilities are of several types, ranging from entrepreneurial, managerial, functional, integral, strategic and dynamic capabilities that could be used jointly to compile business capabilities that aim to improve organisational performance. Entrepreneurial capabilities are usually at the heart

of all successful businesses and the key to survival in today's world (Saravanan, 2002) and consist of three types – organisational entrepreneurial capability; personal entrepreneurial capability and societal entrepreneurial capability (Dana, 2004: 250). This study will therefore focus on entrepreneurial and managerial capabilities that are believed to enhance business practices, as mentioned in Figure 3.1 and as explained in more details below.

▪ **Business Acumen**

Business acumen is the business ability to focus on emerging trends in the market and industry in order to identify, recognise and address opportunities, while bearing in mind the risk - reward relationships (Saravanan, 2002:4). Green (2010) affirms that with business acumen, entrepreneurs will be able to “interpret” their income statement, while taking into account how company strategies and initiatives have impacted their numbers during specific periods. He further established that business acumen leads to a firm’s success and survival in tough economic times and that the lack of true business acumen, meant that many decisions and actions were taken that do not align with business objectives and could led to business failure. Equally, Ahmad (2009) following research done in Malaysia and Australia found out that a significant reason why businesses failed was because of the lack of good business acumen, particularly the lack of knowledge about the business, the lack of business experience, and unawareness of changes occurring in the industry. Saravanan (2002) identified three business acumen indicators that help SMEs survival and succeed in their business operations, namely;

- Businesses need a clear understanding of the key business drivers inside the organisation; the industry; market and customer segments and in turn uses this understanding to develop a strategy, a proposal or solution.
- Businesses have to be knowledgeable in current and potential future policies, practices, trends, and information affecting their business and organisation.
- Create awareness of how strategies and tactics work in the marketplace.

Therefore, in order for entrepreneurs to ensure the long term survival of their businesses, they must engage in business acumen learning process such as business acumen courses; business stimulations and psychological assessment from highly-structured internal company training

programs, to individual's self-chosen moves from one position to another. This is because a combination of these processes will improve business acumen since it is a learned skill of increasing importance within the corporate world.

▪ **Innovation**

According to Lee and Hsieh (2010), Drucker defines innovation as resources new ability to create wealth, which can be trained and learned. Saravanan (2002) found innovative capability to be the profitable implementation of creativity to generate business, overcome problems and enhance existing systems. Researchers (Tidd, Bessant and Pavitt, 1997) explain that innovation is what organisations use to incorporate technology, organisation and market change to enhance business success. Afuah (1998) on the other hand argued that innovative processes cannot be separated with business strategies and competitive environment. Findings from a study by (Vincent, Bharadwaj and Challagalla, 2004) indicate that it is possible for firms to overcome the negative impact of competition on performance through innovation. Similarly, (Reed and DeFillippi 1991; Barney 1991) pointed out that innovation is a means through which organisations can portray their core competencies and transform them into performance outcomes that are critical for success. Conversely, Wolfe (1994) articulates that previous research in this arena has mainly been inconclusive, inconsistent, and lacking explanatory power. This notwithstanding, Saravanan (2002: 4) identified three innovative capability indicators that help SMEs survival and succeed in their business operations, namely:

- The ease with which businesses make connections among previously unrelated ideas by means of parallels/ contrasts/ metaphors/analogies.
- Ability to take risk and seek to be bold, different or even silly
- The need to constantly pursue new and different work approaches to repeatedly improve the company products and processes or seize opportunities.

To facilitate business survival therefore, entrepreneurs should ensure they increase the number of opportunities generated as well as the accuracy in evaluating these opportunities since the more ideas they develop, the more the chances of quality ideas increases. Also the more time they

spend in accessing the viability of their ideas, the more their chances of establishing a surviving and sustainable business.

▪ **Ownership**

Ownership is the ability of the SME's owners/entrepreneurs to take total responsibility for oneself, one's behaviour based on what one needs to do, as well as undone needs by others in the interest of the organisation (Saravanan, 2002:4). He further identified three ownership indicators that help SMEs survival and succeed in their business operations, namely

- Have an ability to work with a high level of self-determination and flexibility, while volunteering to do things that others have not done.
- Indicating concern for the organisation's resources and demonstrating the highest standards of discipline and corporate citizenship.
- Willingness to take total responsibility for one's work with no blame or feeling of victimization.

Hence, since entrepreneurship is a means of increasing one's earnings and exercising greater control over their financial destiny. Also, because one of the greatest appeals of business ownership is the personally benefit one gets through hard work, entrepreneurs as thus encourage to own businesses of their own or at least some percentages of shares in the business so that they can be motivated to give in their best to ensure the survival of the business. Furthermore entrepreneurs can again create ownership by being inclusive in their actions since including more people creates ownership and thus helps to build a sense of entrepreneurship.

▪ **Commercial Orientation**

According to Saravanan (2002:4) commercial orientation means understanding the financial variables affecting the organisation and using the knowledge to improve results. He further identified three commercial orientation indicators that help SMEs survival and succeed in their business operations, namely

- Businesses ability to correctly assess a business potential and profitability of market opportunities.

- Businesses ability to carry out financial, business, or external data analysis and draw meaningful conclusions.
- Being aware of the profit and loss implication of one's work and making use the most cost effectual means of getting it done.

Therefore, in order for entrepreneurs to ensure their business survive, they must ensure that everyone in the business understands the language of money irrespective of their assigned functions by sharing financial information at all levels of the business and seeing to it that they understand the financial implications to the results, to further ensure future planning.

- **Results focus**

Saravanan (2002: 5) asserts that results focus implies SME's owners/entrepreneurs should focus on getting things done, attaining the desired results at a speed which is competitive and should possess the following four indicators;

- Not afraid of taking risks and performing with minimum of planning or cutting through bureaucracy or organisational ineffectiveness to get things done.
- The willingness to focus all time and energy on the things that impact the business the most, and avoid distractions with all issues.
- The ability to act fast, ability to spot or seize an opportunity when it arises.
- Evaluate performance, anticipates problems and take remedial action to conquer obstacles and attain stated performances without compromising on quality.

Consequently, entrepreneurs are encourage to implement the use of the balance scorecard as it will help them to align their business activities to the vision and strategy of their businesses, improve their internal and external communications, and monitor their business performance against strategic goals.

- **Perseverance**

Perseverance refers to the willingness to work hard and move forward in the face of discouragement, counter influences, and opposition or failure (Saravanan, 2002: 5). Furthermore

SME's/entrepreneurs that possess capabilities such as perseverance have the following indicators;

- Chase everything with energy, drive, and a need to finish. Rarely gives up in the face of setbacks or resistance, but rather moves forward with different strategies each time.
- Do not hesitate to press on when met with conflict, disagreement or attacks and does not settle for or compromise for less than the original goal or objective.
- Do not take negative response or setback too personally nor let it affect enthusiasm.

Perseverance is without doubt an important aspect of successful entrepreneurship. The saying "If at first you don't succeed, try, try again" means that few entrepreneurs are able to achieve great things without first overcoming the obstacles that stand in their way" (Zelevnack, 2005). Thus, entrepreneurs are encouraged never to give up in the face of difficulties but to try and find a solution to the problem.

▪ **Leadership oriented capability**

Leadership oriented capabilities comprises of; inspiring; persuasive visioning; mobilising; influencing; coaching; recognising and differentiating (Saravanan, 2002: 6). Being inspiring means the ability to have a set of wonderful examples and a magnetic personality, which can enable the individual and lead others. Persuasive means being able to get people to change their minds, reconsider their decisions and take actions they had not considered. While influencing implies being more responsible for recruiting cultural diverse employee to the company, aiming for high quality in the face of setbacks and improving corporate ethical standards when dealing with customers, supplier and co-workers (DuBrin, 2000:10- 12).

▪ **Thinking oriented capability**

Thinking oriented capabilities consist of; conceptualising; strategizing; analysing and problem solving (Saravanan, 2002: 6). SME's owners/entrepreneurs that possess thinking oriented capabilities are able to critically analyse situations and problems, are objective, and direct all their time and energy on key issues (Massey, 2004). Massey further stated that these set of

SME's owners/entrepreneurs easily establish and utilize consistencies, inconsistencies, patterns and themes, synthesise information from diverse fields and areas to create a new picture.

- **Interpersonal skill oriented capability**

Interpersonally oriented capabilities comprises of; communicating; teaming; listening and supporting (Saravanan, 2002: 7). Massey (2004) asserts that interpersonal capabilities are the ability to relate effectively with others at all levels in the organisation by being approachable; socially adept, self-confident; ethnic and culturally sensitive.

In a nutshell, after having looked at the organisational culture and organisational strategies enhanced by entrepreneurial/managerial capabilities that make up business practices, this study concludes by stating that, in order for entrepreneurs to survival and be successful in their business operations, they must ensure they understand how the pieces of their business fit together. Additionally, they must ask themselves tough questions; analyse their mistakes and assess the risks and rewards of potential decisions.

In the next part, SMEs long-term survival and its determinants will be discussed in more details, to provide a complete explanation and understanding of the adopted framework in figure 3.1.

3.3 SMEs LONG -TERM SURVIVAL

Survival means the business continues to operate as a self-sustaining activity, is effectual in achieving profitability, effective in attracting resources, and is tailored properly to the environment (Chrisman, Bauerschmidt and Hofer, 1998). Although organisational survival has been studied for several years, research on this topic developed rapidly in the late 1970s and 1980s, mainly because of an increase in business failures, bankruptcies, and hostile takeovers during that period (Kalleberg and Leicht, 1991). Cooper (1993) asserts that the question of why some businesses survive and others do not is still the central of focus in entrepreneurship study. Research on SMEs survival has been carried out across the United Kingdom (UK) and the United States of America (USA) (Bruderl, Preisendorfer and Ziegler 1992, Mata and Portugal,

1994; Strotmann, 2007) with several studies differing continually. Several characteristics and factors were identified to be key determinants of SME's survival, although with inadequate empirical results (Caliendo, Fossen and Kritikos, 2008; Cressy, 1996; Headd, 2003). Kalleberg and Leicht (1991) revealed that differences in survival and success depend on the organisations' abilities to adapt its internal structures to the contingencies linked with its technologies or task environment. According to Geroski (1995) studies on survival have associated the propensity for a firm to survive to characteristics specific both to the firm and to the industry. While Baldwin (1995) noted that the length of survival is a function of industry characteristics linked with efficiency, concentration, ownership and asset structure.

With respect to the *specific characteristics of SMEs* that might affect a firm's survival, McPherson (1995: 32) stipulated that 'little is understood about the factors which influence the duration of a firms survival'. López-García and Puente (2006:27) found that the start-up size is one of the most important characteristics for the survival of SMEs. Mata, Portugal and Guimaraes (1995) and Geroski, Mata and Portugal (2003) stress that not only the firms' start-up size but the current size of a firm should be taken into consideration. Audretsch (1991) indicated that a firm's survival rate increase with age. Additional research by McPherson (1995, 1996) on hazard modelling on SMEs in Africa pointed to specific features on SMEs that are most likely to survive. His analysis revealed that SMEs that added more workers were more likely to survive than SMEs that maintain their start up sizes. This research further showed that SMEs in the retail or wholesale sector are most likely to survive than SMEs in the manufacturing sectors. Liua and Pangb (2006) added that research and development activities had an impact on firms' survival and that SMEs in inner and remote areas were more likely to survive, while SMEs in coastal areas are more likely to grow. Likewise, Liedholm (2002) examined the determinants of survival and growth of SMEs in Africa and Latin America, and discovered that firms located in urban and commercial areas are more likely to survive.

López-García and Puente (2006:34) further stated that the *specific characteristics of the industry* affecting business survival are the average entry rate in the industry during the first year of operations of the firm and the degree of competition approximated by the industry concentration. They argued that it is easier for new firms to survive in an expanding industry because the

industry is starting to develop and grow than to gain market shares from competitors that may hit back. With respect to the degree of competition, they established that highly concentrated industries might permit sub-optimal scale of new firms and therefore give some room for survival after entry. More so, highly concentrated industries may also present a higher potential for incumbents' collusion and therefore a more aggressive behaviour towards new entries. Reid (1993: 12-15) reckons that the key variable to consider in an analysis of a small firm's long run survival criterion is net profit. He made a distinction between three broad systematic determinants of survival from a multitude of other non-systematic or random determinants of net profit: market variables, financial variables and life cycle variables. The market deals with factors such as the degree of product differentiation; Intensity of competition; advertising; product range and sales. Acs, Audretsch and Carlsson (1990) holds that the number of product groups a small firm has increases its flexibility and diversification, which further raises the probability of survival. The financial structure comprises of the assets; debt; cash flow; equity and the gearing (debt/equity ratio). Reid (1993: 13) believes the entrepreneur/SME's owner has some private knowledge about the project he/she wants to undertake and so a willingness on his/her part to enlarge his/her equity risk, is a gesture of worth of his/her firm. This implies that the greater the gearing, the less the probability of survival (indicating a lesser value of the firm). The life cycle effects consist of time from inception and the size. Life-cycle effect is a firm's profitability and growth in business. Small micro-businesses are expected to grow faster and be more profitable than larger micro-businesses, while older micro-businesses have better chances than younger micro businesses.

Bate (1989, 1990, 1998) asserts that the *human capital characteristics* identified the individual characteristics of founders- education; career history; occupational background and family, to be significant prerequisites for survival. Moreover, Bates (1989) again established that the probability of survival differs among ethnic groups in the United States. This suggests that two additional variables, social community (region of origin or birth) and caste, affect entrepreneurial ability. Liedholm and Mead (1998, 1999) looked at data from eight African countries and found that a firm's location; composition of activities; labour force characteristics and the gender characteristic of the entrepreneur are important determinants of firm survival and growth. Liua and Pangb (2006) emphasised that macroeconomic conditions and firm-level characteristics such

as size; age resource-based arguments; and ability to obtain external finance to start and expand, and stabilise the production and operational processes, were very important in explaining the long-term survival and growth of SMEs. More so, further research indicated that both the initial short-term and long-term debt have significant effects on the survival of the firms initial financial characteristics (López-García and Puente, 2006:34). According to Irastorza (2006) firms created by two or more entrepreneurs survived longer than those created by individuals. Similar views by Abouzeedan (2001) proposed that survival itself might be predicated on previous growth rates.

Briefly, the above review has provided an in-depth explanation on survival and its determinants ranging from specific characteristics of the SMEs; specific characteristics of the industry to the human capital characteristics. Survival in the universal economic system calls for enduring update of knowledge, skills, abilities and adoption of new knowledge during the entire working life of the business (Đurković, 2009:6). For the purpose of this study, factors such as: **age; number of employees; net profit; equipments/ assets; business location and the office number**, will be considered as the determinants for long -term survival of SMEs. This is because this study adopts the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence.

3.4 RELATIONSHIP BETWEEN BUSINESS PERFORMANCE (SURVIVAL AND SUCCESS) AND LONG-TERM SURVIVAL OF SMEs

Srinivasan, Woo and Cooper (1994) define performance as “the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it”. While survival means the business continues to operate as a self-sustaining activity, is effectual in achieving profitability, effective in attracting resources, and is tailored properly to the environment (Chrisman, Bauerschmidt and Hofer, 1998). A firm’s performance is an important dependent variable in entrepreneurship research (Rauch, Unger and Rosenbusch, 2007:1). Organisational survival is an essential aspect of performance and a necessary condition for sustained business success (Kalleberg and Leicht, 1991). Also important to note is that non-survival is not necessarily a sign of business failure in every case and survival on the other hand

is not necessarily a sign of business success over a certain period of time, but a vital success indicator (Bruderl and Preisendorfer, 1998; Bruderl and Schussler, 1990). Yet, larger parts of empirical studies do not address survival but rather use a variety of different performance indicators and there is still little agreement about the appropriate performance indicators, because most studies do not provide a suitable justification of the selected indicators (Brush and Vanderwerf, 1992, Murphy, Trailer, and Hill, 1996).

Amid the most commonly used operationalisations are survival, growth in employees, and profitability (Lerner, Brush, and Hisrich, 1997). Combs, Crook, and Shook (2005) assert that survival should be conceptualized as an independent performance criterion. Alasadi and Abdelrahim (2007) on the other hand affirm that survival is a significant performance criterion for newly established enterprises that reflects successful business creation. Churchill and Lewis (cited in Young, 2009), recognises survival as a major strategy of SMEs that continued until the business had a divisional management style. As such, business performance is constructed as two related first order constructs, that is, survival performance and growth performance. Survival performance is defined as a measure of development towards a set of financial goals linked to efficiency and profit dimensions of business performance. Growth performance on the other hand is defined as a firm's selection of internal capabilities and is correlated to financial and business volume (Chandler and Lyon, 2001).

According to a research conducted by LeBrasseur and Zinger (2005) it was discovered that business performance can be examined from two perspectives; survival and the degree of success. Survival is seen as and refers to an absolute measure of business performance that depends on the ability of an enterprise to continue operating as a self-sustaining unit, while success is a relative measure of business performance. In trying to establish the impact of business performance on the long-term survival of SMEs, this study principally focuses on the aspect of survival and hypothesises that business performance directly correlates with the long-term survival of SMEs and thus conceptualises survival as an independent performance criteria.

3.5 THE BUSINESS EXTERNAL ENVIRONMENT

In the previous chapter the studies on the characteristics of entrepreneurs was reviewed. The choice of business practices that entrepreneurs choose have also been discussed in this chapter. The last part of this chapter deals with the impact of the business external environment and its possible implications on SMEs.

The term business external environment refers to the external forces and factors such as economic factors, social factors, political and legal factors, demographic factors, technical and institutional factors that are beyond the control of the business and affect the functioning and decisions of a business (Adit, 2008). These factors are perceived to have both a direct and indirect effect on the business. The environment surrounding an individual's upbringing is vital to the formation of that individual's characteristic, which consecutively affects the choices of business practices made by them (Blackman, 2003: 46). Understanding the environment within which businesses operate is very important for running a business successfully at any place. This is because the success of every business depends on adapting itself to the environment within which it functions.

The external environment represents anything outside the organisation and plays a great role in determining the successes and failures of SMEs. It comprises of the general environment and the task environment. The general environment consists of non-specific elements in the surrounding affecting the organisation's activities and comprises of five factors: economic, technological, socio-cultural, political- legal and international. The task environment includes other specific organisations that are likely to influence that organisation. This helps entrepreneurs in their decision making processes, often characterised based on some degree of change (extent to which the environment is stable or relatively dynamic) and homogeneity (extent to which the environment is relatively simple or relatively complex). The task environment encompasses of six factors namely; competitors; customers; suppliers; regulators; Unions; and the associates (Hashim, 2000).

3.5.1 The General Environment

The general environment can be explained based on the uncertainties present in the different categories of factors that are perceived to be the major causes of changing industry and competitive conditions (Thompson, Strickland and Gamble, 2005). As already mentioned above, the general environment consists of five factors, which are;

- **Economic Factor**

The economic factors depend on the economic systems that exist in a country. The economic conditions such as (inflation, the monetary and fiscal policies of the government, interest rates, unemployment and competition) in which an SME operates have a significant impact on entrepreneur's actions and thus directly influence the operating costs of doing business (Hashim, 2000). South Africa's current economic environment is characterised by high interest rates; low growth rates; high inflation rates and declining exchange rates. In addition, they have a high rate of unemployment and all these factors are seen to have an impact on sales, revenues and market potential SMEs (The Economist, 2009). All of these factors are believed to have a great impact on the operations the SMEs.

- **Technological Factor**

The existence of technology such as computers; lasers, robotics, integrated circuits, and semiconductors change the manner in which businesses are conducted. This affects organisations ability to produce goods and services. Recently, e- marketing which is the use of marketing principles and methods via electronic media and more specifically over the internet is seen to have replaced the traditional ways in which businesses are now being conducted. As such, E-business technologies and practices are changing the tools employees' use, where they work, who they employ, and their interactions with clients, customers, suppliers, managers and colleagues, which require more complex skills and knowledge on how entrepreneurs should handle their businesses. In order for entrepreneurs to keep pace with its competitors and survive, they must pay attention to their technology and technological innovations by carefully monitoring their current developments. Also, entrepreneurs are advised to first of all think through their ideas of introducing e-business technologies and practices and how they will affect

the work process and not rush in to e-business, forgetting the work process and the training of support staff. This will help them formulate informed decisions about investments in new technological development, required by operations and manufacturing techniques.

- **Socio-cultural Factor**

The socio-cultural factor involves the customs, ethnicity, attitudes, beliefs and value that describe the society in which the SMEs operate. They refer to issues such as crime, security, labour issues, corruption and bureaucracies. These components are important because they indicate the products, service and standards of conduct that the society is most likely to seek and value, as well as the changes in the socio-cultural trends that may affect the business activities of SMEs. Crime and corruption in South Africa are widely believed to restrain investment. According to the World Bank report (2008), the Investment Climate Survey revealed that 30% of businesses in South Africa rated crime as a very severe limitation on investment, when compared with the four most frequently mentioned constraints

- **Political- legal Factor**

The political-legal factor such as Tax policies, trade regulations, and minimum wage legislation is based on the political system where an SME functions. This involves the ways in which the legislation in society affects the way businesses operate. For example, Political parties create or influence laws, and SMEs must abide by these laws. In South Africa, there is a shortage of judges and magistrates, accumulation of cases and lower creditor's protections. The World Bank Country Report (2003) also showed a relatively inefficient legal system, when compared to developed countries.

- **International Factor**

The international factor also impacts on the successes of SMEs. At a global level, SMEs deal with issues such as trade barriers, tariffs, bilateral and multilateral relationships. While with the coming of globalization, events that occur thousands of miles away can influence local SMEs, and this can affect the operations of SMEs as well as their degree of competition.

3.5.2 The Task Environment

Hunger and Wheelen (2003) stresses that the task and macro environments should be monitored closely so that those factors that are likely to have a strong impact on the firm's success or failure of SMEs, can be detected. Once dictated, this can help the business to position itself accordingly. As noted earlier, the task environment consists of six, which are; competitors; customers; suppliers (which were discussed under the marketing practices earlier in this chapter (section 3.2.2); and the others, that is, regulators; Unions; and the associates will be expanded on below

- **Regulators**

Regulators refer to specific governmental organisations in a firm's immediate task environment that have the ability to control, regulate, or influence SME's policies and practices. The two important groups of regulators are governmental agencies and interest groups. Government agencies are created to provide assistance to SMEs and protect the public from certain business practices. These governmental agencies are given official power to carry out investigations, set standards and rates, levy fines and take action against firms that infringe the laws the agencies were create to enforce. Interest groups on the other hand are organized by the public such as non-government organisations (NGOs) and business associations that also influence SME activities.

- **The Unions**

Labour unions are also a significant element of the task environment for SMEs. Although many of SMEs' employees are not unionized, entrepreneurs of SMEs are still concerned with this element of the task environment.

- **The Associates**

Associates refer to two or more comparatively independent organisations that are controlled by another organisation, such as a holding company or parent firm. Because of the current trends in mergers, acquisitions, diversification, many SMEs are likely to find themselves associates of other organisations in the future.

In conclusion, forecasting; interpreting and managing the impacts that the business external environment imposes on businesses are essential components of good business practices that

enterprises should adopt. It is therefore appropriate to say that for entrepreneurs to survive and succeed in their business operations, they should ensure that they make their business decisions after assessing their key external environmental factors affecting them. This can be done by either adapting to their external environments or shaping the environment to meet its needs. Therefore entrepreneurs need to scan and interpret environmental changes in order to maintain their firms' capability and performance (Zahra, Neubaum and El-Hagrassey, 2002).

3.6 CHAPTER SUMMARY

This chapter examined business practices. The argument for this chapter was that business practices are directly related to business performance (success and survival). Based on this foundation, the chapter explored existing concepts on business practices, and later presented a conceptual framework that assumed that organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up business practices that influences business performance (Success and survival). The literature review showed that some of the organisational culture and strategies that make up business practices have an impact on either survival, success or both. Also evident was the fact that entrepreneurial/managerial capabilities are essential to sound business practices and as such influences business performance. These capabilities are enclosed in entrepreneurial characteristics. It is believed that they have a direct relationship with entrepreneurial characteristics, especially considering that they are necessary standard measures for successful entrepreneurship (Driessen and Zwart, 2007).

SMEs long-term survival and its determinants were discussed in details in this chapter and factors such as **age; number of employees; net profit; equipments/ assets; business location and the office number**, were considered as the determinants for long -term survival of SMEs. This is because the study adopts the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence. Furthermore, this chapter established a relationship between business performance (success and survival) and long-term survival of SMEs, and principally focused on the aspect of survival and

hypothesised that business performance directly correlates with long-term survival of SMEs. Thus survival was conceptualised as an independent performance criterion.

The last part of this chapter dealt with the impact of the business external environment since it is believed that the environment surrounding an individual's upbringing is vital to the formation of that individual's characteristic, which in turns affects the choices of business practices made by them (Blackman, 2003: 46). So understanding the environment within which businesses operate is very important for running a business successfully at any place, since the success of every business depends on adapting itself to the environment within which it functions.

The next chapter will examine the relationship between entrepreneurial characteristics and the business practices of SMEs and their impact on the long-term survival of SMEs.

CHAPTER FOUR

RELATIONSHIP BETWEEN ENTREPRENEURIAL CHARACTERISTICS AND BUSINESS PRACTICES OF SMEs

4.1 INTRODUCTION

After having examined the entrepreneurial characteristics and business practices in chapter two and three respectively, this chapter begins by presenting proposed theories- SMEs business practices- resource based view and strategic framework for SMEs long term survival. Thereafter, an integrated framework is established linking entrepreneurial characteristics and business practices to the long-term survival of SMEs. Furthermore, research questions and research hypotheses are formulated based on the relationships established. Finally, a summary and a conclusion are drawn based on the overall chapter discussion.

4.2 THEORIES LINKING ENTREPRENEURIAL CHARACTERISTICS AND BUSINESS PRACTICES TO THE LONG TERM SURVIVAL OF SMEs.

The findings of this research mentioned throughout in the previous chapters suggest that SMEs long-term survival is influenced by both the entrepreneurs' characteristics; their choices of business practices and their context in which they operate. While studies on the characteristics of entrepreneurs have received some well-known successes, what is less clear is the ways entrepreneurs in different kind of SMEs run and operate their businesses and how it relates to the long-term survival of SMEs. In establishing a relationship between entrepreneurial characteristics and business practices, this study adopts the Resource Based Theory (RBT) where the *SMEs business practices- resource based view and strategic framework for SMEs long term survival, are used to establish* these relationships. In-depth explanations to these frameworks are given below:

4.2.1 OVERVIEW OF THE RESOURCE BASED THEORY (RBT)

The resource-based view deals with the *resources* and *capabilities* of the firm as an underlying factor of performance (Seedee, Sulaiman and Ismail 2009). The resource-based view is of great relevance in the SMEs context, as it argues that the long-term survival of SMEs is dependent on a business' distinctive offering, and the development of this distinctiveness over time through nurturing the firm's core competencies (Kelliher and Reinl, 2009). Competence refers to the alignment of planned competitive priorities (strategy) and realised competitive priorities (outcomes); i.e. a firm has a particular competence if it has strong capability in an area that is also regarded as important (Kim and Arnold, 1992). These strong capabilities are seen as ways of accomplishing different activities, depending on available resources (Grant, 1991). Resources are those tangible and intangible assets linked to a firm in a semi-permanent way. Therefore, capabilities are firms' joint resources, used in producing any work or activity.

Looking at Barney (1991) and Wade and Hulland's (2004) perspectives, they argue that within theoretical frameworks, rival firms compete on the basis of their resources and internal characteristics, through which they build competitive advantage and a superior long-term performance. In this light, organisational performance is the result of firm-specific resources and capabilities enabled by management competencies (Chandler and Hanks, 1994). Hence, the core of the resource-based view is that businesses should have a mixed bag of resources, rooted in a set of functional policies and activities, in order to maximise the full potential success of a business (Kelliher and Reinl, 2009).

Thus, the resource based perspective offers an opportunity to analyse SMEs business practice from an internal (entrepreneurs characteristics, resources, organisational culture; organisational strategy and capabilities) and external (general environment and task environment) perspectives.

4.2.1.1 SMEs BUSINESS PRACTICES- RESOURCE BASED VIEW

The resource-based view explains how entrepreneurs build their businesses from their resources and capabilities they have or can acquire (Dollinger, 1999). These entrepreneurs achieve

sustainable competitive advantage from resources such as strategic planning and management skills; capital and employment of skilled personnel (Castanis and Helft, 1991). This sequentially is seen as their choices of business practices. These firm-specific resources and capabilities equally distinguish successful businesses from failing ones and this is realised when the resources and capabilities are valuable, rare, costly to imitate, and not substitutable (Peng, 2006). Thus, businesses should implant their valuable resource in their core business strategy, to ensure SMEs longer-term survival (Kelliher and Reinl, 2009).

The relationships between business practices, capabilities, and performance, have produced mixed results. For example, Lau, Zhao, and Xiao (2004); Prajogo and Sohal (2003); and Rahman and Sohal (2001) identified a positive relationship between best practices and business performance, while (Pannirselvam and Ferguson, 2001; Powell, 1995; Sila and Ebrahimpour, 2005) found a less convincing results. The business practices of a new firm is often developed as part of the entrepreneur's personal life strategy, as a means of earning a living, which is largely influenced by the entrepreneur's personality characteristics (Littunen, 2000). Gartner (1985) elaborated on the fact that studies concentrating on the relationship between business practices and entrepreneurship focused on the ability of the entrepreneur to recognise and react to changes constantly occurring in their competitive business environment. In this way, training especially in combination with the proper experiences and the implicit knowledge it builds, seems to be the general determinant of business success, while the nature of entrepreneurs training explains the survival of new firms (Vesper, 1992). However, Seedee, Sulaiman and Ismail (2009) purport that the resource-based theory was established to be a suitable theory illustrating the relationship between business practices and business performance.

Based on this theory, business practices are considered as capabilities of the firms that are used as a source for competitive advantage, which can lead firms to superior performance. These capabilities were explained in detailed in chapter three (section 3.2.3), while SMEs long-term survival, its determinants and relationship between business performance (survival and success) and long-term survival of SMEs, were also explained in details in (section 3.3 and section 3.4 respectively). In establishing a relationship between business performance (survival and success) and long-term survival of SMEs, success was considered a relative measure of performance and

survival an absolute measure of performance. This study thus conceptualised survival as an independent performance criteria and factors such as: age; number of employees; net profit; equipments/ assets; business location and the office number, were considered as the determinants for long -term survival of SMEs. This is because this study adopts the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence.

4.2.1.2 STRATEGIC FRAMEWORK FOR SMEs LONG TERM SURVIVAL.

The strategic perspective believes that the success of an organisation is improved if *entrepreneurial characteristics, organisational context and its external environment* fit perfectly. A basic assumption of this framework is that SMEs are most effective if all the three factors are matched simultaneously (Hashim, 2000). Therefore, the SMEs success cannot be studied entirely from one frame of allusion. The *characteristics of entrepreneurs* were discussed in chapter two, where it was revealed that there are some characteristics that influence SMEs survival, success, performance and growth. An entrepreneur has a complete influence over the way a business is run and eventually, the way in which both the business and marketing functions are operated (Maslach, 2005). Lafuente and Salas (1989) notes entrepreneurial characteristics influence the type of firms created and how it is managed. These firms created by entrepreneurs are responsible for making decisions and solving problems in their organisation and might differ in terms of their management styles and performances (Birley and Westhead, 1990). According to Owens (2007:13), there are a number of entrepreneurial characteristics that both define an entrepreneur, and have a major impact on the type of business practices they engage into. Although entrepreneurial characteristics are essential for the success of a business, other critical business practices when integrated with entrepreneurial characteristics will enhance SMEs success and survival (Barringer, Jones and Neubaum, 2005). This goes to show that entrepreneurial characteristics and business practices are inter-related with each other because they are both needed to ensure the proper functioning of a business as well as its long-term survival.

The *organisational context* deals with the immediate settings in which SMEs operate (Hashim, 2000) and factors such as *organisational culture; organisational strategy and capabilities* have an impact on SMEs success. Organisational culture, organisational strategy and capabilities have already been discussed in chapter three (*in section 3.2.1; 3.2.2 and 3.2.3 respectively*), where an assumption was made that; organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up the business practices, which influence business performance (success and survival) and thus long-term survival of SMEs.

The *external environment* represents anything outside the organisation and plays a great role in determining the successes and failures of SMEs. It comprises of the *general environment* and the *task environment*. The general environment consists of non-specific elements in the surrounding affecting the organisation's activities and it comprises of five factors: economic, technological, socio-cultural, political- legal and international. The task environment includes other specific organisations that are likely to influence that organisation and it helps entrepreneurs in their decision making processes, often characterised based on degree of change (extent to which the environment is stable or relatively dynamic) and degree of homogeneity (extent to which the environment is relatively simple or relatively complex). The task environment comprises of six factors namely; competitors; customers; suppliers; regulators; Unions; and the associates (Hashim, 2000). Details explanations to these factors were provided in chapter three (*section 3.5*). All these factors have the potentials to influence SMEs in different ways. The business external environment can thus be portrayed as being complex and dynamic in nature and has a far reaching impact on survival and growth of SMEs (Adit, 2008). Therefore creating an interaction between a business and its environment will strengthen the business and help it use its resources and capabilities effectively.

4.3. AN INTEGRATED FRAMEWORK LINKING ENTREPRENEURIAL CHARACTERISTICS AND BUSINESS PRACTICES TO THE LONG-TERM SURVIVAL OF SMEs.

An examination of literature presented above suggests that there are a number of entrepreneurial characteristics that not only define an entrepreneur, but also have a major impact on the type of

business practices they engage into (Owens, 2007:13). These business practices consisting of *organisational culture; organisational strategy and capabilities* that have an impact on SMEs superior performance and survival, was conceptualised as an independent performance criterion in this study. Barringer, Jones and Neubaum (2005) argue that although entrepreneurial characteristics are essential for the success of a business; other critical business practices when integrated with entrepreneurial characteristics will enhance SMEs success and survival. Nimalathan (2008) also argues that although entrepreneurial characteristics and business practices vary from entrepreneur to entrepreneur, the entrepreneurs' business practices are determined by their entrepreneurial characteristics. This goes to show that entrepreneurial characteristics and business practices are inter-related with each other because they are needed to ensure the proper functioning of the business and thus its long-term survival.

Therefore, in establishing the relationship between entrepreneurial characteristics and business practices, this study hypothesises that a good combination of entrepreneurial characteristics enhanced by business practices leads to the long-term survival of SMEs, as established in Figure 4.1;

Figure 4. 1 Integrated framework linking Entrepreneurial Characteristics and Business Practices.

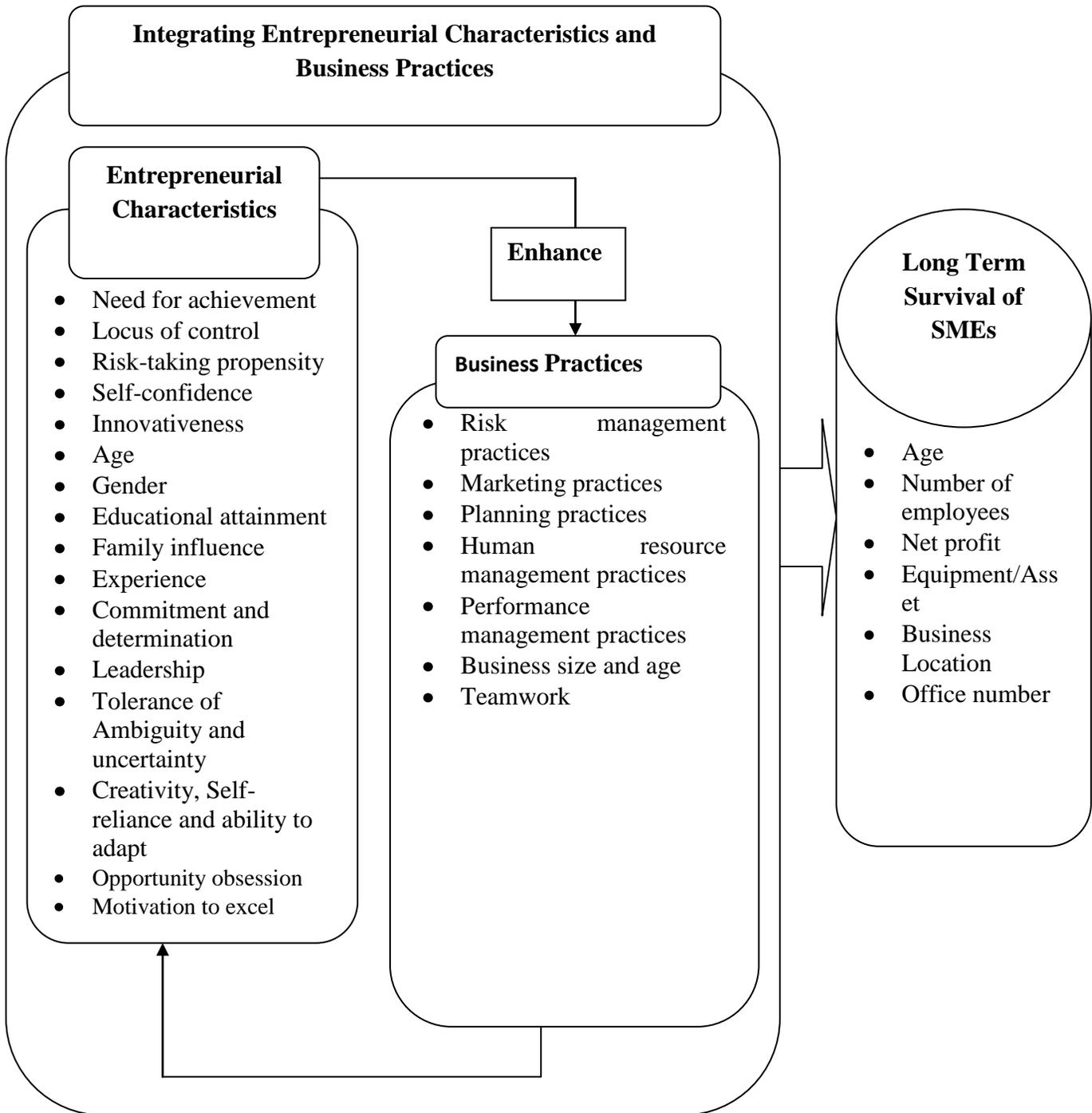


Figure 4.1 shows an integrated framework linking entrepreneurial characteristics and business practices to the long-term survival of SMEs. This research adopts the view that a good combination of entrepreneurial characteristics enhanced by business practices will lead to the long-term survival of SMEs. These characteristics and practices are chosen because most studies have not specifically looked at how some or all of these characteristics and practices influence the long-term survival of SMEs. Also the determinants for long-term survival of SMEs which have been established by previous studies will be tested by this research to confirm the results. Valid results identified by this study will be used as determinants for long term survival.

Furthermore, the assertion that a good combination of entrepreneurial characteristics enhanced by business practices will lead to the long-term survival of SMEs prompts for a number of research questions such as;

- To what extent do entrepreneurial characteristics influence the long-term survival of SMEs?
- To what extent do business practices influences the long-term survival of SMEs.
- To what extent do the characteristics held by entrepreneurs influence their business practices?
- To establish a conceptual framework linking key entrepreneurial characteristics and business practices that ensure long-term survival of SMEs

4.4 RESEARCH HYPOTHESES

The purpose of this study is to examine the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. As seen in figure 4.1, the following entrepreneurial characteristics enhanced by business practices were considered to have an impact on the long-term survival of SMEs. In order to understand whether there is a relationship between the relative impact (strength or weaknesses) of each of these entrepreneurial characteristics and business practices and their impact on the long-term survival of SMEs, the four research questions stated above has led to the development of following hypotheses.

Table 4. 1: Hypotheses:

<i>CHARACTERISTICS</i>				
Learnable and Ascribed	H1: Children from entrepreneurial family background have a higher need for achievement			
Learnable and Achieved	H2: Locus of control has a positive impact on the entrepreneurs education	H3: Entrepreneur degree of risk taking increases with his level of experience from the same job		
Ascribed and Achieved	H4: The older an entrepreneur is in business, the more experience he/she has in running the business			
<i>Entrepreneurial characteristics and long-term survival of SMEs</i>				
H5: Higher need for achievement has a positive impact on long-term survival of SMEs	H6: locus of control has a positive impact on long-term survival of SMEs	H7: Risk taking propensity has a positive impact on long-term survival of SMEs	H8: Self-confidence has a positive impact on long-term survival of SMEs	H9: Innovativeness has a positive impact on long-term survival of SMEs
<i>Business practices and long-term survival of SMEs</i>				
H10: Risk management practices has an impact on SMEs long term survival	H11: Human resource management practices has an impact on SMEs long term survival	H12: Strategic Planning practices has an impact on SMEs long term survival	H13: Teamwork has an impact on SMEs long term survival	H14: Planning practices has an impact on SMEs long term survival
<i>Entrepreneurial characteristics and Business practices</i>				
H15: Entrepreneurs with Risk management practices have a high need for achievement	H16: Entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, will attain a higher need for achievement score than those that do not	H17: The risk associated with running a business venture is related to the skills (education) of the entrepreneur	H18: A great understanding of team members will create a high level of motivation	

4.5 CHAPTER SUMMARY

This chapter started by presenting proposed theories- SMEs business practices- resource based view and strategic framework for SMEs long term survival. The argument for this chapter is that although entrepreneurial characteristics are essential for the success of a business, other critical business practices when integrated with entrepreneurial characteristics will enhance SMEs success and survival. Also, underscored is the fact that there are a number of entrepreneurial characteristics that define an entrepreneur, which also have a major impact on the type of business practices they engage into (Owens, 2007:13). Based on these establishments, there was the need to understand whether there is a relationship between the entrepreneurial characteristics and business practices, and their impact on the long-term survival of SMEs. As a result, it was hypothesised that a good combination of entrepreneurial characteristics enhanced by business practices lead to the long-term survival of SMEs, which was conclusive through the development of 18 hypothesis. In order to establish which key entrepreneurial characteristics are important for the long-term survival of SMEs, this study hypothesizes that entrepreneurs have particular characteristics and practices that positively impact on the long-term survival of their businesses. Some of these characteristics and practices will be tested to show their importance to the long-term survival of the SMEs, as seen in Figure 4.1 that tested the validity of the assumptions.

The next chapter will present the research methodology to the study.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION:

This study aims to determine the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. The main question that needs to be addressed here is to find out which entrepreneurial characteristics and businesses practices contribute to the long term survival of SMEs and to what extent they do so. This research is centred on this research question and important objectives of this study is to determine entrepreneurial characteristics essential for the long-term survival of SMEs; to determine the business practices that are essential for the long-term survival of SMEs; determine the relationship between entrepreneurial characteristics and business practices and find out if the SMEs' survival depends on entrepreneurial characteristics and business practices. The literature review showed that certain individual personal characteristics and characteristic requirements for becoming an entrepreneur exist and that entrepreneurial characteristics required for success of SMEs were often not required for the growth of SMEs and often not required to manage and grow a business (Acharya, Rajan and Schoar, 2007). Also evident was that although entrepreneurial characteristics are essential for the success of a business, other critical business practices when integrated with entrepreneurial characteristics will enhance SMEs success and survival (Barringer, Jones and Neubaum, 2005).

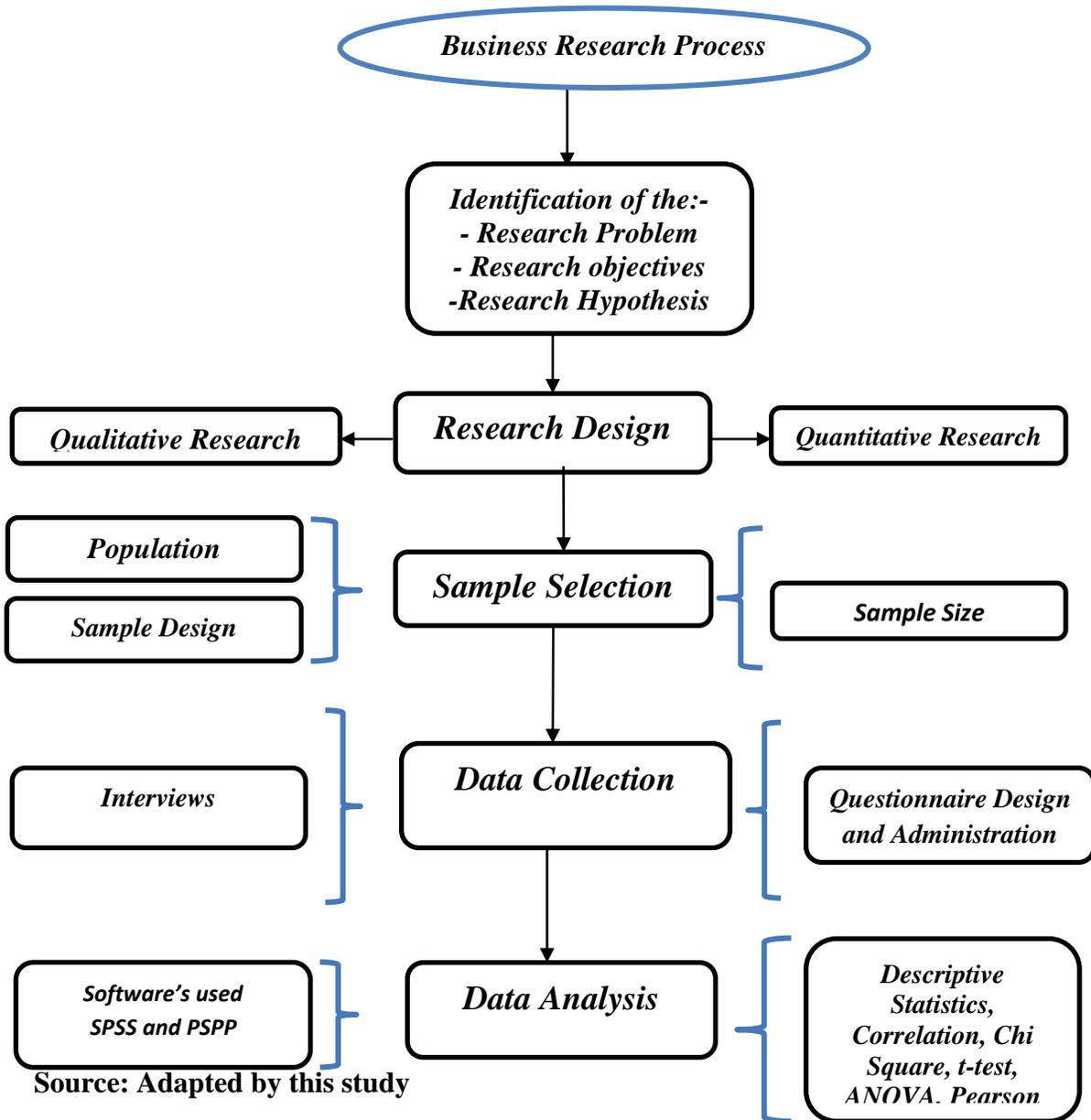
The aim of this chapter is to explain the research methodology pursued in the empirical study. The research methodology used for this study will follow a research process and it is divided into five stages. Stage one of the research process will focus on the problem statement, the research hypotheses and the research objectives. Stage two will explain the various types of research design - qualitative, quantitative, exploratory, descriptive and causal. In stage three, the sampling method will be presented. Stage four will explain various types of primary data collection methods - observation, experiment and survey and the determination of missing values. Finally, in stage five the method of data analysis and its motivation will be presented.

The last part of this chapter will focus on the limitations to the study and the chapter summary.

5.2 THE BUSINESS RESEARCH PROCESS

The business research process is described by Cooper and Schindler, (2003:64) as “the ordered set of activities focused on the systematic collection of information using accepted methods of analysis as a basis for drawing conclusions”.

Figure 5. 1 : Stages in the business research process



5.2.1 Stage 1: Problem statement, research objectives and research hypotheses

5.2.1.1 Problem statement

According to Wiersma (1995: 404) “the problem statement describes the context for the study and it also identifies the general analysis approach”. Creswell (1994: 50) states that “a problem might be defined as the issue that exists in the literature, theory, or practice that leads to a need for the study”. The research problem must, therefore, be clearly defined and formulated to make sure the results attained are relevant.

The motivation for this study stems from the fact businesses in the SME sector all over the world are more prone to failure due to the specific qualities possessed by the businesses, their owners and managers (Bannock, 2005). In South Africa, entrepreneurial ventures have a low survival rate as entrepreneurs start businesses but are unable to turn them into sustainable businesses. Also, most new SMEs in South Africa do not move from the first stage (existence) to other stages such as survival, success, take off and resource maturity.

All over the world as well as in South Africa, several characteristics and factors have been identified to be key determinants of SME’s survival, although with inadequate empirical results. With SME survival rate generally low across the globe, it is necessary to establish an understanding of key entrepreneurial characteristics and business practices that can help in the understanding and promotion of SMEs long-term survival. It is alleged that if business owners and managers are good at managing their businesses, then they will do extremely well in terms of ensuring the continuous survival of their businesses.

Therefore, for SMEs to survive and succeed in their business operations, it is pertinent that its owners or managers possess certain entrepreneurial characteristics and carry out specific business practices. In this regards, SMEs deserve much more attention, especially with regards to the entrepreneurial characteristics and the business practices of the entrepreneur, which are often developed as part of the entrepreneur’s personal life strategies. These business practices and

personal life strategies are used as a means of earning a living, which in turn is largely influenced by the entrepreneur's personality characteristics.

Furthermore, given that entrepreneurial characteristics can influence both the type of firms to be created and the manner in which they are managed, little has been established on which of these characteristics and business practices influence the long-term survival of SMEs and the extent of its impact. Based on the gaps identified, this study seeks to determine which key entrepreneurial characteristics and business practices that entrepreneurs possess, that would influence the long-term survival and sustainability of SMEs. This knowledge will enable entrepreneurs in the SME sector to understand and focus on implementing the key business practices and adopting the key entrepreneurial characteristics that can lead their businesses to long-term survival. Achieving this will contribute to the reduction of the high SME failure rates and increase SMEs long-term survival.

5.2.1.2 Research objectives

Bryman and Bell (2003:37) assert that the research objective is the researcher's version of a business problem. The main objective of this study is to investigate; which entrepreneurial characteristics and business practices influence the long-term survival of SMEs and the extent to which they do so?

This main objective was reached through the following secondary objectives;

- To review the theoretical studies on entrepreneurial characteristics and business practices within established SMEs.
- To determine which key entrepreneurial characteristics and business practices are essential for the survival of SMEs.
- To find out the determinants of SMEs survival.
- To determine the relationship between entrepreneurial characteristics and business practices

- To establish a conceptual framework linking key entrepreneurial characteristics and business practices that ensures the long-term survival of SMEs.

5.2.1.3 Research hypotheses

According to Babbies (2008:45) hypothesis is defined as “a specified testable expectation about empirical reality that follows from a more general proposition. It is a statement of something that ought to be observed in the real world if the theory is correct”. The type of hypothesis used in this study is a relational hypothesis. Coldwell and Herbst (2004:86) states that a relational hypothesis specifies the relationship between two or more variables. In this study, eighteen hypotheses were established in chapter four in an attempt to determine the relationship between entrepreneurial characteristics and business practices and find out if the SMEs survival depends on entrepreneurial characteristics and business practices, which is part of the research objectives.

5.2.2 Stage 2: Research design

A research design is defined as the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process (Polit and Beck (2004:49). Hair, Bush and Ortinau (2003) notes that a suitable research design is essential if it determines the type of data; the data collection technique; the sampling methodology; the schedule and the budget. Likewise, Churchill and Iacobucci (2004) states that an appropriate research design helps to align the planned methodology to the research problems. Because different research designs attempt to answer different types of research problems, Zikmund (2003:68) reckons that the choice of research design should be based on the nature of the research, its setting, the possible limitations of the research and its underlying paradigm that notifies the research project. The various types of research designs are explained below;

- **Qualitative research**

Qualitative research is defined as an inquiry process of understanding a social or human problem based on building a complex, holistic picture created with words, covering detailed views of informant and performed in a natural setting (Creswell, 1994). Also, in qualitative research, the theories and concepts tend to arise from inquiry coming after data collection than before and the

research often starts with a research question and then allows an initial period of research to assist in developing hypothesis (Robson, 1993).

- **Quantitative research**

The quantitative approach is believed to be a scientific approach (Robson, 1993) that starts with the development of a hypothesis from theory that requires testing (Walker, 1997). According to Foster (1998) quantitative approach involves statistical interferences and mathematical techniques required for data processing.

Qualitative and quantitative research methods have distinct strengths and logics and are often used to address different questions and purposes (Maxwell, 1996). Table 5.1 below shows some of the characteristics between qualitative and quantitative research

Table 5.1: Characteristics of qualitative and quantitative research

Qualitative research	Quantitative research
PURPOSE	
<ul style="list-style-type: none"> • To describe and explain (behaviours and trends or relations) • To explore and interpret • To build theory • Construct social reality 	<ul style="list-style-type: none"> • To explain and predict (qualities, degree or relation) • To confirm and validate • To test theory • To measure objective facts
NATURE	
<ul style="list-style-type: none"> • Holistic • Unknown variable • Flexible guideline • Emergent design • Context bound 	<ul style="list-style-type: none"> • Focused • Known variable • Established guideline • Static design • Context free

<ul style="list-style-type: none"> • Personal view 	<ul style="list-style-type: none"> • Detached view
DATA COLLECTION	
<ul style="list-style-type: none"> • Observation and interview • Informative, small sample 	<ul style="list-style-type: none"> • Standardised instruments (surveys and experimental designs) • Representative, large sample
REASONING	
<ul style="list-style-type: none"> • Usually inductive analysis 	<ul style="list-style-type: none"> • Usually deductive analysis
DATA ANALYSIS	
<ul style="list-style-type: none"> • Content analysis 	<ul style="list-style-type: none"> • Descriptive and inferential statistics
COMMUNICATIONS OF FINDINGS	
<ul style="list-style-type: none"> • Words • Narrative and individual quotes • Personal voice, literacy style 	<ul style="list-style-type: none"> • Numbers • Statistics, aggregated data • Formal voice, scientific style

Adopted from: Schoonraad, 2004

This study made use of quantitative research design, which Ghauri and Gronhaug (2005:204) defines as studies whose findings are mainly the product of statistical summary and analysis.

- **Descriptive research**

Gerber-Nel, Nel and Kotze (2005:32) state that a descriptive research answers questions such as who, what, when, where and how? A descriptive study is more stiff, pre-planned and structured, and is characteristically based on a large sample (Churchill and Iacobucci, 2004; Malhotra, 1999). Descriptive research can be carried out in two ways - cross sectional and longitudinal. Cross-sectional studies also referred to as a sample survey collects information from a given sample of the population at only one point in time (Burns and Bush 2002; Malhotra, 1999) while

longitudinal studies on the other hand involves a fixed sample of element (a panel) that is measured repeatedly (Cooper and Schindler, 2003:45). The study made use of a cross sectional study because of the following reasons:

- Respondents can be asked to respond to a set of standardized and structured questions about what they think, feel and do (Hair *et al.*, 2003).
- It provides information that allows for identifying relationships or associations between two variables (Aaker, Kumar and George, 2000).
- It is an appropriate technique due to time constraints, and this study does not attempt to examine trends.

5.2.3 Stage 3: Sample Selection

According to Malhotra (1996:359), sampling enables the researcher to draw conclusions about the entire population by selecting some elements in the population. Issues to be discussed under the sample selection are: *population; the sample design and the sample size.*

5.2.3.1 Population

A population is defined as a collection of all observations of a random variable under the study from which conclusions are drawn from. Zikmund (1997:417) describes the targeted population as a complete group of specific population elements relevant to the research project. The population size is the number of people to be chosen from the researcher's random sample. As seen in the Motheo Local municipality (Bloemfontein, Botshabelo, Thaba Nchu: 2010) website for electricity, Centlec offers **4 400** businesses and bulk users electricity in Motheo district. The population of 4400 businesses was used as the population size for this study.

In order to reach a significant number of businesses and entrepreneurs, notable organizations like the Free State development Corporation (FDC) and Small Enterprise Development Agency (SEDA) database of SMEs were used for sampling. Also, the researcher attended a Colloquium on social entrepreneurship on the 24th march 2011 at the university of the free state campus organised by the International Institute for Development and Ethics (IIDE), where the researcher networked with some of the entrepreneurs there and they further invited her to attend a launch by

the “SA BLACK BUSINESS” at Motheo Resource Centre and created more contacts with other entrepreneurs. The criterion used in choosing these businesses was based on the business sizes, the role they play in the economy (Corporate social responsibility and employment) and their turnover. Such comparative analysis will permit deeper probes into the nature of the chosen studies as well as provide more accurate interpretation and evaluation of the performance of several different enterprises, closely indicating the ways in which entrepreneurs in the *Motheo district (Bloemfontein; Botshabelo and Thaba’Nchu)* have handled their businesses over the past years.

5.2.3.2 Types of sampling design

Bryman and Bell (2003:100) identified two major types of sampling design - probability and non-probability sampling. This study will use the probability sampling method. Black (1999:118) identify eight major types of probability sample –simple random sampling; stratified sampling; cluster sampling; stage sampling; purposive sampling; quota sampling; snowball sampling and volunteer, accidental, convenience sampling. These sample designs are listed with their advantages and disadvantages;

Table 5.2 Sampling techniques: Advantages and disadvantages

Technique	Descriptions	Advantages	Disadvantages
Simple random	Random sample from whole population	Highly representative if all subjects participate; the ideal	Not possible without complete list of population members; potentially uneconomical to achieve; can be disruptive to isolate members from a group; time-scale may be too long, data/sample could change

Stratified random	Random sample from identifiable groups (strata), subgroups, etc.	Can ensure that specific groups are represented, even proportionally, in the sample(s) (e.g., by gender), by selecting individuals from strata list	More complex, requires greater effort than simple random; strata must be carefully defined
Cluster	Random samples of successive clusters of subjects (e.g., by institution) until small groups are chosen as units	Possible to select randomly when no single list of population members exists, but local lists do; data collected on groups may avoid introduction of confounding by isolating members	Clusters in a level must be equivalent and some natural ones are not for essential characteristics (e.g., geographic: numbers equal, but unemployment rates differ)
Stage	Combination of cluster (randomly selecting clusters) and random or stratified random sampling of individuals	Can make up probability sample by random at stages and within groups; possible to select random sample when population lists are very localized	Complex, combines limitations of cluster and stratified random sampling
Purposive	Hand-pick subjects on the basis of specific characteristics	Ensures balance of group sizes when multiple groups are to be selected	Samples are not easily defensible as being representative of populations due to potential subjectivity of researcher
Quota	Select individuals as they come to fill a quota by characteristics proportional to populations	Ensures selection of adequate numbers of subjects with appropriate characteristics	Not possible to prove that the sample is representative of designated population
Snowball	Subjects with desired traits or characteristics give names of further	Possible to include members of groups where no lists or identifiable clusters even	No way of knowing whether the sample is representative of the

	appropriate subjects	exist (e.g., drug abusers, criminals)	population
Volunteer, accidental, convenience	Either asking for volunteers, or the consequence of not all those selected finally participating, or a set of subjects who just happen to be available	Inexpensive way of ensuring sufficient numbers of a study	Can be highly unrepresentative

Source: Black, (1999:118)

This study will make use of **stratified random sampling** and **snowball sampling**. According to Martins, Loubser and Van Wyk (1996: 260-372) stratified random sampling is used when a population is heterogeneous in the characteristics being investigated, which again can be divided into strata (group) that are more homogeneous with references to these qualities. Stratified random sampling is of stratification value when the researcher is able to classify the population into strata (groups) that are more homogenous in the qualities under investigation than the entire population.

The initial respondents were identified using the uncompleted list of entrepreneurs provided by FDC. **Stratified random sampling** was used to ensure that specific groups of business enterprises were represented from the chosen sample. The **snowball sampling** technique was then applied on these initial respondents gotten from the uncompleted list of entrepreneurs obtained from FDC; Colloquium on social entrepreneurship organised by International Institute for Development and Ethics (IIDE), and “SA BLACK BUSINESS” launch as they referred the researcher to entrepreneurs operating in the Motheo district. This procedure was chosen because the researcher was unable to find a complete list of SMEs from the Free State development Corporation (FDC) and Small Enterprise Development Agency (SEDA) database of SMEs, the researcher opted to use snowball sampling as suggested by (Cooper and Schindler, 2006:414 and 425).

5.2.3.3 Sample size determination

In calculating the sample size, this study made use of both the Raosoft sample size calculator and the Demetra (2010) sample size calculator. Raosoft is a statistical software used in calculating the sample size. Raosoft takes into consideration four factors when determining the sample size. These factors include: the **margin of error**, the **confidence level**, the **population and the response distribution**, since it is the size that gives an acceptable credibility level. These factors are explained in details below;

- The **margin of error** (confidence interval) is the total amount of error the researcher can tolerate, with 5% being the common choice.
- The **confidence level** is the number of uncertainty you can tolerate.
- The **population size** is the number of people to be chosen from the researcher's random sample. As seen in the Motheo Local municipality (Bloemfontein, Botshabelo, Thaba Nchu: 2010) website for electricity, Centlec offers **4 400** businesses and bulk users electricity in Motheo district. The population of 4400 businesses was used as the population size for this study.
- The **response distribution** is the expected result the researcher intends to get from each question. Fifty percent is usually used as the response distribution as it gives the largest sample size (Raosoft, 2008).

Therefore, using the Raosoft sample size calculator and the Demetra (2010) sample size calculator, the margin of error was taken to be 5%; the confidence interval of 95%; a population of 4400 businesses and the response distribution of 50%. These formulae gave the researcher a sample size of **353** when using the Raosoft sample size calculator and a sample size of **353**, when using the Demetra (2010) sample size calculator, which was then used as the sample size. This sample size is chosen in order to facilitate meaningful depth of analysis in light of time and resource limitations, as well as enable the sample with reasonable accuracy, to reflect the thinking, opinions, attitudes and behaviour of the entire population. The sample size will enable the researchers to integrate and critically examine theory and practices.

5.2.4 Stage 4: Data Collection

This section will focus on the sources of data collection and the treatment of missing values. Data can be collected by both primary and secondary methods. Detailed explanations are provided below;

5.2.4.1 Primary data Source

Zihmund (2003:175) defines primary data as data gathered and assembled for a research project at hand. There are three primary data collection methods - observation, experiment and survey (Gerber-Nel *et al.*, 2005:88). Primary data can also be collected by means of questionnaires, checklists, surveys, interviews, observations, focus groups, case studies and documentation review (Coldwell and Herbst, 2004:48-49). The primary data collection methods used in this study are explained in more details below;

- **Interviews**

According to Kvale (1996), qualitative research interviews allow people to convey to others a situation from their own perspective and thus help the researcher to capture a lot of extra information that can be added to the verbal answer of the interviewee on a question. This study was based on the entrepreneurial characteristics and business practices of entrepreneurs which required in-depth information from the entrepreneur. So the use of interviews by the researcher on some of the entrepreneurs, helped capture many personal information regarding their entrepreneurial characteristics and business practices based on their voice, intonation and body language.

- **Questionnaires**

Brown (2001:6) defines questionnaire as “any written instruments that produces respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from amongst existing answers”. Self-administered questionnaires are research questionnaires delivered personally by the researcher to the respondents and the

questionnaires are completed by a respondent with no interviewer involvement (Cooper and Schindler, 2003:326). There are two basic types of survey questions - open-ended and closed-ended questions (Gerber-Nel *et al.*, 2005:150). Open-ended questions (unstructured) are questions that enable people to talk about their personal opinion about what is important to them and thus helps the researcher establish rapport, gather information, and increase understanding (Lucero,2003:1). Close-ended (structured) questions specify the acceptable responses and make information available to the respondents (Wheather and Cook, 2000:195). In this study, the researcher made use of close ended questionnaires.

Furthermore, the respondents were given two weeks to complete the questionnaires. The researcher collected the names and telephone numbers of the respondents during questionnaires distribution and repeated call backs were made to the respondents to make sure they complete the questionnaires. Self-administered questionnaires were used for the following reasons:

- Self-administered questionnaire is cost effective when compared with other gathering methods such as personal interviews where the researcher must be present with respondents at all times (Babbies, 2008: 302)
- In Self-administered questionnaires, the respondent remains anonymous and as such enables the respondents to be more candid and honest with their responses (Cooper and Schindler, 2003:369).
- Expand geographic coverage without increase in costs
- Requires minimal staff

5.2.4.1.1 Questionnaire design and content

In regards to question content and word choices, the questions were designed to be short, simple and understandable, avoiding vague, unclear, estimation, generalization, and conceited questions (Kassim, 2001).

After examining the techniques used in previous research in verifying entrepreneurial characteristics and business practices, this study made use of various entrepreneurial self-assessment tools based on its credibility and fitness to this research topic. Entrepreneurial self-assessment scale is a questionnaire which was first published in a journal “The Entrepreneurs’ Handbook” in 1981 by the Institute of small scale industry in Philippines. In order to obtain relevant information, the respondents were asked to indicate their degree of agreement or disagreement with each statement from a three to five-point Likert scale, from strongly agree to strongly disagree. The Likert scale denotes a set of attitude statements whereby each degree of agreement is given a numerical value from one to three/one to five denoting its favourableness or unfavourableness. Some statements are reverse-scored and combined with other statements to minimize response-set bias and the halo effect. The scores are later totalled to measure the response attitude and the overall scores represent the respondent’s position on the range of favourable or unfavourable towards the subject. Furthermore, the descriptions of their measurements were presented to draw attention to previous research measurement instruments.

5.2.4.1.2 Items included in the questionnaire

The questions in the questionnaire were grouped into seven parts:

PART A: Descriptive information of the entrepreneur

In this section, questions such as the entrepreneurs age; gender; stage of life cycle and educational qualification was asked to enable the researcher identify specific entrepreneurial characteristics pertaining to the entrepreneurs.

PART B: Entrepreneurial Characteristics

In this section questions were asked on entrepreneurial characteristics such as (*need for achievement; locus of control; risk taking propensity; self-confidence; innovativeness; leadership; commitment and determination; tolerance of ambiguity and uncertainty; creativity, self-reliance and ability to adapt; opportunity obsession and motivation to excel*), identified in chapter two to be tested to show the extent to which they influence the long-term survival of the

SMEs. The questions were developed through a thorough review of the literature in chapter two, and also through a modification of entrepreneurial self-assessment tools such as (*General Enterprising Tendency (GET) approach (Caird, 1992:6-17); L'entreprenuerd'abord, entrepreneur first (BDC) Entrepreneurial self-assessment; Choice Dilemma Questionnaire (CDQ); entrepreneurial orientation scale (EO) and the Entrepreneurial Mindset Tool*). They were later refined through exploratory research and pretesting.

PART C and D: Business Practices and Entrepreneurial/managerial capabilities

In this part, questions were asked on the business practices and its capabilities enhancing the practices of entrepreneur's. Questions asked regarding the business practices of entrepreneurs included: *teamwork; risk management practices; planning practices, marketing practices; human resource management practices; performance management practices*. With regards to Entrepreneurial/managerial capabilities of entrepreneurs, the questions Included: *business acumen; innovation, ownership; commercial orientation; results focus; perseverance and leadership oriented capabilities*. These questions were developed through a thorough review of the literature in chapter three and later refined through exploratory research and pretesting.

PART E: Determinants of Survival

In trying to find out survival determinants, this section asked questions on the **age; number of employees; net profit; equipments/ assets; business location and the office number**, which this study considered as the determinants for long -term survival of SMEs. This is because this study adopts the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence.

PART F: The External Environment

This part focused on the business environment within which a business operates. This is because understanding the environment within which businesses operate is very important for running a business successfully at any place, since the success of every business depend on ability to adapt

itself to the environment within which it functions. Questions on the *economic, political, social and legal factors* of the environments were developed through a thorough review of the literature in chapter three and later refined through exploratory research and pretesting.

PART G: Nature of the business

Questions included in this section was to enable the researcher keep track of *what type of business the entrepreneurs are engaged in; their position/ role in the business; how they raised up their start- up funds and what were their motives for starting up the business and the number of employees they have*. These questions were included because they will help the researcher during data analyses and interpretation, as it is important to take the entrepreneurs background and his associated views into account.

5.2.4.1.3 Pre-testing (pilot study)

An early draft of the questionnaire was pre-tested in this stage. The aim of a pre-testing is to ensure that the questions brings out the responses required, discover vague wordings or errors before the survey is launched at large (Burns and Bush, 2002). Ten entrepreneurs were asked to complete the questionnaires and give their opinions with regards to content validity. Churchill (2002:250) reckons that pre-testing is necessary because it assures the researcher that the questionnaire designed will perform its diverse functions, and that the data collected will be relevant and correct.

5.2.4.2 Secondary data source

Secondary data was gotten from scientific journals and research documents, which are verifiable and published between 1990 and 2010. The following databases were made use of;

- NEXUS: Current and completed South-African research.
- Sacat: Catalogue of books available in South Africa.
- SA e-publications: South African magazines.

- International journals:
 - Academic Search Premier
 - Business Source Premier
 - Ebscohost
 - Emerald

5.2.4.3 Missing values

Herbst (2001) states that there are two ways of dealing with missing or blank responses - maintaining the missing or blank spaces as it is or by assigning values to the missing data through mean responses or imputed responses. “Leaving the data as it is”, is the approach most frequently used because it is assumed that the number of missing values is small and non-random (Graham, 2009:551). Missing or blank spaces is used for different types of analysis and can be applied with the use of either Casewise deletion or Pairwise deletion. They are explained below;

- **Casewise deletion**

Under the Casewise deletion, the respondent (cases) is removed if there is a missing value identified on any of the answers (Dillon, Madden and Firtle, 1993: 348). According to (Graham, 2009:551), the disadvantage of using this method is the loss of data by removing all data from subjects who may have answered some of the questions, but not others.

- **Pairwise deletion**

Under the Pairwise deletion, all the non- missing data are included in each calculation (Dillon *et al.*, 1993:348) and is useful when the sample size is small. According to (Graham, 2009:551), the researcher can delete the subjects for every missing value in the dataset, and remain with complete data for all subjects. Graham identified the reduction in the sample size as one disadvantage to this approach. The researcher can also assign values to the assigning missing data through mean responses or imputed responses.

Mean response entails replacing the missing data with a constant mean, median or a mode response to the question based on the measurement scale used, while the imputed response is

used when the respondent's answers to other questions is used to assign or infer an appropriate response to the missing question (Dillon *et al.*, 1993:348).

In this study, the pairwise deletion approach was used where the researcher deleted the subjects for every missing value in the dataset, and remained with a complete data for all questions answered.

5.2.5 Stage 5: Data analysis

Levine (1997: 1) points out that data analysis is a body of methods that help to describe facts, detect patterns, develop explanations, and test hypotheses used in sciences, business, administration, and policy. In data analysis, the raw data is ordered and organised to enable the extraction of useful information from it. Data analysis for this study incorporated descriptive statistics, inferential statistics (cross tabulation, T-test, ANOVA and Pearson correlation).

5.2.5.1 Descriptive statistics

Descriptive statistics is used to transform raw data into a form that will make them easy to understand, interpret, re-arrange and manipulate data to make available descriptive information. Descriptive statistics can also be used to summarise information about a population or a sample (Zikmund, 2003: 473). Descriptive statistical tools used in this study are: percentages, frequency distribution tables, histograms and charts.

5.2.5.2 Inferential statistics

Inferential statistics are used to make judgment about a population based on the sample (Zikmund, 2003: 473). Leedy and Ormrod (2005:30-31) points out that inferential statistics can enable the researcher make decisions about the population based on “whether the differences observed between the two groups in an experiment are large enough to be attributed to the experimental intervention rather than to a once-in- a blue – moon fluke”. Based on the distribution of descriptive statistics obtained from the study, cross tabulation, chi-square, one-

way analysis of variance (ANOVA), t-test and Pearson correlation coefficient will be used to execute the inferential statistics. They are explained in more details below;

- **Cross tabulation**

Cross tabulation describes two or more variables simultaneously and is a joint frequency distribution of cases based on two or more categorical variables (Michael, 2002: 1). Cross tabulation is used to identify the relationships between cross tabulated variables with any type of quantitative data using nominal data (Hussey and Hussey, 1997:182).

- **Chi-square**

Hussey and Hussey (1997:232) define chi-square as a “non-parametric technique which is used to test the statistical significance of findings by testing for contingency and goodness of fit”. According to Cooper and Schindler (2001:499), chi-square test the “differences between observed distribution of data amongst categories and the expected distribution based on the null hypothesis (H^0)”. This null hypothesis (H^0) assumes that two variables are independent of each other while the alternative hypothesis assumes the existence of a relationship between two variables (Hussey and Hussey, 1997: 232).

- **ANOVA**

ANOVA is a particular type of regression analysis that uses the quantitative predictors to act as categorised predictors. ANOVA is used to determine if the mean dependent variable score obtained in the experimental condition differ significantly. This can be achieved by determining what proportion of variation in the dependent variable can be attributed to the manipulation of the experimental variables (Rutherford, 2001:5-6).

- **T-test**

T-test is used to compare the mean difference between two populations and to test the hypothesis that the mean scores on some interval –scale variables are considerably different for two

independent samples, assuming that the two samples are drawn from a normal distribution (Zikmund, 2003:524-535). The T-test technique is suitable when the sample size is small and population standard deviation is unknown.

- **Pearson Correlation**

A Pearson correlation measures the strength of the linear relationship between two continuous variables. A linear relationship can be captured by drawing a straight line on a scatter plot between the two variables of interest (DeCoster, 2004). The correlation coefficient (r) ranges from -1.0 to +1.0 and when r is closer to -1 or +1, which means the two variables are closely related (Coakes, 2005:18).. On the other hand, when r is close to 0, it means the two variables are not related (no relationship between the two variables). The P-value measures the level of significance. A 5% level of significance will be used in this study.

5.2.5.3 Statistical Package for Social Sciences (SPSS) and GNU PSPP:

SPSS is a software used for carrying out statistical procedures in the social sciences field and is among the most widely used programs for statistical analysis in social science. SPSS has almost all statistical features available and is used widely by researchers to perform quantitative analysis (Coakes, 2005:5). **GNU PSPP** is a statistical analysis software, which is a replacement of the statistical software SPSS (Statistical Package for Social Science) with the advantage that it is open source software available for free download for different computer operating systems at www.pspp.com. This study made use of the SPSS Version 12.0 for Windows and GNU PSPP as the statistical software for data analysis.

5.3 LIMITATIONS TO THE STUDY

- The researcher faced the problem of some entrepreneurs not speaking or understanding English and as such their unwillingness to participate.

- The researcher had to hire a local translator to accompany her during the questionnaire distribution process. This translator built some trust with the respondents and helped the respondents to answer the questions (especially those who could not understand English).

5.4 CHAPTER SUMMARY

The aim of this chapter is to explain the research methodology used in collecting and investigating the data necessary to answer the research objectives. The research process divided into five stages was explained and specified choices of processes were made regarding this study. The respondents were identified by using the stratified random sampling and snowball sampling. Data was collected with the use of a structured questionnaire and interviews, administered by both hand deliveries to the entrepreneurs in the Motheo district. The data obtained from the respondents were analysed using SPSS and GNU PSPP statistical software. Descriptive statistical tools like percentages, frequency distribution tables, histograms and charts were used for interpreting the data. Also, inferential statistics, such as cross tabulation, chi-square, one-way analysis of variance (ANOVA), t-test and Pearson correlation coefficient was further used to analyses in this study. This chapter concludes by presenting the limitations to the study.

Chapter six will present the results from the data analysis and discussions related to the information obtained from the empirical study.

CHAPTER SIX

RESEARCH RESULTS

6.1 INTRODUCTION

The aim of this chapter is to present the primary research findings of the current study, gotten from the questionnaire administered to **353** entrepreneurs in the *Motheo district (Bloemfontein; Botshabelo and Thaba’Nchu)*. The results and findings are presented within the parameters set by the literature reviews and the methodology. Any additional findings arising all through the analyses, for which evidence have been gathered, are presented under the appropriate headings. This chapter begins by determining the regional distribution of response rates for the entrepreneurs in the **Motheo district** (Bloemfontein; Botshabelo and Thaba’Nchu). The next section focuses on the empirical findings and it is divided into part A and part B.

Part A is structured into seven sub-sections. The first sub section talks about the descriptive information of the entrepreneur. The second focuses on the nature of the entrepreneurial business. The third subsection focuses on entrepreneurial characteristics of entrepreneurs. In the fourth subsection, the results on the business practices of entrepreneurs are explained. The fifth subsection provides explanations to the entrepreneurial/managerial capabilities that enhance the business practices of entrepreneurs. In the sixth subsection, the results on the determinants of survival are presented. Lastly the results on the external environmental factors on which entrepreneurs operate are also presented.

Part B of the empirical findings will provide answers to the research questions and hypotheses stated in chapter four of the literature review.

6.2. REGIONAL DISTRIBUTION

The sampling of this study included entrepreneurs in businesses across a wide range of industries in the Motheo district. The entrepreneurs were regionally distributed to ensure that there was no over representation of one region. The respondents that participated in the study were a mixture

of entrepreneurs from different industries and from different towns in the Motheo district- Bloemfontein, Botshabelo, and Thaba’Nchu.

Table 6.1 illustrates the regional distribution of entrepreneurs in the Motheo district (Bloemfontein, Botshabelo, and Thaba’Nchu) with respect to the population size; sample size; percentage of questionnaires issued to sample size of area and the number of questionnaires received. The towns involved in the study show a good regional representation of the Motheo district.

Table 6. 1: The sample size; percentage of questionnaires issued to sample size of area and the number of questionnaires received in the Motheo district

Variables	Motheo District			Total
	Bloemfontein	Botshabelo	Thaba’Nchu	
Population (Mongabe.com, 2010).	463064	309 714	38616	811 394
Percentage of Total Population	57%	38.2%	4.8%	100%
Sample Size	353			
Percentage of Sample size	57%	38.2%	4.8%	100%
Proportion of Sample Size to Population distribution in Motheo	201	135	17	353
Number of Questionnaires Issued	187	115	51	353
Percentage of Questionnaires issued to Sample Size of	93%	85.2%	300%	100%

area				
Number of Questionnaires Received	113	64	41	218
Percentage of Questionnaires Received	60.4%	55.7%	80.4%	61.8%
Number of received Questionnaires not fully completed	9	7	2	18
Percentage of Received Questionnaires not fully completed	7.9%	10.9%	4.9%	8.3%
Number of Questionnaires Received that were fully completed and valid for use in this study	104	57	39	200
Percentage of Questionnaires Received that were fully completed and valid for use in this study	92.1%	89.1%	95.1%	91.7%
Valid Response rate as percentage of the total questionnaires issued	55.6%	49.6%	76.5%	<u>56.7%</u>

Adopted by this study

Table 6.1 indicates that the Motheo District has a total population of 811,394, with 463,064 inhabitants in Bloemfontein; 309,714 inhabitants in Botshabelo and 38,616 inhabitants in Thaba’Nchu (Mongabe.com, 2010). A sample size of **353** was obtained when using the Raosoft sample size calculator and the Demetra (2010) sample size calculator. A total of 353

questionnaires were issued, **218** questionnaires were received but only **200** questionnaires were considered because they were those fully completed by the respondents, which gave the study a response rate of **56.7%**. The pair wise deletion approach was used whereby; the researcher deleted the subjects for every missing value in the dataset and remained with a complete data for all the questions answered. Also evident is the fact that more questionnaires were issued in Bloemfontein than in Botshabelo and Thaba’Nchu. This is because Bloemfontein is the economic hub and the provincial and commercial capital of the Free State. Bloemfontein’s economy production is approximately 87% in the Motheo district as compared to 7% and 6% respectively in Botshabelo and Thaba’Nchu (**Motheo Local Municipality, 2010**).

6.3 EMPIRICAL FINDINGS

The empirical findings will be divided into **part A and part B**. Part A is structured into seven sub-sections while Part B of the empirical findings will provide answers to the research questions and hypotheses stated in chapter four of the literature review.

6.3.1 PART A

6.3.1.1 DESCRIPTIVE INFORMATION OF THE ENTREPRENEURS

The descriptive variables for which data that was collected, included the gender of the respondent; the age; the race; the business age; the stages of life cycle; educational qualification; type of degree program completed and the various type of business management related courses attended. Descriptive statistics such as frequency distribution tables, bar charts and pie charts were used in analysing the data. Detail explanations are provided below;

6.3.1.2 Gender of the respondent

There exist differences in performance between female and male owned businesses (Du Rietz and Henrekson, 2000). Figure 6.1 depicts the gender of the respondents for all the entrepreneurs across a wide range of industries in the Motheo district.

Figure 6. 1 : Gender distribution of respondent entrepreneurs in the Motheo district, 2011

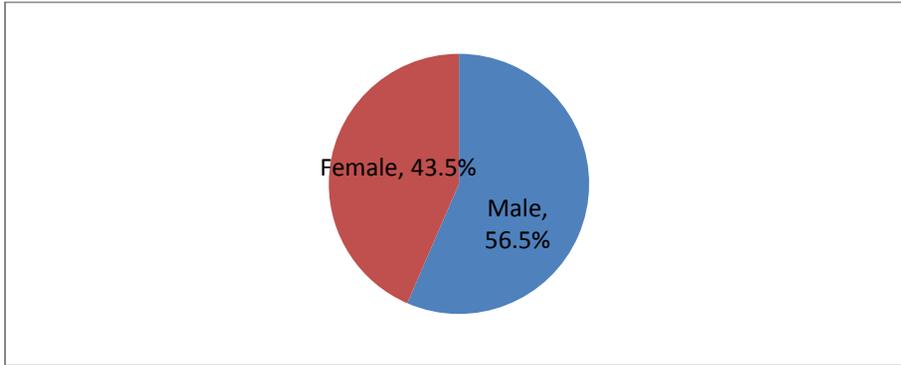
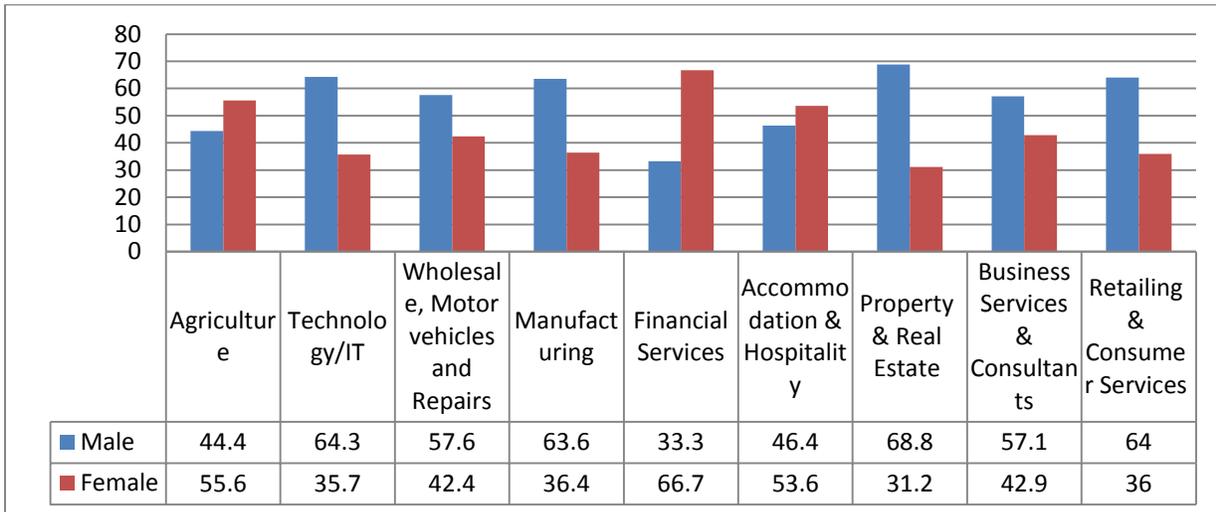


Figure 6. 2 : Gender distribution of entrepreneurs across various industry sectors in Motheo district



The result indicates that they are 56.5% of males owned and managed businesses, while only 43.5% of female own businesses in the Motheo district, thus providing a good representation from each population group in the survey. From figure 6.2, it is observed that out of the nine industry sectors from which the respondents came from, the males dominated in six of the sectors (technology; wholesale, motor vehicle and repairs; manufacturing; property and real estate; business services & consultants and retailing & consumer services) while the females dominated in only three of the sectors (agriculture, financial services and accommodation and hospitality). A possible explanation for this phenomenon is that the rate of men’s business

ownership is twice that of women's ownership in the formal sector, because most males engage in more lucrative businesses in South Africa (Velia and Valodia, 2009).

6.3.1.3 Age distribution of the respondent

A number of studies have tried to establish a relationship between an entrepreneur's age and the performance of the venture in which they are involved (Reynolds, Hay and Camp, 1999; Peters, Cressy and Storey, 1999; Hatch and Zweig, 2000).

Table 6. 2: Age distribution of the respondent

Value Label (years)	Values	Frequency	Percentages (%)	Valid percentages	Cumulative percentages
≤ 20	1	24	12	12	12
21- 30	2	51	25.5	25.5	37.5
31- 40	3	50	25	25	62.5
41- 50	4	46	23	23	85.5
≥ 50	5	29	14.5	14.5	100
Total		200	100	100	

Figure 6. 3 : distribution of the respondent in the Motheo district, 2011

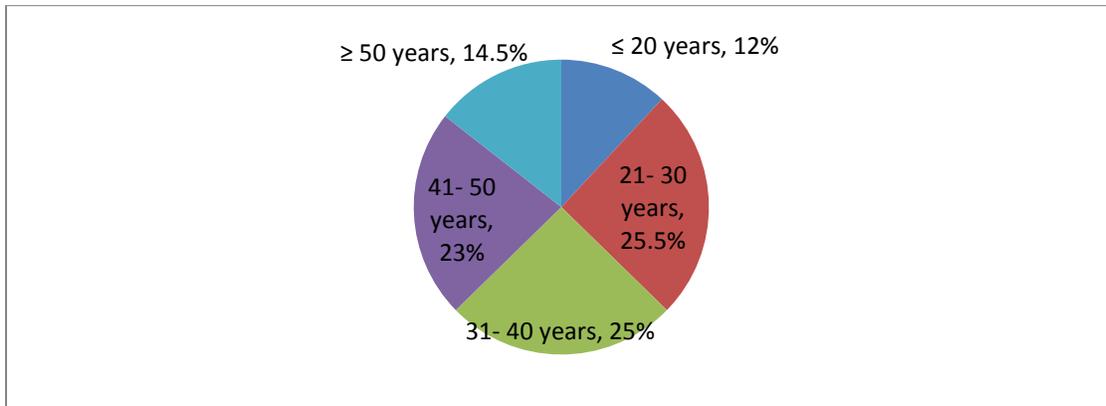


Table 6.2 and Figure 6.3 shows that the average age of entrepreneurs lie between 21- 30 and 31- 40, with percentages 25.5% and 25% respectively. This is in line with the study by Moore *et al.*, (2008:19), where it was established that the ideal entrepreneurial age lies somewhere between the late 20s and early 40s, which is when there is a trade-off between confidence, usually characterised by youth, and wisdom based on years of experience.

6.3.1.4 The race of respondent

Race plays an important role as part of the culture of many black people in South Africa. The South African government believes the Broad Based Black Economic Act (BEE) of 2003 strategy can be used as an important “policy instrument” that can broaden the economic base of this country.

Figure 6. 4 : Race of respondent the Motheo district, 2011

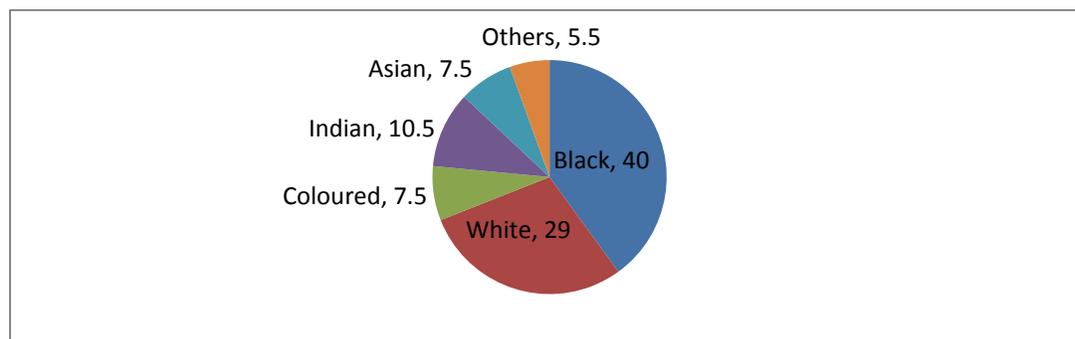


Figure 6.4 illustrates that the blacks make up the highest respondents of 40%; strictly followed by white with 29% and Indians 10.5 %. The coloured, Asians and others were the smallest on the list with percentages 7.5%; 7.5% and 5.5 % respectively.

6.3.1.5 Age of the business at present

Lots of arguments have been raised on whether the age of the business either increases or decreases its odd of survival. For example Geroski (1995) affirms that firms face a “liability of newness” effect, that is, a greater risk of failure as compared to older ones. Fichman and Levinthal (1991) found that the probability of exit may increase with age.

Table 6. 3 : Age of the business at present

Value Label (years)	Values	Frequency	Percentages (%)	Valid percentages	Cumulative percentages
≤ 1	1	28	14	14	14
1- 3	2	52	26	26	40
3- 5	3	56	28	28	68
5-10	4	29	14.5	14.5	82.5
≥ 10	5	35	17.5	17.5	100
Total		200	100	100	

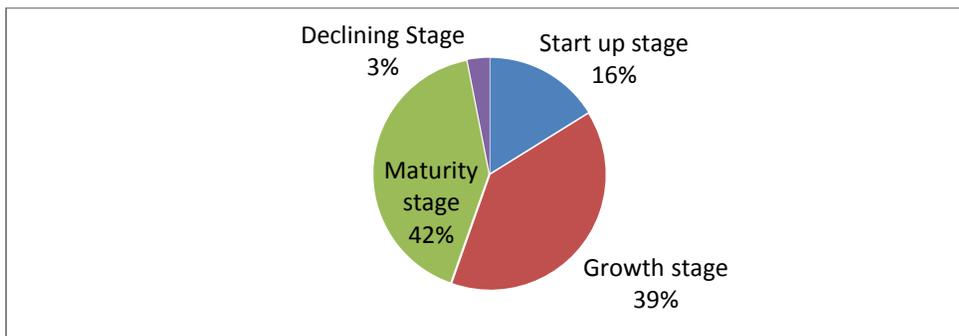
Table 6.3 shows that a greater portion of businesses chosen for this study have been in existence for over of 3 to 5 years; 1 to 3 years; greater than 10 years and between 5 to 10 years, with percentages 28%; 26%; 17.5% and 14.5% respectively. The least on the scale are businesses that have been in existence for less than one year, with 14%. This was chosen in order to provide a

clear indication of surviving businesses, so as to help the researcher to clearly identify the characteristics and business practices they possess, which can lead to their long-term survival.

6.3.1.6 The stages of life cycle

A business life cycle has a significant impact on decisions making in every organisation. It helps the business owners to make different marketing decisions at every stage in a product's life cycle beginning with the need to generate awareness for new product offerings and ending with the ability to maintain that awareness while also avoiding problems such as funding too many new product and strategies.

Figure 6. 4 : Stages of life cycle of businesses in the Motheo district, 2011



The results in figure 6.5 indicates that 42% and 39% of businesses are mostly in the maturity and growth stages , while 16% of businesses are in the start-up stages and 3% in the declining stage. This result indicates that the businesses chosen for the study were existing businesses of ages 3 to 5 years, 1 to 3 years; greater than 10 years and between 5 to 10 years as already made mention in table 6.3, which thus explains why most of the businesses are found in the maturity and growth stages.

In order to find out if the age of the business at present was related to the stage of the life cycle, a cross tabulation was carried out as seen in table 6.4;

Table 6. 4 : Relationship between the age of the business at present and the stage of the life cycle

Business Age	Stage in Business Life Cycle				Total
	Start-up	Growth	Maturity	Declining	
Less than 1 year	76.6%	17.9%	0%	3.6%	100%
1-3years	32.7%	53.8%	7.7%	5.8%	100%
3-5years	3.6%	71.4%	21.4%	3.6%	100%
5-10years	3.4%	48.3	44.3	3.4%	100%
Greater than 10years	0%	42.9%	54.3%	2.9%	100%

Statistic	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	113.58	16	0.00
Number of Valid Cases(N) = 200			

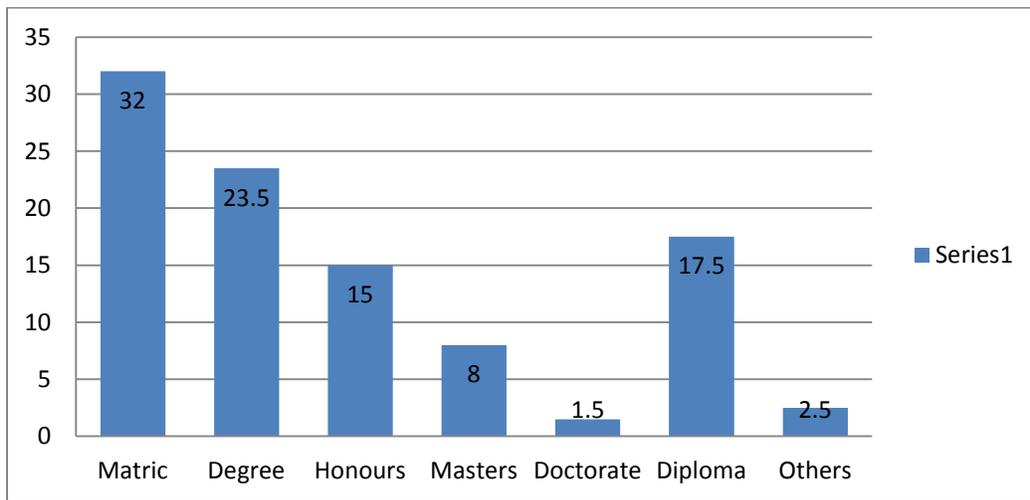
Cross tabulation describes two or more variables simultaneously and is a joint frequency distribution of cases based on two or more categorical variables (Michael, 2002: 1). Cross tabulation is used to identify the relationships between cross tabulated variables with any type of quantitative data using nominal data. From the table, the significance level of the test is 0.00. This value is less than 0.05 which shows that the stage of the business life cycle and the business age are dependent. As the business increases in age, the numbers of businesses at start-up stage decrease significantly, while those at maturity stage increase considerably.

Also notice is taken of the fact that **3.6%** of businesses with age less than one year are in the declining stage of their life cycle. A possible explanation could be that not every business in the SME sector will go through every stage of the SME business life cycle. The declining stage is the easiest stage any business can reach from any phase, because it is the point where a starting business will fail (**Morebusiness.com, 2008**). The high business failure rates at start-up therefore account for why 3.6% of the businesses less than one year of age are in the declining stage.

6.3.1.7 The educational qualifications of the respondents

The success of every business depends on socio-economic factors such as education, skills, and training (Thapa, Thulaseedharan, Goswami and Joshi, 2008).

Figure 6. 5 : Educational qualifications of the respondents in the Motheo district, 2011



The result on figure 6.6 indicates that on the average, most of entrepreneurs had qualifications as matric and degree, with 32% and 23.5% respectively. Also, it was observed that 17 % had diplomas as qualifications; 15% had an honours degree and 8% had masters as their qualifications. This thus indicates that the respondents were well educated and were able to give informed responses to the questions. Similarly, the level of education for entrepreneurs as further observed is still low because fewer entrepreneurs were more qualified with respect to their education qualifications. This as such raises an urgent need for the government and other support initiative programs to encourage entrepreneurs to further their level of education.

To better understand the relationship between the age of the entrepreneur and their level of education, a cross tabulation was conducted as seen in table 6.5;

Table 6. 5 : Relationship between the entrepreneur’s age and the level of education

Statistic	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.89	28	0.12
Likelihood Ratio	37.26	28	0.11
Linear-by-Linear Association	0.48	1	0.48
Number of Valid Cases(N) = 200			

From table 6.5, the Pearson Chi-Square test significance value is 0.12, which is greater than 0.05, thus indicating that the entrepreneur’s age and the level of education are independent. The age of the entrepreneurs does not therefore affect their education, considering that some entrepreneurs are old and have a matric as their qualifications, while others are young and have either a masters or a PHD qualification. This results means that there is no rightful age for education and thus encourages entrepreneurs to consider learning as an on-going process since it will improve on their skills and the manner in which their businesses are operated.

6.3.1.8 Type of degree program completed

Table 6. 6 : Type of degree program completed in the Motheo district, 2011

Relationship between the degree program studied by the entrepreneurs and the qualification obtained				
Type of Degree Program Studies	Qualification Obtained			
	Degree	Honours	Masters	Doctorate
Accounting	10.6%	13.3%	6.3%	0%
Marketing	8.5%	13.3%	0%	33.3%
Business management	27.7%	33.3%	43.8%	33.3%
Finance	4.3%	0%	12.5%	0%
Human resource management	12.8%	13.3%	0%	0%
Economics	12.8%	13.3%	18.8%	0%
Engineering	6.4%	0%	0%	33.3%
IT/ Computing	6.4%	10%	6.3%	0%
Other Programs	10.7%	3.5%	12.5%	0%

Table 6.6 illustrates the type of degree programs attained by entrepreneurs who had qualifications. So in order to find out if a relationship exist between the degree program studied by the entrepreneurs and the qualification obtained, a cross tabulation was carried out. The results revealed that out of the entrepreneurs who had their qualifications as masters, 43.8% pursued their degree course in business management; same too as 33.3% of entrepreneurs with honours degree and the 27.7% of entrepreneurs with a first degree. The second largest representation of degree programs was economics with 18.8% for masters; 13.3% for honours and 12.8% for first degree. The result indicates that most of the entrepreneurs in the Motheo

district did their degree programs in business related fields, which then provides them with some general knowledge in running their businesses properly.

6.3.1.9 Various type of business management related course attended

Business-related courses seek to provide students/ entrepreneurs with the basic entrepreneurial skills. Parker (2005) emphasised the importance of education and training for existing entrepreneurs as it was established that entrepreneurs learned rather slowly and they tend to rely excessively on prior beliefs and past experiences.

Table 6. 7 : Various type of business management related course attended in the Motheo district, 2011.

Short Course	Percentage of Entrepreneurs that have taken the short course
Business Management	56.5%
Finance	34%
Bookkeeping	28%
Marketing	36%
Entrepreneurship	39%
Human resource management	35%
General management	29.5%
Management Accounting	24.5%
Marketing management	28%
Sales management	34.5%
Tourism management	13.5%
Project management	25.5%

Table 6.7 shows independent results on the short courses or training programs attended by the entrepreneurs in the Motheo district. The results depicts that out of the 200 fully completed questionnaires received, most of the entrepreneurs had either done some short courses or attended some training programs in business related courses. On averaged, 56.5% of the entrepreneurs had done courses in business management; 39% for entrepreneurship and 34.5% for sales management making up the highest percentages, which provides them with some general knowledge in running their businesses properly. However, apart from business management that had a 56.5%, the remaining short courses had a percentage score of less than fifty, which indicate that few entrepreneurs still enrol in short courses. This is a call for concern to the higher education institutions that engage in entrepreneurship education and other support programs in South Africa to identify possible ways to encourage entrepreneurs on the importance of education on business success.

6.3.1.10 Conclusion on the descriptive information of the entrepreneur

- The demographic variables from which the data was collected included the gender of the respondents; the age; the race; the business age; the stages of life cycle; educational qualification; type of degree program completed and the various type of business management related courses attended. The results revealed that they were more male respondents (56.5%) than female respondents who answered the questionnaire, and were between the ages groups of 21-30 and 31- 40.
- In terms of the race, the entrepreneurs were mostly dominated by blacks and whites with 40% and 29% respectively, between the businesses ages of 1-3 years and 3-5 years. Also observed is that they were both in the growth (39%) and maturity (42%) stages of the business life cycle. Matric and degree with 32% and 23.5% respectively, was found to be the predominate level of qualifications attended by most entrepreneurs in the Motheo district.
- On the other hand, a cross tabulation was carried out and the results revealed that there exist a relationship between the age of the business and their stages of life cycle. This is in the sense that, as the business increases in age, the numbers of businesses at start-up stage decrease considerably while those at maturity stage witness a considerable increase.

- Also no relationship was found between the entrepreneur’s age and their level of education. This goes to show that the entrepreneur’s age does not affect their level of education and thus encourages entrepreneurs to consider learning as an ongoing process, since it will improve on their skills and the manner in which their businesses are operated.

6.3.2 NATURE OF THE BUSINESS

The descriptive variables for which data was collected included economic sector within which their businesses are classified; the number of people the business employed; the position/role in the business; how they raise up their start-up capital; the reasons/motives for starting the business; prior experience in the sector that their business is operating in and whether any of their family members had ever owned or operated a business. Descriptive statistics such as frequency distribution tables, bar charts and pie charts were used in analysing the data. Detail explanations are provided below;

6.3. 2.1 Economic sector within which the businesses is classify

Business sectors are co-responsible for the creation of a better future by providing corporate caring, such as focusing on the areas of education, housing, poverty alleviation and service delivery. Entrepreneurs of all small business therefore have a significant role in the advancement of the region in the country.

Table 6. 8 : Economic sector within which businesses are classified in the Motheo district, 2011

Business Sector	Numbers	Percentage of Entrepreneurs in the Sector
Agriculture	9	4.5%
Technology/IT	14	7%

Retail and Motor Trade and Repair Services	33	16.5%
Manufacturing	11	5.5%
Financial Services	18	9%
Catering , Accommodation & Hospitality	28	14%
Real Estate &Property	15	8%
Business Services & Consultants	21	10.5%
Retailing & Consumer Services	50	25.5%
Health care, Education, Social service	0	0%
	200	100%

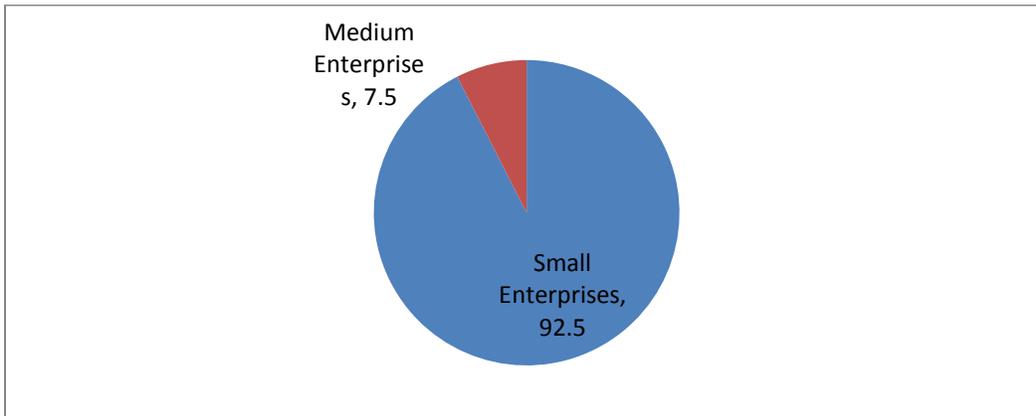
Source: The government Gazette of the Republic of South Africa, (2003) and Statistic South Africa, 2005.

In table 6.8, it is observed that out of the 200 respondents, the majority were in the retail and consumer service sector (25.5%), while 16.5% and 14% represent SMEs operating in the retail, motor vehicles and repairs, catering, accommodation and hospitality businesses respectively. These are the sectors that create employment for a bulk of unskilled labour in South Africa

6.3.2.2 The number of people the business employed

The number of persons a business employs helps to identify the size of the business and its economic value in terms of employment creation.

Figure 6. 6 : Number of people the business employed in the Motheo district, 2011



From figure 6.7, it is observed that in the SMEs sector in Motheo district, small enterprises employ the bulk of the work force in the Motheo district, with percentages 92.5%, while medium enterprises employ 7.5% of the population. This confirms with statistics on South Africaweb.co.za (2009) which showed that the majority of employments in South Africa (70%-80%) are created by small businesses and thus shows why its survival and sustainability is important.

6.3.2.3 Position/role in the business

This study focused on entrepreneurs and so it was necessary that only business owners and/ or shareholders participate in the survey.

Figure 6. 7 : Position/role in the business in the Motheo district, 2011

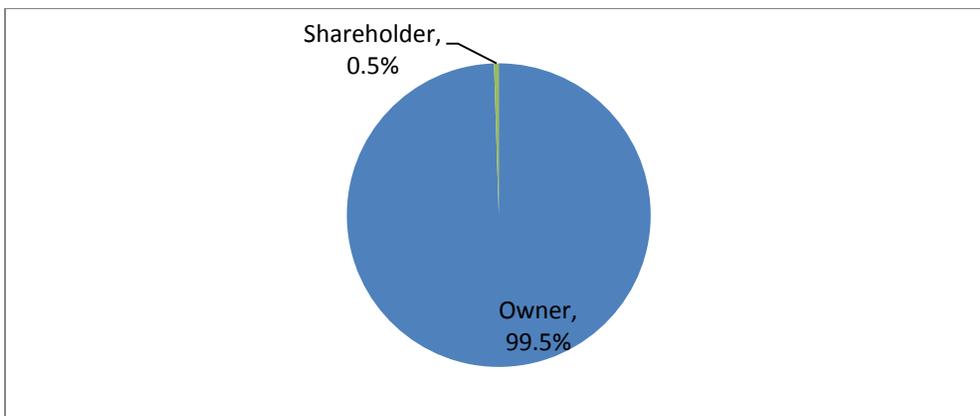


Figure 6.8 illustrates that 99.5% of the respondents were the owners of the businesses. This is because the respondents chosen for the study were the owners themselves. However 0.5% of the respondents identified themselves as shareholders in the businesses. This criterion was chosen with the intentions to help the researcher identify what characteristics they possess and business practices they are engaged into that can lead to the long- term survival of SMEs.

6.3.2.4 Sources of start-up capital

Entrepreneurs start businesses at different points in their lives and a variety of financing options are usually available to them. However, each of these specific sources of start-up capital is associated with certain obligations that entrepreneurs must understand before raising capital.

Figure 6. 8 : Sources of start-up capital for entrepreneurs in the Motheo district, 2011

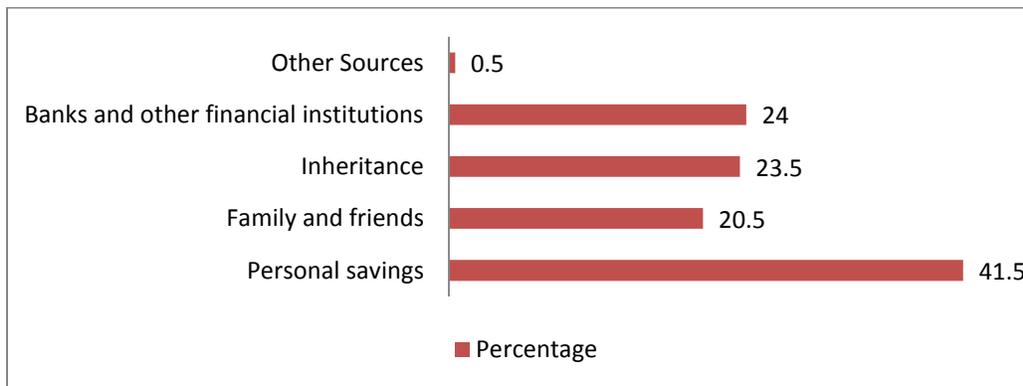


Figure 6.9 depicts that 41.5% of the respondents raised their start-up capital from their personal savings, while the other respondents got their start-up funds from banks and financial institutions (24%); inheritance (23.5%) and family and friend (20.5%). This result confirms with a study by Ligthelm (2005), which found savings to be the basis for start-up capital in South Africa and less than 1% of new small firms in South Africa are able to access debt finance (Fin Mark Trust, 2006). This contrast with a study by the Kauffman Foundation (2007) that showed 75% of SMEs' start-up capital in the United States of America was made up of owner equity and bank loans and/or credit card debt, in equal proportion. The lack of access to finance, amongst other factors has been identified as one of the reasons for the high failure rates of SMES in South Africa and thus calls for a need by the government, banks and financial institution to create a favourable business environment for SMEs Finance.

6.3.2.5 The reasons/motives for starting the business

Many studies have investigated the start-up motives of business founders as it is instinctively appealing to expect the start-up reason of the entrepreneur to influence firm performance (Dahlqvist and Davidsson, 2000).

Figure 6. 9 : Reasons/motives for starting the business in the Motheo district, 2011



The result of figure 6.10 illustrates what reasons/motives the respondent gave for starting up the businesses. From the results, 32% of the entrepreneurs stated that making money was the reason they started up their business; 30% wanted to be independent; 25% wanted to enjoy a satisfying life. These findings point to a study by Chell, *et al.* (2001:56-57), on opportunistic entrepreneurs and craftsmen entrepreneurs, which revealed that the opportunistic entrepreneurs are motivated by the desire for financial gain (making money), which makes them to continually seek new opportunities, while craftsmen entrepreneurs (independent) are motivated by the desire for autonomy and follow rigid strategies.

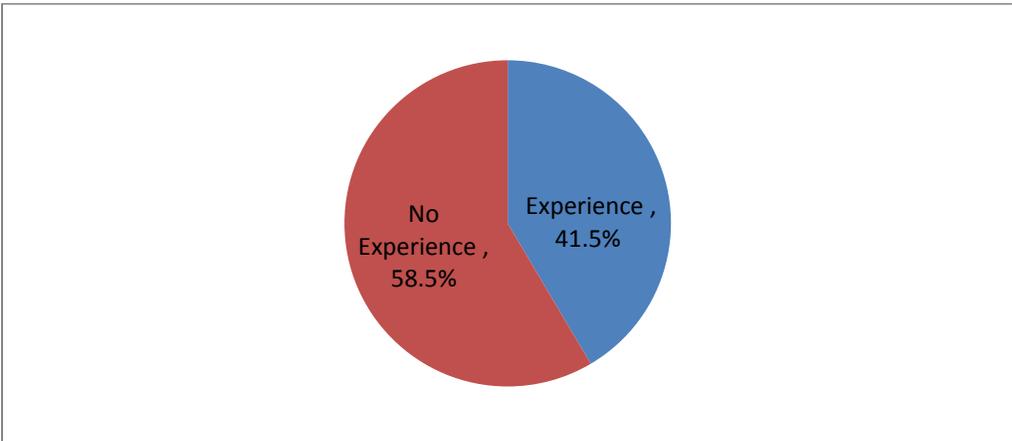
Also observed is the fact that 12% of the entrepreneurs being the least on the scale started up their businesses because they were unemployed. According to researchers (Foxcroft, Wood, Segal, Herrington and Kew, 2002), the average number of necessity entrepreneurs is 2.3%, while in South Africa the number is larger than the average number. This study showed that 12% of the entrepreneurs were necessity entrepreneurs and this figure larger than the average (2.3%) can be a possible explanation to the high failure rate in South Africa. The high rate of unemployment of 24% (Statistics, South Africa, 2011), as the case in South Africa forces people into necessity

entrepreneurship because they believe no other options for employment are available for them. As such, measures should be put in place to help the necessity entrepreneurs create sustainable businesses as a means to help alleviate poverty and reduce unemployment.

6.3.2.6 Prior experience in the sector that their business is operating in

Experience could either have a positive or negative impact on entrepreneurs (Janssen, 2003).

Figure 6. 10 : Prior experience in the sector that their business is operating in the Motheo district, 2011.

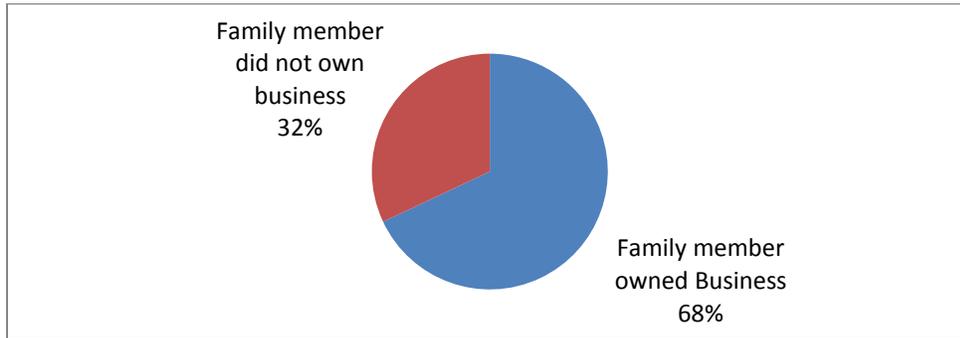


From figure 6.11, it is observed that 58.5% of the respondent had no experience in the current businesses they are operating, while 41.5% have experience in their current businesses. Dahl and Reichstein (2005) assert that industry specific experience positively affects the likelihood of SMEs survival. With a majority of entrepreneurs not having prior experience in their current business, it possibly explains why many of the businesses do not survive.

6.3.2.7 Family members ever owned or operated a business

There exist a positive relationship between family businesses and a firm’s performance (Arregle, Hitt, Sirmon, and Very, 2007; Sirmon and Hitt, 2003)

Figure 6. 11 : Family members ever owned or operated a business in the Motheo district, 2011



In figure 6.12, the respondents were asked if any of their family members ever owned or operated a business. The results revealed that 68% of the respondent’s family members had once owned or operated a business, while 32% of the respondents’ family members had neither owned nor operated a business. This confirms to a study by Davidsson (1995) that established that successful entrepreneurs are most likely to come from families in which either a parent or a relative owns a business.

Furthermore, a cross tabulation was carried out between prior experiences (entrepreneurs who have had prior experience in the business and entrepreneurs who have had no prior experience in the business) and family members owing/operating a business as seen table 6.10;

Table 6. 9 : Relationship between prior experiences and family members owning/ operating a business

Prior Experience	Family owning or operating a business		Total
	Family member had business before	Family member had no business before	
Have Prior Experience in the business	72.3%	27.7%	100%
No prior experience in the business	65%	35%	100%

Statistic	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.20	1	0.27
Number of Valid Cases(N) = 200			

The results revealed that the chi-square test is 0.27 which is greater than 0.05, indicating that prior experiences and family members owning/operating a business are independent. This can be seen that for those who had prior experience, 72.3% of them had family members who either owned/operated a business, while 27.7% did not have prior experience. Also for those without prior experience, 65% of them had family influence, while 35% of them did not have prior experience. The researcher raises the argument that one of the possible explanations amongst others could be that those who had no prior experience probably inherited the business from their family member without any prior experience in managing it. This provides possible explanations as to why most businesses do not survive in South Africa and therefore gives room for further research.

6.3.2.8 Conclusion on Nature of the business

Table 6. 10 : Conclusion on Nature of the business

Descriptive variables	Findings from this study	Conclusions and Comments
Economic sector within which their businesses was classify	<ul style="list-style-type: none"> • 25.5% operate in retail and consumer service sector. • 16.5% operate in the retail, motor vehicles and repairs sector. • 14% operate in accommodation and 	<ul style="list-style-type: none"> • These are the sectors that create employment for a bulk of unskilled labour in South Africa

	hospitality business respectively	
Number of people the business employed	<ul style="list-style-type: none"> • Small enterprises employ 92.5%. • Medium enterprises employ 7.5% of the population. 	<ul style="list-style-type: none"> • This confirms with statistics on South Africaweb.co.za (2009) which showed that the majority of employment in South Africa (70%-80%) is created by small businesses.
Position/role in the business	<ul style="list-style-type: none"> • 99.5% of respondents were the owners of the businesses. • 0.5% of the respondents identified themselves as shareholders in the business. 	<ul style="list-style-type: none"> • This is because the respondent chosen for the study were the owners themselves.
Sources of start-up capital	<ul style="list-style-type: none"> • 41.5% of the respondents raised their start-up capital from their personal savings. • 24% got their start-up funds from banks and financial institutions; 23.5% inheritance and 20.5% family and friend 	<ul style="list-style-type: none"> • Ligthelm (2005) that found savings to be the basis for start-up capital in South Africa and less than 1% of new small firms in South Africa are able to access debt finance (Fin Mark Trust, 2006). • Kauffman Foundation (2007) that showed 75% of SMEs' start-up capital in the United States of

		<p>America was made up of owner equity and bank loans and/or credit card debt, in equal proportion.</p> <ul style="list-style-type: none"> • The lack of access to finance, amongst other factors has been identified as one of the reasons for the high failure rates of SMES in South Africa and thus calls for a need by the government, banks and financial institution to give out loans to SMEs.
<p>Reasons/motives for starting the business</p>	<ul style="list-style-type: none"> • 32% of the entrepreneurs stated that making money was the reason they started up their business. • 30% wanted to become independent • 25% wanted to enjoy a satisfying life. • 12% of the entrepreneurs started up their businesses because they were unemployed 	<ul style="list-style-type: none"> • Foxcroft, Wood, Segal, Herrington and Kew, (2002) found that the average number of necessity entrepreneurs is 2.3% while in South Africa the number is larger than the average number. This study showed that 12% of the entrepreneurs where necessity entrepreneurs and this figure larger than the average (2.3%) can be a possible explanation to the

		high failure rate of businesses in South Africa.
Prior experience in the sector that their business is operating	<ul style="list-style-type: none"> • 58.5% had no prior experience in the current business venture 	<ul style="list-style-type: none"> • Dahl and Reichstein (2005) assert that industry specific experience positively affects the likelihood of SMEs survival. • With a majority of entrepreneurs not having prior experience in their current business, it possibly explains why many of the businesses do not survive.
Family members had ever owned or operated a business	<ul style="list-style-type: none"> • 68% of the respondent's family members had once owned or operated a business. 	<ul style="list-style-type: none"> • Most of the entrepreneurs were possibly inspired by their family members who owned businesses
Relationship between prior experiences and family members owning/ operating a business	<ul style="list-style-type: none"> • The results showed no relationships between them. 	<ul style="list-style-type: none"> • A possible explanation amongst others could be that those who had no prior experience probably inherited the business from their family member, without any prior experience in managing it, a possible explanations to

		<p>why most businesses do not survive in South Africa and therefore gives room for further research</p>
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6.3.3 ENTREPRENEURIAL CHARACTERISTICS OF ENTREPRENEURS

In this section, the respondents were asked 37 questions pertaining to their level of entrepreneurial characteristics on (*need for achievement; locus of control; risk taking propensity; self-confidence; innovativeness; leadership; commitment and determination; tolerance of ambiguity and uncertainty; creativity, self-reliance and ability to adapt; opportunity obsession and motivation to excel*), which was identified in chapter two to be tested to show the extent to which they influence the long-term survival of the SMEs. The questions were developed through a review of the literature in chapter two, and also through a modification of entrepreneurial self-assessment tools such as (*General Enterprising Tendency (GET) approach by Caird, 1992:6-17; L'entrepreneur d'abord, entrepreneur first (BDC) Entrepreneurial self-assessment; Choice Dilemma Questionnaire (CDQ); entrepreneurial orientation scale (EO) and the Entrepreneurial Mindset Tool*). They were later refined through exploratory research and pretesting.

A 5 point likert scale was used where 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree. The respondents were expected to select the extent to which they either agreed or disagreed with the statement. The answers were then totalled to the characteristics it belonged to in order to determine the overall scores of each of the characteristics. Each of the characteristics had its own scale that could be considered either strongly present in the entrepreneur or strongly absent in the entrepreneur. The descriptive statistics of the entrepreneurial characteristics, as well as their characteristics, their accepted scales and their various percentages are presented in table 6.11 and table 6.12.

Table 6. 11 : Descriptive Statistics of Entrepreneurial Characteristics in the Motheo district, 2011.

Descriptive Statistics of Entrepreneurial Characteristics					
Variable	Mean	Standard Deviation	Minimum	Maximum	N
Need for Achievement	8.32	3.54	4.00	20.00	200
Locus of Control	8.52	3.54	4.00	20.00	200
Leadership	7.82	3.49	3.00	15.00	200
Commitment and Determination	5.59	2.53	3.00	15.00	200
Risk taking propensity	7.56	3.14	3.00	15.00	200
Tolerance of Ambiguity and uncertainty	7.01	2.99	3.00	15.00	200
Self confidence	5.53	2.78	3.00	15.00	200
Creativity, Self-reliance and ability to adapt	5.93	2.73	3.00	15.00	200
Innovativeness	7.84	3.32	4.00	20.00	200
Opportunity obsession	6.13	2.62	3.00	15.00	200
Motivation to excel	5.84	2.62	3.00	15.00	200

Table 6.11 shows the means and standard deviations for the entrepreneurial characteristics, with the means varying from the 5.53 to 8.52. The means describe the central tendency of each entrepreneurial characteristic, while the standard deviations describe the variations in opinions of the entrepreneurs. The entrepreneurial characteristics were measured, each having 3 to 4 questions in a 5 point likert scale. The closeness of the means show a consistency in the answers. A high mean indicates that more entrepreneurs disagreed with the question while a smaller mean indicates that more entrepreneurs agreed with the question. The means and standard deviations are then used as basis for determining the acceptable scales for the entrepreneurial characteristics.

Table 6. 12 : Entrepreneurial characteristics of entrepreneurs in the Motheo district, 2011.

Entrepreneurial Characteristic		Accepted scales	Percentage of Entrepreneurs that have the characteristic	Percentage of entrepreneurs that do not have the Characteristic	Total
Need for Achievement		4-7	43.5%	56.5%	100%
Locus of Control	Internal locus of control	1-3	43.5%	56.5%	100%
	External locus of control	4-7	51%	49%	100%
Leadership		4-7	46%	54%	100%
Commitment and Determination		3-6	72.5%	27.5%	100%
Risk taking propensity		3-4	23%	77%	100%
Tolerance of		3-7	60.5%	39.5	100%

Ambiguity and uncertainty				
Self confidence	3-5	54.5%	45.5%	100%
Creativity, Self-reliance and ability to adapt	3-7	67.5%	32.5	100%
Innovativeness	4-7	44.5%	55.5%	100%
Opportunity obsession	3-6	59%	41%	100%
Motivation to excel	3-5	48.5%	51.5%	100%

As indicated in table 6.12, the higher the means and standard deviation, the lower the percentage of entrepreneurs having the characteristics. A small mean and standard deviation depicts a higher percentage of entrepreneurs having the characteristic. Thus, the result from table 6.12 illustrates that the dominate characteristics possessed by entrepreneurs in the Motheo district are: commitment and determination (72.5%); creativity, self-reliance and ability to adapt (67.5%); tolerance of ambiguity and uncertainty (60.5%), while the least characteristics that entrepreneurs do not have are; locus of Control (21.5%) and risk taking propensity (23%). This phenomenon is explained by the fact that with a higher standard deviation, most of the entrepreneurs disagreed with the obvious outcome of the results leading to a higher percentage of entrepreneurs not having the characteristic, and a huge gap in opinions from the entrepreneurs with the characteristic. While a smaller standard deviation depicted that more of the entrepreneurs had a unique acceptable thinking towards the characteristic, which led to more entrepreneurs having the characteristic.

The low level of risk taking (23%) can be because most entrepreneurs take *calculated risk* when they decide to participate in a business venture in a “very calculated, carefully thought- out manner”, while making sure they get the odds in their favour and avoid taking unnecessary risks (Kuratko, 2009:34). Rotter (1966) established a positive relationship between internal locus of control and need for achievement. He showed that the need for achievement was dependent on internal locus of control. This possibly explains why the same percentage of entrepreneurs (43.5%) have internal locus of control and need for achievement. Henry *et al.* (2003: 40) notes that people with external locus of control believe that the primary determinant of their life outcomes is being influenced by external forces such as fate, luck, or other external circumstances. According to Morgan (2010) people who have an external locus of control, are more likely to experience failure more often than those who have an internal locus of control. The high failure rate of SMEs in South Africa possibly explains why many of the entrepreneurs (51%) have an external locus on control, against 43.5% for an internal locus of control.

Also, possible explanations to the low level of need for achievement (43.5%) can be because the entrepreneurs are not open to new ideas and are not innovative, since innovation is also low (44.5%). Being open to new ideas and innovativeness is identified by Kirby (2005:7) to be amongst the four characteristics possessed by people with a strong need for achievement. However, Wickham (2001:16) notes that need for achievement is not only inherent but can be taught and practiced, hence making it vital for entrepreneurs to have it.

6.3.3.1 Understanding the relationship between Entrepreneurial Characteristics

It is always difficult to pinpoint or specify in a profile the specific characteristics that make up a successful entrepreneur (ActionCoach, 2008). Understanding the relationship between entrepreneurial characteristics is therefore necessary as it is helpful in identifying the entrepreneurial characteristics that go hand in hand. The Pearson correlation test will be used to determine the degree to which each pair of entrepreneurial characteristic constructs relates. With this knowledge, identifying one entrepreneurial characteristic in an entrepreneur can be used to determine the other entrepreneurial characteristics that have a strong relationship with it, which are not directly visible. Given that most entrepreneurial characteristics are psychological traits, it is likely that a characteristic can be dormant in an entrepreneur and needs to be stimulated with

use of psychological tools such as the Styles Inventory (LSI) measures thinking styles. The relationships are established in table 6.13 while the scale that determines the extent of the relationship is established in table 6.14.

Table 6. 13 : Relationship between Entrepreneurial Characteristics in the Motheo district, 2011.

Bivariate Correlations- Pearson Correlation Test											
Characteristics	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Need for Achievement	1.00	0.68	0.70	0.62	0.25	0.43	0.57	0.55	0.60	0.53	0.63
(2) Locus of Control	0.68	1.00	0.68	0.57	0.24	0.34	0.51	0.51	0.58	0.55	0.61
(3) Leadership	0.70	0.68	1.00	0.64	0.19	0.34	0.61	0.67	0.66	0.60	0.65
(4) Commitment and Determination	0.62	0.57	0.64	1.00	0.32	0.51	0.68	0.68	0.66	0.63	0.66
(5) Risk taking propensity	0.25	0.24	0.19	0.32	1.00	0.45	0.31	0.32	0.25	0.32	0.22
(6) Tolerance of Ambiguity and uncertainty	0.43	0.34	0.34	0.51	0.45	1.00	0.53	0.47	0.41	0.45	0.45
(7) Self confidence	0.57	0.51	0.61	0.68	0.32	0.47	1.00	0.71	0.64	0.60	0.66
(8) Creativity, Self-reliance and ability to adapt	0.55	0.51	0.67	0.68	0.32	0.47	0.71	1.00	0.72	0.71	0.65
(9) Innovativeness	0.60	0.58	0.66	0.66	0.25	0.41	0.64	0.72	1.00	0.66	0.65
(10) Opportunity obsession	0.53	0.55	0.60	0.63	0.32	0.45	0.60	0.71	0.66	1.00	0.68
(11) Motivation to excel	0.63	0.61	0.65	0.66	0.22	0.45	0.66	0.65	0.65	0.68	1.00

Table 6.13 shows the Pearson correlation between each pair of entrepreneurial characteristics. The entrepreneurial characteristics are listed in full in the first column while their corresponding numbers representing the characteristics are listed in the second row. The scale for the Pearson correlation value is between negative one (-1) and one (+1). A value of -1 represents a perfect negative linear correlation, which implies that as one variable increases, the other variable decreases in a consistent linear manner. A value of +1 represents a perfect positive correlation, which implies that as one variable increases, the other increases in a consistent linear manner.

Table 6. 14 : Interpretation of values on the Pearson Correlation

Pearson Correlation Scale	
Range	Description
-1	Perfect negative correlation
(-1, -0.5]	Highly negatively correlated
(-0.5, 0)	Slightly negatively correlated
0	Neutral
(0,0.5)	Slightly positively correlated
[0.5,1)	Highly positively correlated
1	Perfect positive correlation

The Pearson correlation in table 6.13 shows that all the entrepreneurial characteristics positively correlate with each other. However, the degrees to which they positively correlate vary for each pair of characteristics. Risk taking propensity slightly positively correlates with all the other characteristics, while tolerance of ambiguity and uncertainty also slightly correlates with all the other characteristics except for commitment and determination and self-confidence. All the other

pair of entrepreneurial characteristics show a highly positive correlation with each other. This high positive correlation between (Need for Achievement, Locus of Control, Leadership, Commitment and Determination, Self-confidence, Creativity, Self-reliance and ability to adapt, Innovativeness, Opportunity obsession and Motivation to Excel) shows that if an entrepreneur has anyone of the characteristics, then there is a high probability of developing the other characteristics in the entrepreneur. The slightly positive correlation between risk taking propensity and the other entrepreneurial characteristics can be explained by the fact that risk taking propensity has other factors that are required to ensure survival, success and growth of a business on how entrepreneurs perceive and manage risks in their environment (Delmar, 1994: 735). Moore and Gergen (1985: 72) identify that risk taking necessitate careful decision making. The process of risk taking entails making a decision to take a risk and establishing strategies that minimizes the risk.

6.3.3.1 Conclusions on entrepreneurial characteristics of entrepreneurs

- This section looks at the entrepreneurial characteristics of entrepreneurs, where it was established that the most dominate characteristics possessed by the entrepreneurs are; commitment and determination (72.5%); creativity, self-reliance and ability to adapt (67.5%); tolerance of ambiguity and uncertainty (60.5%).
- Also observed are the fact that the least characteristics that entrepreneurs have are locus of Control (21.5%); risk taking propensity (23%) and need for achievement (43.5%).
- Furthermore, possible explanations to the low level of specific entrepreneurial characteristics identified by the study.
- This section also establishes the relationship between entrepreneurial characteristics using the Pearson correlation test. The test showed positive correlations between all the characteristics. A Pearson correlation test scale was used to identify the strengths of the relationships. This section is important as it forms the basis for establishing the conceptual framework that will link entrepreneurial characteristics and business practices to the long-term survival of SMEs.

In a nut shell, entrepreneurs are extremely important to the world and their success is vital to the success of every nation. Thus the underlying assumption that entrepreneurs need to have a

required number of entrepreneurial characteristics vital to their long-term survival and that there are certain traits that make some entrepreneurs more suited to running a successful business than other is the basis upon which this section draws a conclusion, while stating that more light on this discussion will be established in **section 6.4.6 (figure 6.20 and figure 6.21)**.

6.3.4 BUSINESS PRACTICES

Entrepreneurs need to often focus beyond the issues that can help them ensure the survival and success of their businesses. This entails the way they carry out their day to day activities in the business based on their formulated goals and objectives. Crafting these business goals and objectives will enable them provide both a focal point and a measurement tool to regularly review their success to date and re-establish vigour for the challenges that lay ahead. This process of carrying out standard business practices involves the formulation of goals and objectives that guide the day to day activities of the business. The carrying out of business practices requires certain entrepreneurial characteristics. This section is important as it forms the basis for establishing the conceptual framework that will link business practices and entrepreneurial characteristics to the long-term survival of SMEs.

The variables for which data was collected included Path to ownership; Legal structure of business and the various business practices of the entrepreneurs. Descriptive statistics such as frequency distribution tables, bar charts and pie charts was used in analysing the data. Detail explanations are provided below;

6.3.4.1 Path to ownership (How did you start up your business?)

Figure 6. 12 : Path to ownership in the Motheo district, 2011

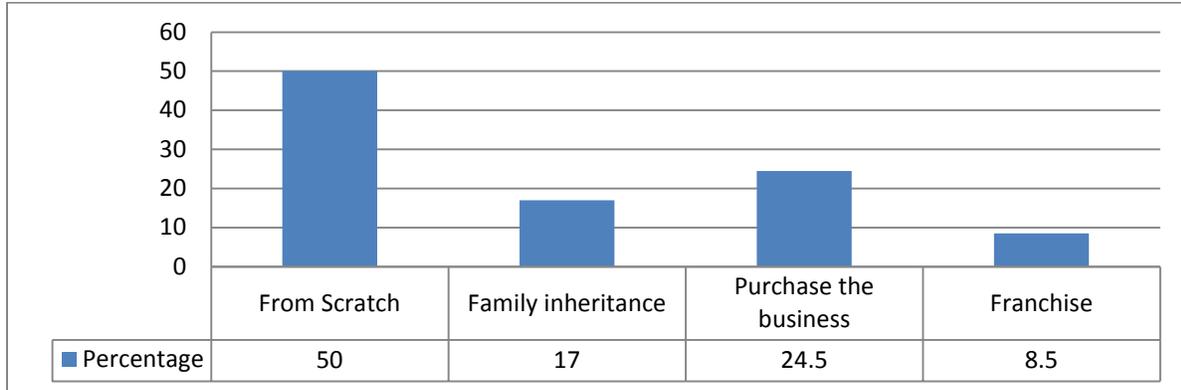
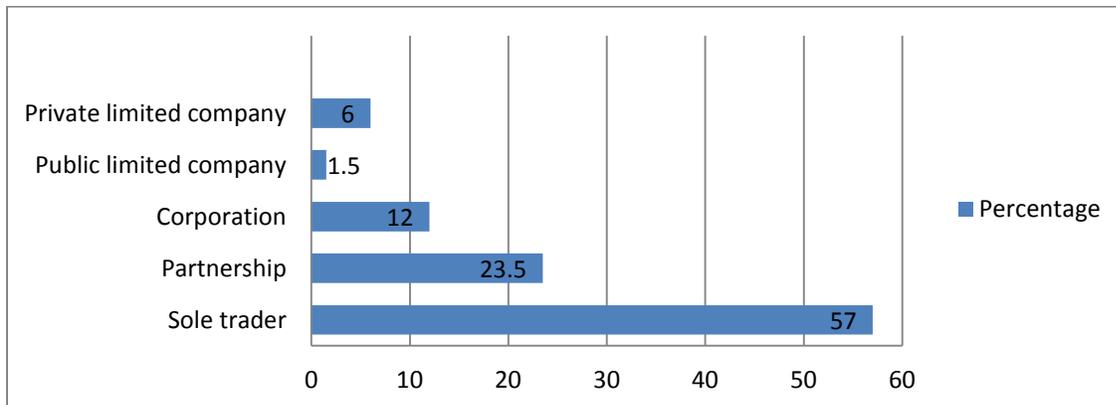


Figure 6.12 depicts that 50% of the respondents started their businesses from scratch; 24.5 % purchased the businesses, while 17% got their businesses through family inheritance and 8.5% businesses are franchise. This is a possible explanation as to why most of these entrepreneurs have a high degree of commitment and determination with 72.5%. This is because they are willing to give in their time and efforts to ensure their businesses succeed, since they started their businesses from scratch.

6.3.4.2 Legal structure of business?

Figure 6. 13 : Legal structure of business in the Motheo district, 2011



The results in figure 6.13 illustrates that 57% of the entrepreneurs in this study are sole traders, while 6% of respondents are private limited companies. This finding is obvious because the respondent chosen for the study were SMEs.

6.3.4.3 Various business practices

In this section, the 24 questions asked regarding the business practices of entrepreneurs included teamwork; risk management practices; planning practices, marketing practices; human resource management practices; performance management practices. The questions were developed through a review of the literature in chapter three and later refined through exploratory research and pretesting. A five point likert scale was used where 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree. The respondents were expected to select the extent to which they either agreed or disagreed with the statement. The answers were then totalled to the business practices in order to determine the overall scores of each of the practices. Each of the practices had its own scale that could be considered either as strongly present in the entrepreneur or strongly absent in the entrepreneur. The descriptive statistics of the business practices, as well as their accepted scales and their various percentages is presented in figure 6.14;

Figure 6. 14 : Descriptive Statistics on the mean and standard deviation of Business Practices in the Motheo district, 2011

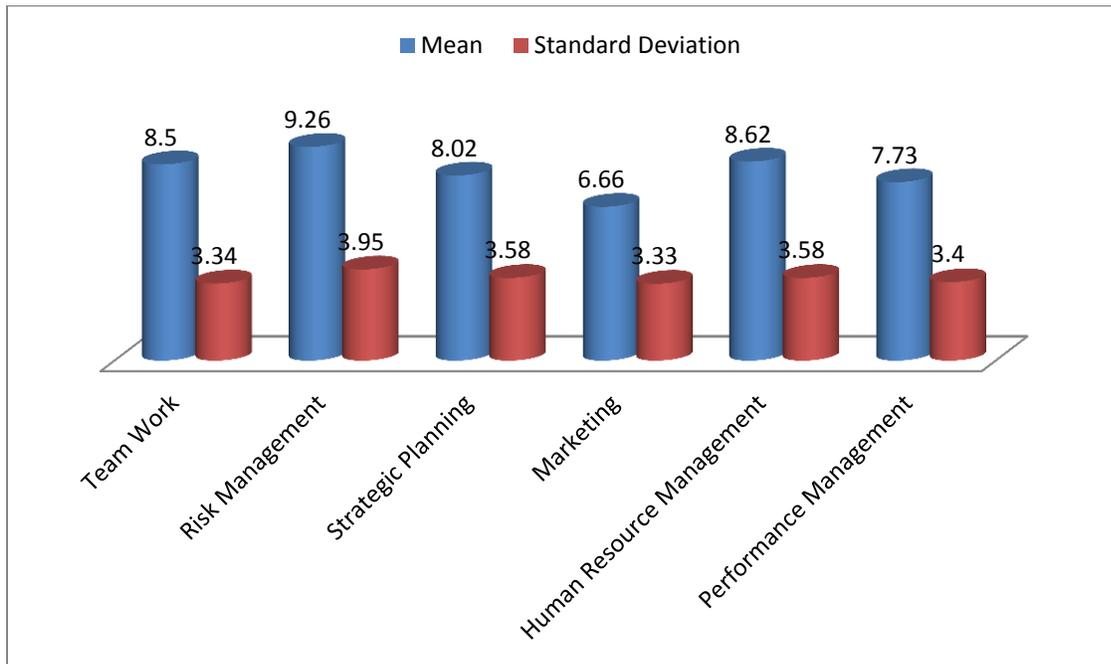


Figure 6.14 shows the means and standard deviations for the business practices, with the means varying from the 6.66 to 9.26 and the standard deviations varying from 3.33 to 4.27. Each business practice was established by a set of questions in a 5 point likert scale. The answers gotten from the questions were used to calculate the means and standard deviations. The range of possible answers was 16 (Max 20 minus min 4). The means and standard deviations for each of the business practices was used as a basis for calculating and determining the valid scale for choosing the entrepreneurs who carried out the business practices in SMEs.

Table 6. 15 : Business Practices of Entrepreneurs in the Motheo district, 2011

Business Practices	Accepted scales	Percentage of Entrepreneurs that have the practices	Percentage of Entrepreneurs that do not have the characteristic	Total
Team Work	4-11	77%	23%	100%
Risk management	4-6	26.5%	73.5%	100%
Strategic Planning	4-8	62%	38%	100%
Marketing	4-8	81%	19%	100%
Human Resource Management (HRM)	4-8	49.5%	50.5%	100%
Performance Management	4-8	58.5%	41.5%	100%

The result of table 6.15 illustrates that the dominate business practices that entrepreneurs engage in are Marketing practices (81%); teamwork (77%); strategic planning practices (62%) and performance management practices (58.5%). While the least practices that entrepreneurs do not engage in are risk management practiced with 26.5% and human resource management practices with 49.5%. A small standard deviation depicts possibility for a higher percentage of entrepreneurs carrying out the business practices. Marketing practices with the lowest standard deviation of 3.3 has the highest percentage of entrepreneurs (81%) carrying out the practice. While risk management practices with the highest standard deviation of 3.95 has the lowest percentage (26.5%) of entrepreneurs carrying out the business practice in their businesses.

The reason for the high percentage (81%) in marketing practices can be explained by the fact that because of the high competition in the SME sector in South Africa, the entrepreneurs are forced to focus on their customers and strategically when there is a shift from focusing on the product to

the customer, the way businesses survive is by carrying out suitable marketing practices. Furthermore strategic planning involves the proper execution of the marketing planning for a business. Because strategic implementation is more difficult and not all marketing plans of a business are effectively implemented, accounts for why the percentage for strategic planning is lower than for marketing practices. However the percentage for strategic planning is still considerable high in the SMEs in South Africa.

The reason for the low percentage of risk management practices is because most entrepreneurs are moderate risk takers and will only participate in a risky venture, if there are sure their outcomes is certain. As such, it thus becomes imperative for entrepreneurial firms to be willing to take risk, since risk taking is believed to have a positive influence on performance (Aaker and Jacobson, 1987).

The low percentage of HRM practices in SMEs can be explained by the fact that HRM practices in SMEs are characterised by informality, emergence, non-bureaucratic culture and absence of sophisticated management practices (Bacon and Hoque, 2005; Harney and Dundon, 2006). Likewise, a study by Sampath (2008) on India SMEs revealed that 99% of SMEs do not follow contemporary HRM practices, which again provides a possible explanation as to why SMEs HRM practices are low. However, Welbourne and Andrews (1996) established that the presence of HRM practices in Mid-sized enterprises predict their long-term survival and as such raise the need for SMEs owners to provide performance evaluation in place that can take care of staff amenities (birthdays and family funerals) and organised group activities to increase harmony amongst employee . This is necessary in order to promote better-achieved staff.

6.3.4.4 Conclusions on the business practices of entrepreneurs.

- This section examines the business practices of entrepreneurs and the results revealed that 50% of the respondents started their business from scratch; 24.5 % purchased the businesses, which explains why they have predominate characteristics commitment and determination (72.5%); creativity, self-reliance and ability to adapt (67.5%); tolerance of ambiguity and uncertainty (60.5%).

- With regards to the legal structure of the business, it was observed that 57% are sole traders, which goes to show that most of the predominate businesses in the Motheo district are SMEs.
- The results on the business practices of entrepreneurs revealed that the dominate business practices that entrepreneurs engage in are marketing practices (81%); teamwork (77%) and strategic planning practices (62%).
- Possible explanations and recommendations to the low level of risk management practices and HRM practices were further provided by the researcher.

6.3.5 ENTREPRENEURIAL/MANAGERIAL CAPABILITIES THAT ENHANCE BUSINESS PRACTICES

In this section, 15 questions regarding capabilities of entrepreneurs such as business acumen; innovation, ownership; commercial orientation; results focus; perseverance and leadership oriented capabilities were asked. The questions were developed through a review of the literature in chapter three and later refined through exploratory research and pretesting. A 5 point likert scale was used where 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree. The respondents were expected to select the extent to which they either agreed or disagreed with the statement. The answers were then totalled to the capabilities to enable the determination of the overall scores of each of the capabilities. Each of the capabilities had its own scale that could be considered either as strongly present in the entrepreneur or strongly absent in the entrepreneur. Each of these capabilities, their accepted scales and their various percentages are presented in table 6.16;

Table 6. 16 : Entrepreneurial/managerial capabilities that enhance business practices in the Motheo district, 2011

Capabilities	Accepted scales	Percentage of Entrepreneurs that have the capabilities	Percentage of Entrepreneurs that do not have the capabilities	Total
Business Acumen	2-3	53%	47%	100%
Innovation	2-3	50%	50%	100%
Ownership	2-4	79.5%	19.5%	100%
Commercial orientation	2-3	42.5%	57.5%	100%
Results focus	2-3	60.5%	39.5%	100%
Perseverance	2-3	51%	49%	100%
Leadership oriented capabilities	2-5	52%	48%	100%

The results on table 6.16 portrays that the dominate capabilities that entrepreneurs engage themselves in are ownership (79.5%); results focus 60.5%; business acumen (53%); leadership oriented capabilities (52%); perseverance (51%) and innovation (50%). Commercial orientation (42.5%) was identified as the capability that entrepreneurs do not seem to fully engage themselves in. Commercial orientation entails identifying and moving towards business opportunities and seizing chances to increase a business profit and revenue. A possible explanation to the low percentage (42.5%) on commercial orientation is that the respondents were SMEs owners and most of them are privately owned, and are not interested in expanding beyond the limits that they are comfortable with and as such will not explore other viable opportunities. Expanding on their businesses will mean keeping their businesses in the hands of

managers, while maintaining increased work load and ensuring the survival of their businesses, which may not be easy to achieve.

Furthermore, a bivariate correlation (the Pearson Correlation test) was conducted to see if there was a relationship between the entrepreneurial characteristics and capabilities, and between business practices and capabilities. The results are shown in table 6.17 and table 6.18;

Table 6. 17 : Relationship between the business practices and capabilities

Pearson Correlation Test between business practices and capabilities						
	Team Work	Risk management	Planning	Marketing	Human Resource Management	Performance Management
Business Acumen	0.36	0.46	0.58	0.58	0.37	0.58
Innovation	0.34	0.38	0.58	0.58	0.56	0.69
Ownership	0.34	0.45	0.52	0.57	0.45	0.67
Commercial orientation	0.34	0.37	0.53	0.45	0.39	0.57
Results focus	0.32	0.38	0.58	0.57	0.36	0.58
Perseverance	0.28	0.34	0.57	0.55	0.45	0.53
Leadership oriented capabilities	0.28	0.33	0.41	0.38	0.40	0.46

Looking at the results on table 6.17, it is evident that all the values are above zero, which means that capabilities are positively correlated to business practices.

- However, **business acumen** and **innovation** are the two capabilities that are seen to affect business practices to a larger extent than the other capabilities, with business acumen influencing teamwork; risk management practices; planning practices and marketing practices with a maximum score of 0.36; 0.46; 0.58 and 0.58 respectively.

- While innovation influences planning practices; marketing practices; human resource management practices and performance management practices with a highest score of 0.58; 0.58; 0.56 and 0.69 respectively.
- This high positive relationship between business acumen and business practices can be explained by the fact that business acumen represents the key business drivers for performance and the use of sound business practices. Green (2010) established that business acumen leads to a firm's success and survival in tough economic times and that the lack of true business acumen, meant that many decisions and actions were taken that do not align with business objectives and could in turn lead to business failure.
- Innovation on the other hand takes place through a wide range of business practices (Robson, 2001) and an important factor in a firm's survival, firm's development and business success (Utterback 1996). This thus provides a possible explanation to the high positive relationship between innovation and business practices.

Table 6. 18 : Relationship between the entrepreneurial characteristics and capabilities

Bivariate Correlations- Pearson Correlation Test							
Entrepreneurial Characteristics	Capabilities						
	Business Acumen	Innovation	Ownership	Commercial orientation	Results focus	Perseverance	Leadership oriented capabilities
Need for Achievement	0.43	0.36	0.37	0.37	0.43	0.45	0.26
Locus of Control	0.42	0.36	0.37	0.36	0.38	0.44	0.30
Leadership	0.47	0.41	0.45	0.44	0.42	0.53	0.33
Commitment and Determination	0.49	0.37	0.46	0.32	0.42	0.47	0.37
Risk taking	0.15	0.18	0.16	0.14	0.22	0.28	0.21

propensity							
Tolerance of Ambiguity and uncertainty	0.26	0.24	0.31	0.21	0.30	0.47	0.22
Self confidence	0.50	0.40	0.50	0.36	0.49	0.56	0.34
Creativity, Self-reliance and ability to adapt	0.52	0.44	0.54	0.46	0.46	0.58	0.36
Innovativeness	0.52	0.40	0.48	0.43	0.45	0.45	0.34
Opportunity obsession	0.46	0.42	0.46	0.33	0.40	0.44	0.38
Motivation to excel	0.53	0.40	0.43	0.36	0.52	0.51	0.33

Sig (2 tailed), N= 200

Table 6.18 shows that in the Pearson correlation, the characteristics are the dependant variables while the capabilities are the independent variables. The value for the Pearson correlation ranges between -1 and 1. The value -1 means they have a perfect negative correlation, that is, if one variable increases, the other decreases. While the value 1 represents a perfect positive correlation meaning when one variable increases the other increases as well. When a value is above zero it is a positive correlation and when it is below zero it is a negative correlation.

- From the results, it is apparent that all the values are above zero, which means that capabilities are positively correlated to characteristics. It is observed that **motivation to excel**

and **business acumen** has a value of 0.53 which is also the highest value. This is an indication that business acumen affects motivation to excel more than the others.

- Likewise, Innovation; ownership; commercial orientation and perseverance mostly affect creativity, self-reliance and ability to adapt, with a highest means score of 0.44; 0.54; 0.46 and 0.58 respectively.
- Results focus influences the motivation to excel with greatest value of 0.52 more than the other characteristics, while leadership oriented capabilities affects opportunity obsession to a greater extent than the other characteristics, with a highest means score of 0.38. Driessen and Zwart (2007) established that entrepreneurial characteristics and entrepreneurial capabilities together were vital components enclosed in competences of successful entrepreneurs. This explains why entrepreneurial characteristics are positively correlated with entrepreneurial capabilities.

6.3.5.1 Conclusions on the entrepreneurial/managerial capabilities that enhance business practices.

- Entrepreneurial/managerial capabilities that enhance business practices were discussed in this section, and it was established that entrepreneurs have a percentage score of 50% and above for all the capabilities except commercial orientation (42.5%), which was identified as the only capability that entrepreneurs do not seem to fully engage themselves in.
- Moreover, a Pearson Correlation test was conducted to see if there was a relationship between the entrepreneurial characteristics and capabilities and between business practices and capabilities. The results on the relationship between the entrepreneurial characteristics and capabilities demonstrated that innovation; ownership; commercial orientation and perseverance are mostly affected by creativity, self-reliance and the ability to adapt, with a highest score of 0.44; 0.54; 0.46 and 0.58 respectively.
- Likewise, the results between business practices and capabilities showed that business acumen and innovation are the two capabilities that are seen to affect business practices to a larger extent than the other capabilities, with business acumen influencing teamwork; risk management practices; planning practices and marketing practices with a maximum score of 0.36; 0.46; 0.58 and 0.58 respectively. While innovation influences planning

practices; marketing practices; human resource management practices and performance management practices with a highest score of 0.58; 0.58; 0.56 and 0.69 respectively.

- To sum up, from the above mentioned results, this study confirms to a study by Hayward (2009), which states that successful entrepreneurship rests in good entrepreneurial capabilities that ultimately lead to good business practices, excellent reputation and good association with industry peers and business partners. Equally, another study by Lathi (1999) portrayed that capabilities, characteristics, knowledge and attitudes are necessary to enhance good business performance and that entrepreneurs who possess favourable capabilities and personal characteristics that allow them to make use of cognitive leadership are often able to run a profitable, successfully growing business (Witt, 2005). This research thus concludes that there exist a relationship between the entrepreneurial characteristics and capabilities and between business practices and capabilities of entrepreneurs.

6.3.6 DETERMINANTS OF SURVIVAL

This section tries to find out the determinants of survival and questions were asked on **age; number of employees; net profit; equipment/ assets; number of business owners; business location and the office number**, which this study considered as the determinants for long-term survival of SMEs. This is because the study adopts the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence. The respondents were asked two questions. The first question required the entrepreneurs to provide the necessary information that applied to their business career from start-up date to present date (2011), and the second question required the entrepreneurs to choose from a range of percentage increases or decreases that applied to their business. The results are seen in table 6.19 and table 6.20;

Table 6. 19 : Determinants of Survival

Determinants	Percentage Increase from start-up	Percentage Decreased from start-up	Percentage that Remained the same start-up
Number of employees	85%	7.5%	7.5%
Turnover/ profitability	63%	5.5%	31.5%
Percentage increase in sales revenue	67%	8%	25%
Equipment/ Assets	63%	6%	31%
Number of business owners	87.5%	3%	9.5%
Business location	86%	5%	9%
Office number	84%	3%	13%

Table 6. 20 : Determinants of Survival with their various percentages of increment in the Motheo district, 2011.

Indicators	Increase > 20%	Increase 10-20%	Stable	Decrease 10-20%	Decrease 20%
Net profit/ year	19.5%	35.5%	37%	6%	2
Total amount of sale/ year	21%	33%	36.5%	7%	2.5%

Equipment/ Assets	16.5%	38%	37%	6.5%	2%
Number of customers	25%	44.5%	25%	3.5%	2%
Number of employees	18%	24%	51%	3.5%	3.5%

In order to find out which of the chosen variables should be considered as the determinants of survival and also which businesses are surviving under the criteria chosen for survival above. A Pearson Correlation test between variables for the determinants of survival was performed as seen in table 6.21 and table 6.22;

Table 6. 21 : Pearson Correlation test between variables for determinants of survival

Pearson Correlation test between variables for determinants of survival							
Survival Variables	Number of employees	Turnover/ profitability	Percentage increase in sales revenue	Equipment/ Assets	Number of business owners	Business location	Office number
Number of employees	1	0.42	0.40	0.30	0.59	0.45	0.36
Turnover/ profitability	0.42	1	0.62	0.61	0.49	0.49	0.41
Percentage increase in sales revenue	0.40	0.62	1	0.55	0.36	0.46	0.24
Equipment/ Assets	0.30	0.61	0.55	1	0.46	0.39	0.48

Number of business owners	0.59	0.49	0.36	0.46	1	0.60	0.55
Business location	0.4	0.49	0.46	0.39	0.66	1	0.55
Office number	0.36	0.41	0.24	0.48	0.55	0.49	1

Sig (2 tailed)

After carrying out the correlation, it showed that all the values were positively correlated with each other. Each of the values were highly positively correlated with at least one other variable (i.e. each variable had a correlation greater than 0.50 with another variable). For this reason all the variables were considered as determinants of survival as when one variable increase, the others increase as well and vice versa.

Table 6. 22 : Determining actual businesses surviving under the survival criteria chosen

Descriptive Statistics of Entrepreneurial Survival					
Variable	Value	Frequency	Percent	Valid Percent	Cum Percent
Survival	0	105	52.5	52.5	52.5
	1	95	47.5	47.5	100

N	Valid	200
	Missing	0
Mean		0.48
Std Deviation		0.50
Minimum		0
Maximum		1

Table 6.22 depicts the descriptive statistics of entrepreneurial survival. To attain survival; an entrepreneur had to have an increase in all the variables determining survival. Survival was measured using binary values 0 and 1. The value 1 was for entrepreneurs who achieved success in all the determinants of survival, while 0 was for entrepreneurs who did not achieved success in all the determinants of survival. The results revealed that **47.5%** of the entrepreneurs achieved survival, while **52.5%** did not.

Furthermore, a cross tabulation was performed to find out if there is a relationship between the age of a business and long-term survival (surviving businesses and non-surviving businesses) and the results are seen in table 6.23;

Table 6. 23 : Relationship between Business age and long-term survival

Relationship between Business age and long-term survival			
	Long-Term Survival		Total
	Surviving Entrepreneurs	Non-surviving Entrepreneurs	
Less than 1 year	42.9%	57.1%	100%
1-3years	40.4%	59.6%	100%
3-5years	41.1%	58.9%	100%
5-10years	55.2%	44.8%	100%
Greater than 10years	65.7%	34.3%	100%

For the businesses less than 1 year of age, 42.9% of them are considered surviving while 57.1% are not. As the business increases in age of 3-5 years, the percentage of surviving entrepreneurs are still low up till the fifth years of age with percentage 41.1%. From 5-10 years of age, 55.2% of the businesses survive, while 44.8% do not. This is indicative of the fact that as the businesses pass the age of 5years, most of them start showing characteristics of long-term survival. This

confirms to a study by Audretsch (1991), which established that, a firm's survival rate increase with age. The results further confirms the relationship between the age of a business and survival; where businesses more than 10 years of age show an increase percentage of survival (65.7%), thus indicating that there is a positive relationship between the age of the business and long-term survival of SMEs.

6.3.6.1 Conclusions the determinants of survival

- The determinants of survival was discussed in this section where by a Pearson correlation was conducted between the determinants of survival identified by this study- **age; number of employees; net profit; equipment/ assets; business location, number of business owners; net profit and the office number.** The results revealed that each of the variables was highly positively correlated with at least one other variable for entrepreneurs who achieved success in all the determinants of survival. Hence all the variables were considered as determinants of survival as when one variable increase, the others increase as well and vice versa.
- Survival was measured using binary values 0 and 1. The value 1 was for entrepreneurs who achieved success in all the determinants of survival, while 0 otherwise.
- To attain survival; an entrepreneur had to have an increase in all the variables determining survival. Accordingly, determining the actual businesses surviving under the survival criteria chosen revealed that 47.5% of the entrepreneurs achieved survival while 52.5% did not.
- Furthermore, this study performed a cross tabulation to find out if there is a relationship between the age of a business and long-term survival (surviving businesses and non-surviving businesses). The results showed that for businesses within the ages of 5-10 years, 55.2% of them survive and for business greater than 10 years of age, 65.7% of them survive. This thus confirms that there is a positive relationship between the age of the business and long term survival of SMEs.

6.3.7 THE EXTERNAL ENVIRONMENT

This section focuses on the extent to which the external environment has an impact on the business practices of SMEs. In order for the researcher to get the respondents' feelings about the external environment in South Africa, the researcher posed several external environmental factors for the respondents to indicate how they perceive each of the factors. A 5 point likert scale was used where 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree. The respondents were expected to select the extent to which they either agreed or disagreed with the statement. The answers were then totalled to the external environmental factors in order to determine the overall scores of each of the external environmental factors. Each of these factors had its own scale that could be considered either as strongly present in the entrepreneur or strongly absent in the entrepreneur. Each of these factors, their accepted scales and their various percentages are presented below. The external environmental factors were divided into four groups i.e. economic, political/institutional, socio-cultural and legal factors. The descriptive statistics of the external environment is first presented in table 6.24;

Table 6. 24 : Descriptive statistics of the external environment

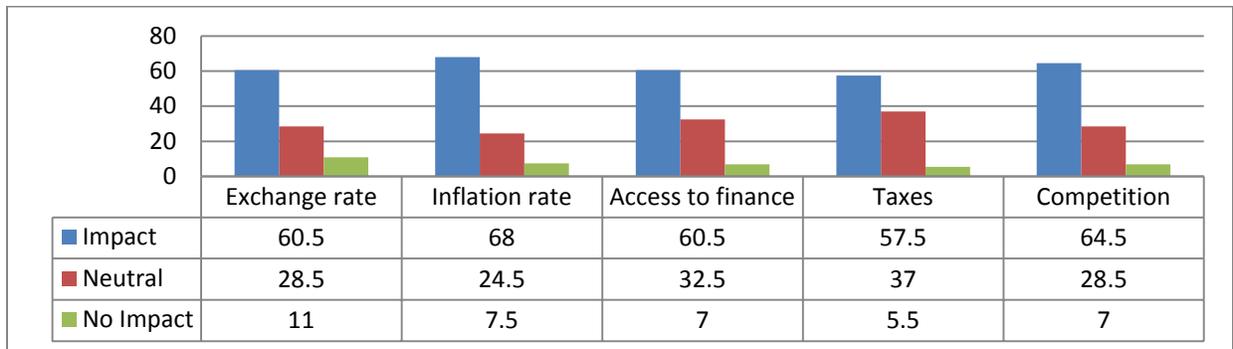
Descriptive statistics of the external environment					
Factors	Mean	Standard Deviation	Min	Max	N of Valid Cases
Economic Factors	10.93	4.23	5	25	200
Political Factors	9.63	3.71	1	20	200
Socio-cultural Factors	11	5.78	4	20	200
Legal Factors	10.22	4.23	2	20	200

The highest means score on table 6.24 is 11 for the socio-cultural factors, which shows that socio-cultural factors are perceived to have a huge impact on the businesses of entrepreneurs, while the least means score is 9.63, which indicates that the political factors affect the entrepreneurs business to a lesser extent. Also, both the economic and legal factors are seen to have a means score of 10.93 and 10.22 respectively, which also means that they have a

significant impact on the businesses of the entrepreneurs. So in order to find whether these factors have either a positive or a negative impact on the business practices of the entrepreneurs, each of these external environmental factors are explained in details below

6.3.7.1 Economic Factor

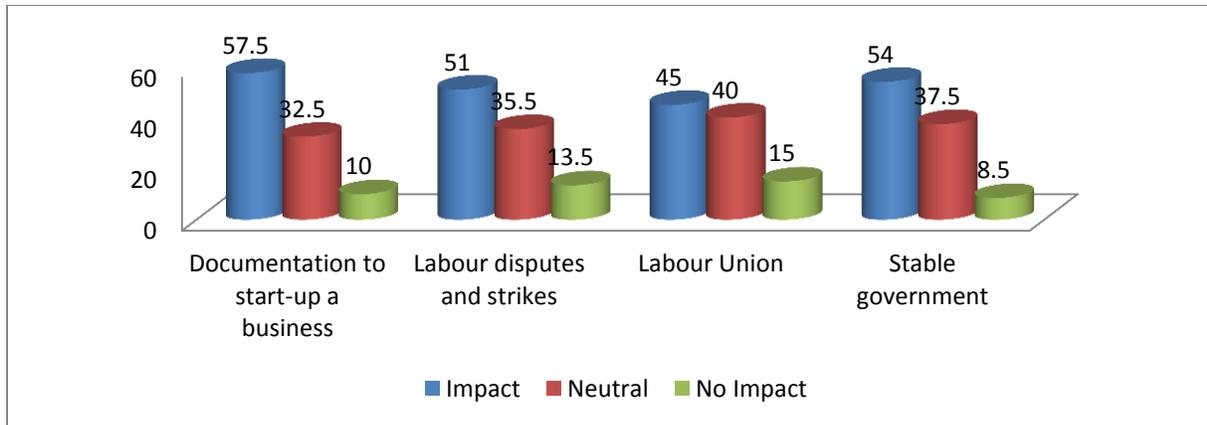
Figure 6. 15 : The impact of Economic Factor in the Motheo district, 2011



From figure 6.15, it is seen that the rate of inflation; (68%); competition (64.5%); exchange rates (60.5%) and access to finance (60.5%) are seen to have a significant impact on entrepreneur’s actions and thus directly influence the operating costs of doing business in South Africa. This is so obvious because South Africa’s current economic environment is characterised by high interest rates; low growth rates; high inflation rates and declining exchange rates (The Economist, 2009), which encourages entrepreneurs to keep pace with the economic indicators of the country. These factors as a result enable entrepreneurs to set up their businesses based on these standards.

6.3.7.2 Political Factor

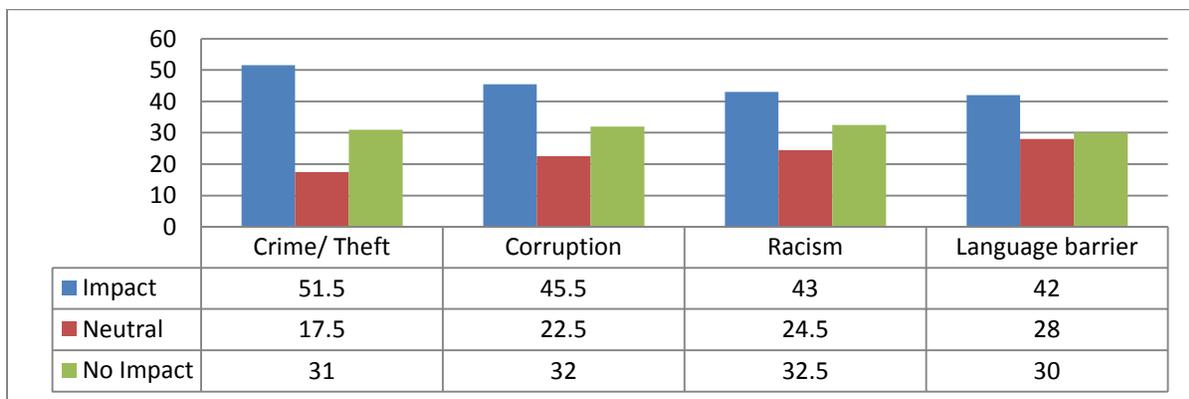
Figure 6. 16 : Impact of Political Factor in the Motheo district, 2011



The results in figure 6.16 illustrates that the documentation for starting up a business (57.5%) is seen to have a huge impact on the entrepreneurs. This is probably because of the too many paper work and long legal procedures involved in registering their businesses. This therefore implies that the South African government is not doing their best to improve their performances on these services, hence causing these services to worsen the investment climate in South Africa.

6.3.7.3 Socio-cultural Factors

Figure 6. 17 : Impact of Socio-cultural Factors in the Motheo district, 2011

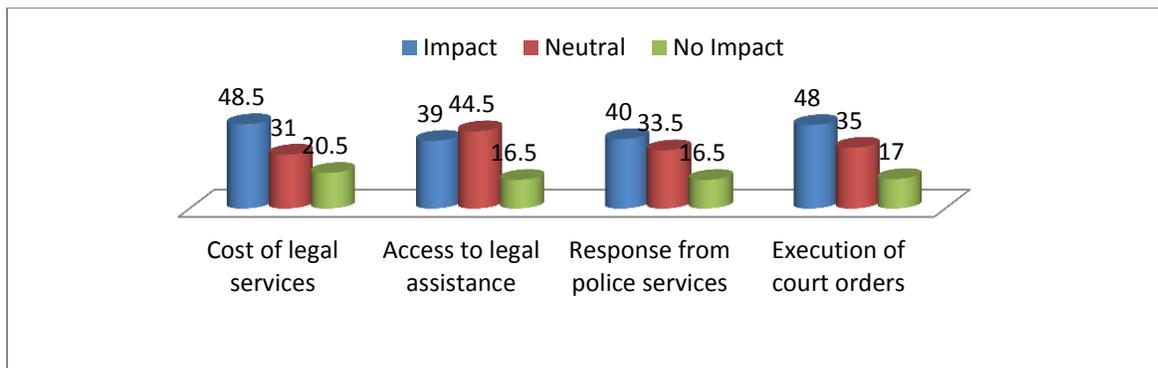


In figure 6.17, it is observed that crime/theft (51.5%) and corruption (45.5%) are the most socio-cultural factors affecting the business activities of entrepreneurs in the Motheo district. These results are also in line with a finding by the World Bank report (2008) on the Investment Climate Survey, which revealed that 30% of businesses in South Africa rated crime as a very severe

limitation on investment, when compared with the four most frequently mentioned constraints. This goes to show that there is urgent need for the South African government to ensure the safety of both the local and foreign investors in the country, without which their investment climate may worsen.

6.3.7.4 Legal Factors

Figure 6. 18 : Impact of Legal Factor in the Motheo district, 2011



As seen in figure 6.18, the cost of legal services (48.5%) and the execution of court order (48%) are the most important legal factors impacting on the business activities in the Motheo district. In South Africa, there is a shortage of judges and magistrates, accumulation of cases and lower creditor’s protections. The World Bank Country Report (2003) showed a relatively inefficient legal system, when compared to developed countries. It is imperative for the policy makers on the legal system in South Africa to learn superior legal knowledge from developed countries and incorporate practical experience from western legal systems.

6.3.7 Conclusion on the external environmental factors

- This section examined the external environmental factors affecting the business practices of entrepreneurs. These factors are perceived to have both a direct and indirect effect on businesses. The environment surrounding an individual’s upbringing is vital to the formation of that individual’s characteristic, which in turns affects the choices of business practices made by them (Blackman, 2003: 46). Therefore understanding the environment

within which businesses operate is very important for running a business successfully at any place. This is because the successes of every business depend on adapting itself to the environment within which it functions.

- In comparing the average means between all the four external environmental factors, the results revealed that the socio-cultural factor is perceived to have a huge impact on businesses with an average means score of 11, while the political factors affect the entrepreneurs business to a lesser extent, with a means score is 9.63.
- Furthermore, this study went forth to look at the impact each of these external environmental factors have on the entrepreneur's businesses. The results showed that *inflation* and *competition* are the two economic factors that SMEs perceived to have a negative impact on their businesses.
- With regards to the political factor, the stable government (57.5%) was seen to have a positive impact on the businesses while the documentation (57.5%) to start up a business was seen as a factor hindering most SMEs from starting up their businesses in South Africa.
- Moreover, 48.5% of entrepreneurs identified the cost of legal services, while 48% identified execution of court order as the two legal factors having a negative impact on their businesses.
- Likewise, with respect to the socio-cultural factor, crime and corruption with percentages 51.55 and 45.5 respectively were also seen to have a negative impact on the business activities of SMEs in South Africa.
- Hence, this study recommends that there is an urgent need by the South African government to ensure the safety of both the local and foreign investors in the country, without which they investment climate may worsen.

6.4 PART B

HYPOTHESIS AND RESEARCH QUESTIONS

In this section, the empirical findings will provide answers to the **hypothesis** and **research questions** stated in chapter four of the literature review. In order to understand whether there is a relationship between the relative impact (strength or weaknesses) of each of these entrepreneurial characteristics and business practices and their impact on the long-term survival of SMEs, the four research questions stated in chapter four led to the development of 18 hypotheses, for which relationships between them will be established below. Before proceeding, it is important to measure the reliability of the entrepreneurial characteristics and business practices of entrepreneurs, which will later be used to establish relationships between them.

6.4.1 Cronbach's alpha test for Reliability

A Cronbach alpha (α) estimates the proportion of variance in the test scores that can be attributed to true score variance. Cronbach alpha estimates the proportion of variance that is systematic or consistent in a set of test scores. It can range from 00.0 (if no variance is consistent) to 1.00 (if all variance is consistent) with all values between 00.0 and 1.00 also being possible. An alpha value of say 0.80 means that 80% of the data is reliable. Generally, the acceptable Cronbach's alpha value for researches in social sciences is 0.70 and above. Table 6.25 represents the mean scores and the Cronbach's alpha of entrepreneurial characteristics and business practices.

Table 6. 25 : Cronbach's alpha test on the reliability of entrepreneurial characteristics and business practices

Cronbach's alpha test on the reliability of entrepreneurial characteristics and business practices				
Variable	N of Items	Cronbach's Alpha(α)	Reliable Items	Reliability
Entrepreneurial Characteristics				
Need for Achievement	4	0.81	81%	high internal consistency

Locus of Control	4	0.72	72%	high consistency	internal
Leadership	4	0.86	86%	high consistency	internal
Commitment and Determination	3	0.84	84%	high consistency	internal
Risk taking propensity	3	0.73	73%	high consistency	internal
Tolerance of Ambiguity and uncertainty	3	0.80	70%	high consistency	internal
Self confidence	3	0.87	87%	high consistency	internal
Creativity, Self-reliance and ability to adapt	3	0.83	83%	high consistency	internal
Innovativeness	4	0.87	87%	high consistency	internal
Opportunity Obsession	3	0.84	84%	high consistency	internal
Motivation to excel	3	0.77	77%	high consistency	internal
Business Practices					
Team Work	4	0.93	93%	high consistency	internal
Risk management	4	0.90	90%	high consistency	internal
Strategic Planning	4	0.87	87%	high consistency	internal
Marketing	4	0.88	88%	high consistency	internal

Human Resource Management	4	0.81	81%	high consistency	internal
Performance Management	4	0.84	84%	high consistency	internal

Table 6.25 shows that the test results on the reliability for the variables that make up entrepreneurial characteristics and business practices. Each characteristic and business practice was determined using a 5 point likert scale with 3 to 4 items. **N of Items** indicates the number of items used to determine the variable for each variable. From the Cronbach's alpha test it was found that all the characteristics and business practices have a high internal consistency rate and thus all the data is considered reliable, with the lowest alpha value being 0.72 and the highest being 0.93. Therefore the entire test conducted using entrepreneurial characteristics and business practices are considered valid.

6.4.2 CHARACTERISTICS OF ENTREPRENEURS

Four questions were asked in the hypothesis with regards to the ascribed characteristics; ascribed characteristics and achieved characteristics; learnable and ascribed characteristics and learnable and achieved characteristics. More details of it are presented below;

Learnable and Ascribed characteristics

The hypothesis stated was that

H1⁰: Children from entrepreneurial family background do not have a higher need for achievement.

H1^a: Children from entrepreneurial family background have a higher need for achievement

Table 6. 26 : Relationship between Children from entrepreneurial family background and need for achievement.

Pearson Chi-Square			One-way ANOVA		
Value	df	Sig.(2)	F	Mean	Significance

		tailed)		Square	p
28.66	28	0.43	0.24	3.03	0.79

The Pearson Chi-square and ANOVA test results revealed that the sig (2 tailed) for the Pearson Chi-square test is 0.43, which is greater than 0.05 and thus suggest that children from entrepreneurial backgrounds and a higher need for achievement are independent. The significance value for ANOVA is 0.79. Since the sig (2 tailed) for ANOVA is greater than 0.05, there is no positive relationship between children from entrepreneurial backgrounds and a higher need for achievement. Therefore, the null hypothesis that “children from entrepreneurial family background do not have a higher need for achievement” is not rejected. From this, a conclusion is drawn based on the fact that there is no sufficient evidence to suggest that children from an entrepreneurial family background have a higher need for achievement.

6.4.2.1 Learnable and Achieved characteristics

H2⁰: Locus of control does not have a positive impact on the entrepreneur’s education.

H2^a: Locus of control has a positive impact on the entrepreneur’s education.

Table 6. 27 : Relationship between Locus of control and its impact on the entrepreneur’s education.

Pearson Chi-Square			One-way ANOVA		
Value	df	Sig.(2 tailed)	F	Mean Square	Significance p
80.17	105	0.97	1.52	18.63	0.16

Based on the Pearson Chi-square and ANOVA test that was carried on the data for hypothesis **H2**, the results show that the sig (2 tailed) for the Pearson Chi-square test is 0.97, which is

greater than 0.05, thus suggesting that the Locus of control and an entrepreneurs education are independent. The significant value for ANOVA is 0.16 and since the sig (2 tailed) for ANOVA is greater than 0.05, there is no positive relationship between locus of control and an entrepreneurs education. Hence we do not reject the null hypothesis that “Locus of control does not have a positive impact on the entrepreneur’s education.” This leads to the conclusion that there is no sufficient evidence to suggest that locus of control has a positive impact on the entrepreneur’s education.

H3⁰: Entrepreneurs degree of risk taking does not increase with his level of experience from the same job.

H3^a: Entrepreneurs degree of risk taking increases with his level of experience from the same job.

Table 6. 28 : Relationship between risk taking and the level of experience from the same job.

Pearson Chi-Square			One-way ANOVA		
Value	df	Sig.(2 tailed)	F	Mean Square	Significance p
29.03	12	0.00	2.65	0.59	0.00

From the Pearson Chi-square and ANOVA test performed on hypothesis H3, the sig (2 tailed) for the Pearson Chi-square test is 0.00, which is less than 0.05 and thus suggest that the entrepreneur’s degree of risk taking and his level of experience from the same job are dependent. The significance value for ANOVA is 0.00. Since the sig (2 tailed) for ANOVA is less than 0.05, there is a positive relationship between Entrepreneur degree of risk taking and his level of experience from the same job. Therefore, null hypothesis **H3⁰** that “entrepreneur degree of risk taking does not increase with his level of experience from the same job” is rejected. As such, there is sufficient evidence to suggest that entrepreneur’s degree of risk taking increases with his level of experience from the same job.

6.4.2.2 Ascribed characteristics and achieved characteristics

H4⁰: The older an entrepreneur is in business, does not guarantee that he/she has more experience in running the business

H4^a: The older an entrepreneur is in business, the more experience he/she has in running the business

Table 6. 29 : Relationship between the ages of entrepreneur in business and the experience he/she has in running the business.

Pearson Chi-Square			One-way ANOVA		
Value	df	Sig.(2 tailed)	F	Mean Square	Significance p
9.21	4	0.06	1.57	2.61	0.21

Table 6.29 portrays the results for the Pearson Chi-square and ANOVA test carried on the data for hypothesis H4. The sig (2 tailed) for the Pearson Chi-square test is 0.06, which is greater than 0.05 and thus suggest that the older an entrepreneur is in business and the more experience he/she has in running the business are independent. The significant value for ANOVA is 0.21. Since the sig (2 tailed) for ANOVA is greater than 0.05, there is no positive relationship between the entrepreneurs' years is in business and the experience he/she has in running the business. The decision on the hypotheses is that we do not reject the null hypothesis and make a conclusion that there is not sufficient evidence to suggest that the older an entrepreneur is in business, the more experience he/she has in running the business. Possible explanations for this could be that people do not generally start businesses in fields where they have had prior experience and when they are getting old and want to be independent or when they have lost their job and want to start a business, and because of maybe the lack of finance, they are forced to start a business they maybe, have no prior experience in it.

6.4.3 ENTREPRENEURIAL CHARACTERISTICS AND LONG-TERM SURVIVAL OF SMEs

This section intends to find out the relationship between the entrepreneurial characteristics and the long term survival of SMEs. Five hypotheses are stated in this part beginning with hypothesis five, which states that;

H5⁰: Higher need for achievement does not have a positive impact on long-term survival of SMEs.

H5^a: Higher need for achievement has a positive impact on long-term survival of SMEs.

Two tests, the T-test and ANOVA were carried out to determine whether to accept or reject the null hypothesis, as seen in table 6.30;

Table 6. 30 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between the need for achievement and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance p
3.45	0.00	1.68	11.88	141.05	0.00

Based on the T-test and ANOVA test carried on the data for hypothesis H5, the sig (2 tailed) for the T-test is 0.00 and significant value for ANOVA and the regression are also 0.00. Since the sig (2 tailed) is less than 0.05, there is a positive relationship between need for achievement and long term survival. Overall, F= 11.88, t = 3.45 and p< 0.01 (two tailed), which shows that there is a significant relationship between need for achievement and long term survival. The decision on hypotheses is that the null hypothesis **H5⁰** that “Higher need for achievement does not have a positive impact on long-term survival of SMEs” is rejected. Therefore concluding that there is

sufficient evidence to suggest that need for achievement has a positive impact on long term survival on SMEs.

H₆⁰: Locus of control does not have a positive impact on long-term survival of SMEs

H₆^a: Locus of control has a positive impact on long-term survival of SMEs.

Two tests, the T-test and ANOVA were carried out to determine whether to accept or reject the null hypothesis, as seen in table 6.31;

Table 6. 31 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between locus of control and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
1.32	0.19	0.66	1.75	21.74	0.19

Table 6.31 describes the results of the T-test and ANOVA test that was carried on the data for hypothesis H₆. The sig (2 tailed) for the T-test and significance values for ANOVA are 0.19. Since the sig (2 tailed) is greater than 0.05, there is no significant relation between locus of control and long term survival of SMEs. Overall, F= 1.75, t = 1.32 and p> 0.19 (two tailed) shows that there is no significant relationship between locus of control and long term survival. The decision on hypotheses is that the null hypothesis **H₆⁰** that “locus of control does not have a positive impact on long-term survival of SMEs” is not rejected. Thus concluding that there is not sufficient evidence to suggest that locus of control has a positive impact on long term survival on SMEs.

H7⁰: Risk taking propensity does not have a positive impact on long-term survival of SMEs

H7^a: Risk taking propensity has a positive impact on long-term survival of SMEs

Two tests, the T-test and ANOVA were carried out to determine whether to accept or reject the null hypothesis, as seen in table 6.32;

Table 6. 32 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between take risk propensity and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
4.97	0.00	2.09	24.66	214.70	0.00

The result on table 6.32 depicts that, the sig (2 tailed) for the T-test and significant values for ANOVA are both 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relation between risk taking and long term survival of SME.s Overall, F= 24.66, t = 4.97 and p < 0.01(two tailed) shows that there is significant relationship between risk taking and long term survival of SME. The decision on hypotheses is that the null hypothesis **H7⁰** that “risk taking propensity does not have a positive impact on long-term survival of SMEs” is rejected and a conclusion is made to the effect that there is sufficient evidence to suggest that risk taking propensity has a positive impact on long term survival on SMEs.

H8⁰:Self-confidence does not have a positive impact on long-term survival of SMEs

H8^a:Self-confidence has a positive impact on long-term survival of SMEs.

Table 6. 33 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between Self-confidence and long-term survival of SME in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
t	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
2.85	0.00	1.10	8.10	60.38	0.00

The T-test and ANOVA test that were carried on the data for hypothesis H8 indicate that the sig (2 tailed) for the T-test and significant value for ANOVA are 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between self-confidence and long term survival of SMEs. Overall, $F= 8.10$, $t = 2.85$ and $p < 0.01$ (two tailed) shows that there is a significant relation between self-confidence and long term survival of SMEs. The decision on hypotheses is that the null hypothesis that “self-confidence does not have a positive impact on long-term survival of SMEs” is rejected. Thus a conclusion that there is sufficient evidence to suggest self-confidence has a positive impact on long term survival on SMEs.

H9⁰: Innovativeness does not have a positive impact on long-term survival of SMEs

H9^a: Innovativeness does has a positive impact on long-term survival of SMEs

Two tests, the T-test and ANOVA were carried out to determine whether to accept or reject the null hypothesis, as seen in table 6.34

Table 6. 34 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between innovativeness and long-term survival of SME in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
2.16	0.03	1.01	4.60	50.68	0.03

Table 6.34, showed that the sig (2 tailed) for the T-test and significant value for ANOVA are 0.03. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between innovativeness and long term survival of SMEs. Overall, $F= 4.60$, $t = 2.16$ and $p < 0.05$ (two tailed), which shows that there is a significant relation between innovativeness and long term survival of SMEs. The decision on the hypotheses is that the null hypothesis H_0 that “Innovativeness does not have a positive impact on long-term survival of SMEs” is rejected, thus concluding that there is sufficient evidence to suggest that innovativeness has a positive impact on long term survival on SMEs

6.4.4 BUSINESS PRACTICES AND LONG-TERM SURVIVAL OF SMES

This section intends to find out the relationship between the business practices and the long term survival of SMEs. Five hypotheses are stated in this part beginning with hypothesis ten. Hypothesis ten states that;

H10⁰: Risk management practices do not have an impact on SMEs long term survival.

H10^a: Risk management practices has an impact on SMEs long term survival

Table 6. 35 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between Risk management practices and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
2.81	0.01	1.55	7.90	118.88	0.01

Based on the T-test and ANOVA test that was carried on the data for hypothesis H10, the sig (2 tailed) for the T-test and significant values for ANOVA are 0.01. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between risk management practices and long term survival of SMEs. Overall, $F= 7.90$, $t = 2.81$ and $p < 0.05$ (two tailed), which shows that there is a significant relation between risk management practices and long term survival of SMEs. The decision on the hypotheses is that the null hypothesis **H10⁰** that “risk management practices do not have an impact on SMEs long term survival” is rejected, and a conclusion is drawn that risk management practices have a positive impact on long term survival on SMEs.

H11⁰: Human resource management practices do not have an impact on SMEs long term survival

H11^a: Human resource management practices have an impact on SMEs long term survival.

Table 6. 36 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between human resource management practices and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
3.56	0.00	1.47	12.66	151.41	0.00

The T-test and ANOVA test carried on the data for hypothesis **H11**, showed that the sig (2 tailed) for the T-test and significant value for ANOVA are 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between human resource management practices and long term survival of SMEs. Overall, F= 12.66, t = 3.56 and $p < 0.01$ (two tailed), which indicates that there is a significant relation between human resource management practices and long-time survival of SMEs. The decision on the hypotheses is that the null hypothesis **H11⁰** that “human resource management practices do not have an impact on SMEs long term survival” is rejected. A conclusion is thus arrived at that there is sufficient evidence to suggest that human resource management practices have a positive impact on long term survival on SMEs.

H12⁰: Strategic Planning practices do not have an impact on SMEs long term survival

H12^a: Strategic Planning practices has an impact on SMEs long term survival

Table 6. 37 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between Strategic Planning practices and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
3.41	0.00	1.68	11.61	141.14	0.00

From the T-test and ANOVA test was carried on the data for hypothesis H12, the sig (2 tailed) for the T-test and significance value for ANOVA are 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between strategic planning practices and long term survival of SMEs. Overall, $F= 12.66$, $t = 3.56$ and $p < 0.01$ (two tailed), it shows that there is a significant relation between strategic planning practices and long term survival of SMEs. The decision on the hypotheses is that the null hypothesis **H12⁰** that “strategic planning practices do not have an impact on SMEs long term survival” is rejected, and it is concluded that there is sufficient evidence to suggest that strategic planning practices have a positive impact on long term survival on SMEs.

H13⁰: Teamwork does not have an impact on SMEs long term survival

H13^a: Teamwork has an impact on SMEs long term survival

Table 6. 38 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between Teamwork and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
0,18	0.85	1.11	11.61	0.03	0.85

The T-test and ANOVA test carried on the data for hypothesis **H13**, indicated that the sig (2 tailed) for the T-test and significant value for ANOVA are 0.85. Since the sig (2 tailed) is greater than 0.05, there is a no significant relationship between teamwork and long term survival of SMEs. Overall, $F= 11.61$, $t = 0.81$ and $p>0.05$ (two tailed), it shows that there is no significant relation between teamwork and long term survival of SMEs. The decision on the hypotheses is that the null hypothesis **H13⁰** that “teamwork does not have an impact on SMEs long term survival” is not rejected. This leads to a conclusion that there is not sufficient evidence to suggest that teamwork has a positive impact on long term survival on SMEs.

H14⁰: Marketing practices does not has an impact on SMEs long term survival

H14^a: Marketing practices has an impact on SMEs long term survival

Table 6. 39 : T-TEST for Equality of Means and One-way ANOVA showing the relationship between Marketing practices and long-term survival of SMEs in the Motheo district, 2011.

T-TEST for Equality of Means			One-way ANOVA		
T	Sig.(2 tailed)	Mean Difference	F	Mean Square	Significance (p)
2.82	0.01	1.31	7.95	85.30	0.01

Based on the T-test and ANOVA test carried on the data for hypothesis H14, the sig (2 tailed) for the T-test and significant value for ANOVA is 0.01. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between marketing practices and long term survival of SMEs. Overall, $F= 11.61$, $t = 0.81$ and $p < 0.05$ (two tailed), it shows that there is significant relation between marketing practices and long term survival of SMEs. The decision on the hypotheses is that the null hypothesis H14⁰ that “marketing practices do not have an impact on SMEs long term survival” is rejected. It is thus concluded that there is sufficient evidence to suggest that marketing practices have a positive impact on long term survival on SMEs.

6.4.5 ENTREPRENEURIAL CHARACTERISTICS AND BUSINESS PRACTICE

This section intends to find out the relationship between the entrepreneurial characteristics and business practices. Five hypotheses are stated in this part, beginning with hypothesis fifteen. Hypothesis fifteen states that:

H15⁰: Entrepreneurs with Risk management practices do not have a high need for achievement

H15^a: Entrepreneurs with Risk management practices have a high need for achievement

Table 6. 40 : Pearson Correlation and One-way ANOVA showing the relationship between Risk management practices and the need for achievement in the Motheo district, 2011.

Pearson Correlation		One-way ANOVA		
Sig.(2 tailed)	Correlation Coefficient	F	Mean Square	Significance (p)
0.00	0.42	5.71	66.66	0.00

From the T-test and ANOVA test that was carried on the data for hypothesis H15, the sig (2 tailed) for the T-test and significant value for ANOVA is 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between risk management practices and the need for achievement. The correlation coefficient values are 0.42 which shows that there is a positive correlation between entrepreneurs with risk management practices and a high need for achievement. The decision on the hypotheses is the rejection of the null hypothesis H15⁰ that “entrepreneurs with risk management practices do not have a high need for achievement” and concludes that there is sufficient evidence to suggest that entrepreneurs with Risk management practices have a high need for achievement.

H16⁰: Entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, will not attain a higher need for achievement score than those that do not

H16^a: Entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, will attain a higher need for achievement score than those that do not.

Table 6. 41 : Pearson Correlation and One-way ANOVA showing the relationship between Human management practices and the need for achievement in the Motheo district, 2011.

Pearson Correlation		One-way ANOVA		
Sig.(2 tailed)	Correlation Coefficient	F	Mean Square	Significance (p)
0.00	0.27	2.57	29.31	0.00

The Pearson Correlation and ANOVA test carried on the data for hypothesis **H16**, showed that the sig (2 tailed) for the Pearson correlation sig (2 tailed) and significance value for ANOVA are 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relationship between entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, and a higher need for achievement score than those that do not. The correlation coefficient values are 0.27 which shows that there is a positive correlation between entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards and higher need for achievement score than those that do not. The decision on the hypotheses is the rejection of the null hypothesis H16⁰ that “entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, will not attain a higher need for achievement score than those that do not.” It is therefore concluded that there is sufficient evidence to suggest that entrepreneurs with HRM practices that focus on

consultative decision making, training skills, employee rewards, will attain a higher need for achievement score than those that do not.

H17⁰: The risk associated with running a business venture is not related to the skills (education) of the entrepreneur.

H17^a: The risk associated with running a business venture is related to the skills (education) of the entrepreneur

Table 6. 42 : Pearson Correlation and One-way ANOVA showing the relationship between risks associated with running a business venture and the skills (education) of the entrepreneur in the Motheo district, 2011.

Pearson Correlation		One-way ANOVA		
Sig.(2 tailed)	Correlation Coefficient	F	Mean Square	Significance (p)
0.70	0.03	2.57	29.31	0.70

Based on the Pearson Correlation and ANOVA test that were carried on the data for hypothesis H17, the Pearson correlation sig (2 tailed) is 0.70 and the significant value for ANOVA is 0.05. Since the sig (2 tailed) is greater than or equal to 0.05, there is no significant relationship between the risks associated with running a business venture and the skills (education) of the entrepreneur. The correlation coefficient value is 0.03, which shows that there is a slightly positive correlation between the risks associated with running a business venture and the skills (education) of the entrepreneur. This correlation is so small that it cannot be considered as oppose to the significance values for both the correlation and the ANOVA test. The decision on the hypotheses is **H17⁰** that “the risk associated with running a business venture is not related to the skills (education) of the entrepreneur.” Therefore, there is not sufficient evidence to suggest the risk associated with running a business venture is related to the skills (education) of the entrepreneur.

H18⁰: A great understanding of team members will not create a high level of motivation

H18^a: A great understanding of team members will create a high level of motivation

Table 6. 43 : Pearson Correlation and One-way ANOVA showing the relationship between team members and high level of motivation in the Motheo district, 2011.

Pearson Correlation		One-way ANOVA		
Sig.(2 tailed)	Correlation Coefficient	F	Mean Square	Significance (p)
0.00	0.34	6.85	94.40	0.00

From the Pearson Correlation and ANOVA test carried on the data for hypothesis H18, Pearson correlation sig (2 tailed) and the significant value for ANOVA are both 0.00. Since the sig (2 tailed) is less than 0.05, there is a significant relation between a great understanding of team members and a high level of motivation. The correlation coefficient value is 0.34 which shows that there is a positive correlation between a great understanding of team members and a high level of motivation. The decision on the hypotheses is that the null hypothesis **H18⁰** that “a great understanding of team members will not create a high level of motivation” is rejected. Thus a conclusion is arrived at that there is sufficient evidence to suggest that a great understanding of team members will create a high level of motivation.

6.4.6 Research Questions

In chapter four, in establishing the relationship between entrepreneurial characteristics and business practices, this study hypothesises that a good combination of entrepreneurial characteristics enhanced by business practices leads to the long-term survival of SMEs. This led to the development of four research questions which this section intends to provide answers to.

The first research question stated that; “to what extent do entrepreneurial characteristics influence the long-term survival of SMEs”. In order to answer this question, a distinction was made between surviving and non-surviving businesses with regards to the characteristics they both have.

Figure 6. 19 : Entrepreneurial characteristics of survival businesses in the Motheo district, 2011

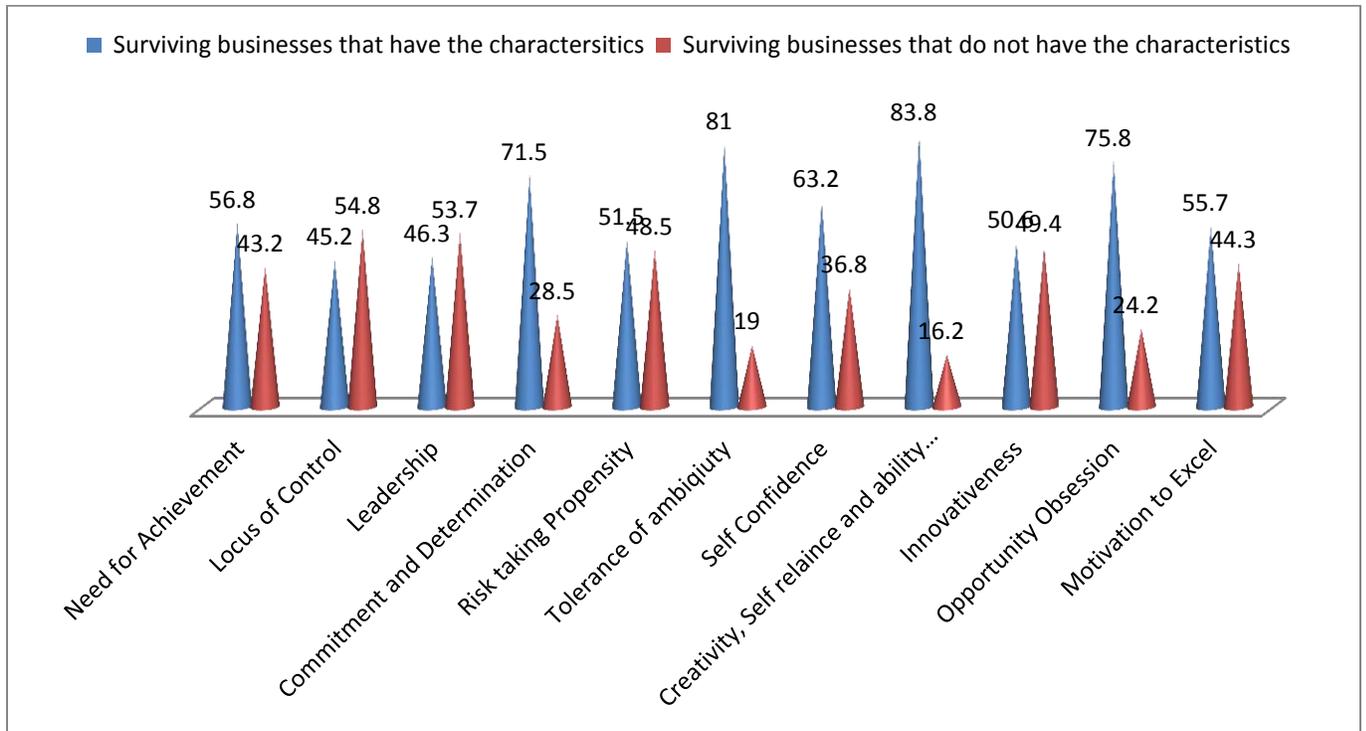
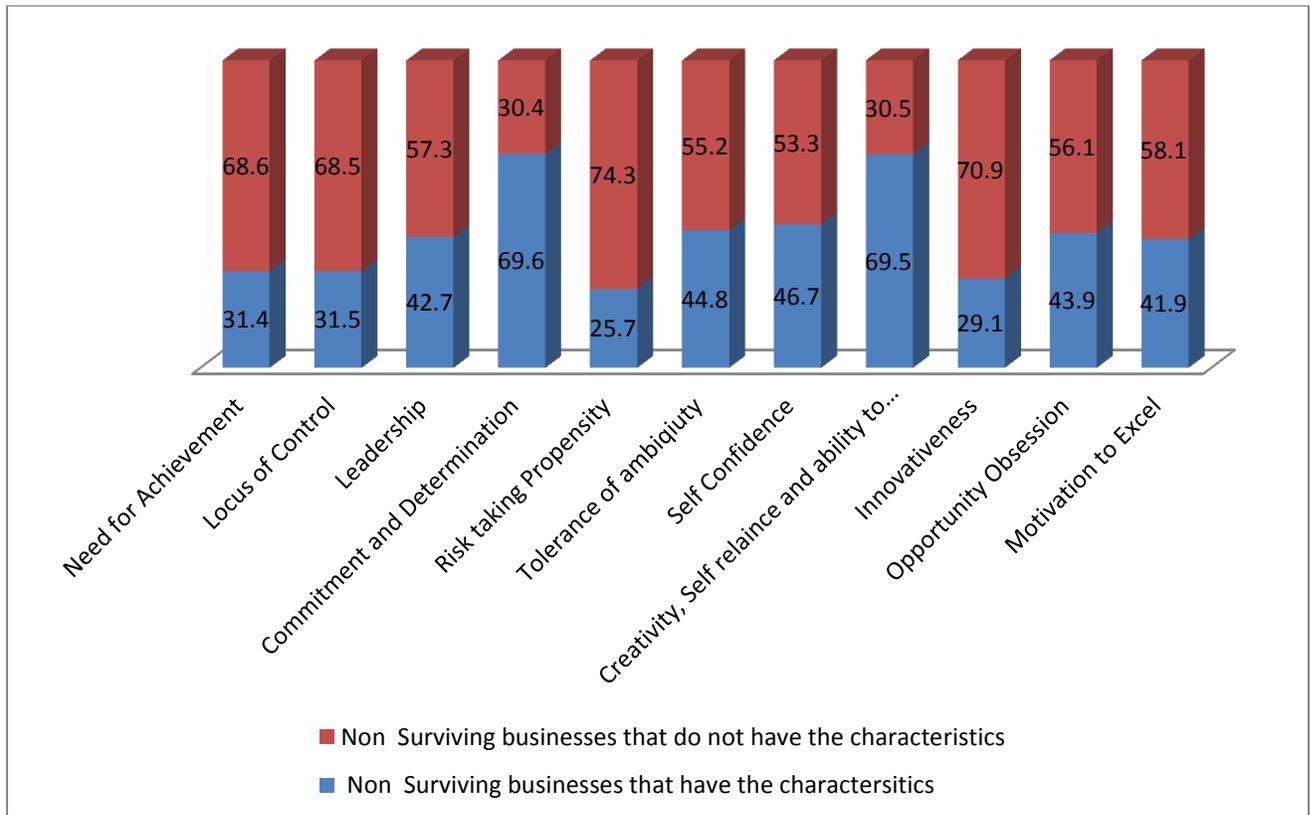


Figure 6. 20 : Entrepreneurial characteristics of non-survival businesses in the Motheo district, 2011



The results on figure 6.19 and figure 6.20 show the entrepreneurial characteristics of both surviving and non-surviving businesses. The actual businesses surviving was determined in Part A (subsection 6.3.6), where survival was measured using binary values 0 and 1. The value 1 was for entrepreneurs who achieved success in all the determinants of survival, while 0 otherwise. The results revealed that **47.5%** of the entrepreneurs achieved survival while **52.5%** did not. In order to clearly identify which characteristics lead to the long-term survival of SMEs, this study considered characteristics that had a score of 50% and above to be survival determinants for surviving businesses. With regards to non-surviving businesses and its determinants, a score of 50% and above was also chosen but the characteristics needed to be part of the characteristics possessed by surviving businesses.

From these 47.5% surviving businesses, locus of control (45.2%) and leadership (46.3%) did not have a score of 50% and above and thus were not considered as characteristics that lead to the

long-term survival of SMEs, as seen in **figure 6.19**. Also, amongst the rest of the surviving characteristics with scores of 50% and above, four characteristics; *creativity, self-reliance and ability to adapt (83.8%)*; *tolerance of ambiguity and uncertainty (81%)*; *opportunity obsession (75.8%)* and *commitment and determination (71.5%)*, are seen to be the characteristics that attained the highest score. With regards to the non-surviving businesses in **figure 6.20**, commitment and determination (69.6%) and creativity, self-reliance and the ability to adapt (69.5%) were the only two characteristics that had a score of 50% and above and were also found to be amongst the four characteristics that attained the highest score.

Therefore, this study in answering the question “to *what extent do entrepreneurial characteristics influence the long-term survival of SMEs*” makes a conclusion in terms of **required** and **sufficient** characteristics. The **required** characteristics identified by this study are four characteristics; *creativity, self-reliance and ability to adapt (83.8%)*; *tolerance of ambiguity and uncertainty (81%)*; *opportunity obsession (75.8%)* and *commitment and determination (71.5%)*. They are chosen because they attained the highest score by both surviving businesses and entrepreneurs in general (also established in *subsection 6.3.3, table 6.12* on the characteristics of entrepreneurs). Moreover, two of the four characteristics are also seen to be possessed by non-surviving businesses. The **sufficient** characteristics are need for *achievement*; *risk-taking propensity*; *self-confidence*; *innovativeness* and *motivation to excel*, since they had a score of 50% and above.

The *second research question* “to *what extent does business practices influences the long-term survival of SMEs*”. To answer this question, a distinction was made between surviving and non-surviving businesses with regards to the business practices they both have, as seen in figure 6.21 and 6.22;

Figure 6. 21 : Business Practices of survival businesses in the Motheo district, 2011



Figure 6. 22 : Business practices of non-survival businesses in the Motheo district, 2011



Figure 6.21 and figure 6.22 show the results of the business practices for both survival and non-surviving businesses. In order to clearly identify which business practices lead to the long-term survival of SMEs, this study considered practices that had a score of 50% and are above to be survival determinants for surviving businesses. With regards to non-surviving businesses and its

determinants, a score of 50% and above was also chosen but the practices needed to be part of the characteristics possessed by surviving businesses. Figure 6.21 depicts that **risk management (34.9%)** was identified as the only business practice that had a score of less than 50% and thus is not considered as a business practice that leads to the long-term survival of SMEs. The rest of the surviving practices- marketing practices (84.3%); performance management practices (77.9%); strategic planning practices (72.7%) teamwork (76.3%); have high scores of 50% and above, with human resource management practices (HRM) ranked the least on the scale with a value of 59%. With respect to the business practices of non-surviving businesses, the results show that teamwork (76.3%); marketing practices (68.1%) and performance management practices (54.3%) are the practices that have a score of 50% and above and also found to be amongst the practices that attained the highest score.

Therefore, in answering the question that stated that “*to what extent do business practices influence the long-term survival of SMEs*”, this study makes a conclusion in terms of **required practices**. The **required practices** identified by this research are; *marketing practices (84.3%); performance management practices (77.9%); strategic planning practices (72.7%) and teamwork (72%)*. They are chosen because they attained the highest score by both surviving businesses and entrepreneurs in general (also established in *subsection 6.3.4.3* on the business practices of entrepreneurs). Likewise, three of the four practices are also seen to be possessed by non-surviving businesses. However, this study does not consider HRM practices as a required practice despite the score of 59% because it is observed that only surviving business had a score of 59%, while non-surviving business and entrepreneurs in general (also established in *subsection 6.3.4.3* on the business practices of entrepreneurs) had a score of 40.9% and 49.5% respectively, which are all below the stated criteria of a score of 50% and above.

To answer the *third research question* “*to what extent do the characteristics held by entrepreneurs influence their business practices?*”, a Bivariate correlations (the Pearson Correlation test) was performed between entrepreneurial characteristics and business practices, as seen on table 6.44;

Table 6. 44 : Relationship between entrepreneurial characteristics and business practices

Bivariate Correlations- Pearson Correlation Test						
Characteristics	Team Work	Risk management	Strategic Planning	Marketing	Human Resource Management	Performance Management
Need for Achievement	0.29	0.42	0.42	0.39	0.27	0.40
Locus of Control	0.32	0.33	0.39	0.39	0.32	0.36
Leadership	0.39	0.33	0.46	0.47	0.41	0.46
Commitment and Determination	0.24	0.39	0.48	0.48	0.35	0.47
Risk taking propensity	0.07	0.20	0.15	0.15	0.26	0.22
Tolerance of Ambiguity and uncertainty	-0.02	0.28	0.27	0.28	0.35	0.31
Self confidence	0.18	0.31	0.45	0.49	0.38	0.52
Creativity, Self-reliance and ability to adapt	0.31	0.38	0.51	0.50	0.41	0.50
Innovativeness	0.39	0.42	0.46	0.33	0.41	0.54
Opportunity obsession	0.32	0.36	0.44	0.42	0.38	0.45

Motivation to excel	0.34	0.41	0.52	0.50	0.40	0.51

Table 6.44 illustrates that in the Pearson correlation the characteristics are the independent variables, while business practices are the dependent variables. The value for the Pearson correlation ranges between -1 and 1. From the table, it is observed that all the values are positive except for the correlation between *teamwork* and *tolerance of ambiguity and uncertainty* which are negatively correlated with value (-0.02). This means that when tolerance of ambiguity and uncertainty increases, team work decreases and vice versa. Still, looking at the above results, it is seen that *innovativeness* influences both *teamwork*; *risk management practices* and *performance management practices*, more than the other factors with a highest value of 0.39; 0.42 and 0.54 respectively. Similarly, creativity, self-reliance and ability to adapt influences both strategic planning and marketing practices to a larger extent than the other practices with highest values 0.51 and 0.50 respectively. Lastly, it is also established that motivation to excel affects marketing practices with highest value 0.50, while self-confidence affects human resource management practices with highest value 0.38.

In answering the fourth *research question*, “to establish a framework linking key entrepreneurial characteristics and business practices that ensure the long-term survival of SMEs”, a conceptual framework was adopted to show the key entrepreneurial characteristics and business practices for long term survival of SMEs, seen on table 6.45;

Table 6. 45 : Conceptual framework for key entrepreneurial characteristics and business practices for long term survival of SMEs.

Conceptual framework for key entrepreneurial characteristics and business practices for long term survival of SMEs			
Entrepreneurial Characteristics	Business Practices		Capabilities vital to the entrepreneurial characteristic and business practices
	Required Business Practices	Sufficient Business Practices	
Required Entrepreneurial Characteristics			
<i>creativity, self-reliance and ability to adapt</i>	<i>marketing practices, performance management practices, strategic planning practices, teamwork</i>	_____	<i>Business Acumen, Innovation, Ownership Commercial orientation Results focus, Perseverance</i>
<i>tolerance of ambiguity and uncertainty</i>	<i>performance management practices</i>	_____	<i>Ownership, Results focus, Perseverance</i>
<i>opportunity obsession</i>	<i>marketing practices, performance management practices, strategic planning practices, teamwork,</i>	_____	<i>Business Acumen, Innovation, Ownership Commercial orientation Results focus, Perseverance</i>
<i>commitment and determination</i>	<i>marketing practices, performance management practices, strategic planning practices,</i>	_____	<i>Business Acumen, Innovation, Ownership Commercial orientation Results focus, Perseverance Leadership Oriented Capabilities</i>

Sufficient Entrepreneurial Characteristics			
need for achievement	marketing practices, performance management practices, strategic planning practices	_____	<i>Business Acumen, Innovation, Ownership</i> <i>Commercial orientation</i> <i>Results focus, Perseverance</i>
risk-taking propensity	performance management practices,	_____	<i>Results focus, Perseverance,</i> <i>Leadership Oriented Capabilities</i>
self-confidence	marketing practices, performance management practices, strategic planning practices,	_____	<i>Business Acumen, Innovation, Ownership,</i> <i>Commercial orientation,</i> <i>Results focus, Perseverance,</i> <i>Leadership Oriented Capabilities</i>
innovativeness	marketing practices, performance management practices, strategic planning practices, teamwork, planning practices	_____	<i>Business Acumen, Innovation, Ownership,</i> <i>Commercial orientation,</i> <i>Results focus,</i>
motivation to excel	marketing practices, performance management practices, strategic planning practices, teamwork	_____	<i>Business Acumen, Innovation, Ownership,</i> <i>Commercial orientation,</i> <i>Results focus,</i>

In summary, this study concludes by stating that the above combination of entrepreneurial characteristics and businesses practices, will lead to the long -term survival of SMEs.

6.4.7 Conclusions on the hypotheses and research Questions

This section (Part B of the empirical findings) provided answers to the hypotheses and research questions stated in chapter four of the literature review. 18 hypotheses were established with regards to **characteristics** (learnable and ascribed; learnable and achieved; ascribed and achieved); **entrepreneurial characteristics and the long-term survival of SMEs**; **business practices and the long-term survival of SMEs**; and **entrepreneurial characteristics and business practices**. These results revealed that;

- There is no positive relationship between children from entrepreneurial backgrounds and a higher need for achievement.
- There is no positive relationship between locus of control and an entrepreneur's education.
- There is a positive relationship between the entrepreneurs degree of risk taking and his level of experience from the same job
- There is no positive relationship between the entrepreneur's years is in business and the more experience he/she has in running the business.
- There is a positive relationship between need for achievement and long-term survival.
- There is no significant relationship between locus of control and long-term survival.
- There is significant relationship between risk taking and long-term survival of SME.
- There is a significant relationship between self-confidence and long-term survival of SMEs.
- There is a significant relationship between innovativeness and long-term survival of SMEs.
- There is a significant relationship between risk management practices and long-term survival of SMEs.
- There is a significant relationship between human resource management practices and long-term survival of SMEs.
- There is a significant relationship between strategic planning practices and long-term survival of SMEs.
- There is no significant relationship between teamwork and long-term survival of SMEs.

- There is a significant relationship between marketing practices and long-term survival of SMEs.
 - There is a positive correlation between entrepreneurs with risk management practices and a high need for achievement.
 - There is a significant relationship between entrepreneurs with HRM practices that focus on consultative decision making, training skills, employee rewards, and a higher need for achievement.
 - There is a no significant relationship between the risks associated with running a business venture and the skills (education) of the entrepreneur.
 - There is a positive correlation between a great understanding of team members and a high level of motivation.
- Furthermore, with respect to the research questions, four questions were established. Answers to the first three questions were provided. In order to answer the questions on hypothesis one and two, a distinction was made between surviving and non-surviving businesses with regards to the characteristics and practices they both have. This study considered characteristics and practices that had a score of 50% and above the survival determinants for surviving businesses. With regards to non-surviving businesses and its determinants, a score of 50% and above was also chosen, but the characteristics and practices needed to be part of the characteristics and practices possessed by surviving businesses. A conclusion was made in terms of **required** and **sufficient** characteristics and practices.
- The **required** characteristics identified by this study are four characteristics; *creativity, self-reliance and ability to adapt (83.8%); tolerance of ambiguity and uncertainty (81%); opportunity obsession (75.8%)* and *commitment and determination (71.5%)*. They are chosen because they attained the highest score by both surviving businesses and entrepreneurs in general (also established in *subsection 6.3.3, table 6.12* on the characteristics of entrepreneurs). Moreover, two of the four characteristics are also seen to be possessed by non-surviving businesses. The **sufficient** characteristics are need for *achievement; risk-taking propensity; self-confidence; innovativeness* and *motivation to excel*, since they had a score of 50% and above.

- The **required practices** identified by this research are; *marketing practices (84.3%)*; *performance management practices (77.9%)*; *strategic planning practices (72.7%)* and *teamwork (72%)*. They are chosen because they attained the highest score by both surviving businesses and entrepreneurs in general (also established in *subsection 6.3.4.3* on the business practices of entrepreneurs). Likewise, three of the four practices are also seen to be possessed by non-surviving businesses. However, this study does not consider risk management practiced 34.9% and HRM practices as a required practice. HRM practices is not considered as a required practice though with a score of 59% because it is observed that only surviving businesses had a score of 59%, while non-surviving businesses and entrepreneurs in general (also established in *subsection 6.3.4.3* on the business practices of entrepreneurs) had a score of 40.9% and 49.5% respectively. These are all below the stated criteria of a score of 50% and above.
- In answering the third hypothesis, the results on table 6.45 identified characteristics that had a greater impact on the business practices of the entrepreneurs, with them having the highest mean score on the scale.
- This study concludes by stating that a good combination of the entrepreneurial characteristics and businesses practices as seen on (table 6.45) will lead to the long -term survival of SMEs.

6.5 CHAPTER SUMMARY

This chapter examined the primary research findings from the questionnaire administered to **353** entrepreneurs in the *Motheo district (Bloemfontein; Botshabelo and Thaba’Nchu)*. The chapter begins by determining the regional distribution of response rates from the entrepreneur, whereby it was found that a total of 353 questionnaires were issued, **218** questionnaires were received but only **200** questionnaires were considered in the study because they were those fully completed by the respondent and thus gave the study a response rate of **56.7%**. The next section focuses on the empirical findings and it is divided into part A and part B.

Part A is divided into seven sub-sections. The *first sub section* talks about the descriptive information of the entrepreneur, where the researcher concluded by encouraging the entrepreneurs to consider learning as an on-going process since it will improve on their skills and

the manner in which their businesses are operated. The *second sub section* focuses on the nature of the business and it is recommended that the government, banks and financial institution should give out give out loans to both new and established businesses, while also putting in place measures to help the necessity entrepreneurs create sustainable businesses as a means to help alleviate poverty and reduce unemployment. The *third subsection* focuses on entrepreneurial characteristics of entrepreneurs and possible explanations to the low level of specific entrepreneurial characteristics identified by the study is provided alongside their recommendations. In the *fourth subsection*, the results on the business practices of entrepreneurs are explained, where it is observed that 57% are sole traders, which goes to show that most of the predominate businesses in the Motheo district are SMEs. Also, possible explanations and recommendations to the low level of risk management practices and HRM practices were further provided by the researcher. The *fifth subsection* provides explanations to the entrepreneurial/managerial capabilities that enhance the business practices of entrepreneurs. The results reveal that entrepreneurs have a percentage score of 50% and above for all the capabilities except commercial orientation (42.5%), which was identified as the only capability that entrepreneurs do not seem to fully engage themselves in. Also, the results on the between business practices and capabilities showed that business acumen and innovation are the two capabilities that are seen to affect business practices to a larger extent than the other capabilities. Likewise, a positive relationship is established between the entrepreneurial characteristics and capabilities. In the sixth subsection, the results on the determinants of survival are presented. In determining the actual businesses surviving, the results revealed that 47.5% of the entrepreneurs achieved survival while 52.5% did not. Lastly the results on the external environmental factors on which entrepreneurs operate are presented. This study recommends that there is urgent need by the South African government to ensure the safety of both the local and foreign investors in the country, without which they investment climate may worsen

Part B of the empirical findings provided answers to the research questions and hypotheses stated in chapter four of the literature review. 18 hypotheses were established with regards to **characteristics** (learnable and ascribed; learnable and achieved; ascribed and achieved); **entrepreneurial characteristics and long-term survival of SMEs; business practices and long-term survival of SMEs; and entrepreneurial characteristics and business practices.** These results revealed that; four characteristics; *creativity, self-reliance and ability to adapt*

(83.8%); *tolerance of ambiguity and uncertainty* (81%); *opportunity obsession* (75.8%) and *commitment and determination* (71.5%) are considered **required** characteristics of entrepreneurs while five characteristics; *need for achievement*; *risk-taking propensity*; *self-confidence*; *innovativeness* and *motivation to excel* are considered the **sufficient** characteristics necessary for the long-term survival of SMEs. Furthermore *marketing practices* (84.3%); *performance management practices* (77.9%); *strategic planning practices* (72.7%) and *teamwork* (72%) are considered required practices necessary for the long-term survival of SMEs. No sufficient practice is identified by the study. This study concludes by stating that a good combination of the entrepreneurial characteristics and businesses practices as seen on (table 6.45) will lead to the long-term survival of SMEs.

In chapter seven, the discussion, conclusion and recommendations of the study will be presented.

CHAPTER SEVEN

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

This study aims to determine the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. As a result, the main question that was addressed was which entrepreneurial characteristics and business practices influence the long-term survival of SMEs and to what extent they do so. Centred on/around this research questions, the most important objectives of the study therefore were to determine which entrepreneurial characteristics are essential for the long-term survival of SMEs; which business practices are essential for the long-term survival of SMEs; what is the relationship between entrepreneurial characteristics and business practices and whether the survival of SMEs' depend on entrepreneurial characteristics and business practices. All these, were addressed in chapter six, and the results were based on the findings obtained. From these empirical findings, possible answers to the research questions and hypothesis were established. These created the opportunity for further discussions - the basis upon which this chapter draws on an overall conclusion, while proposing some recommendations.

The purpose of this chapter is to provide a discussion on the empirical findings established in chapter six, to provide a conclusion and possible recommendations to the study. This chapter is divided in to seven sections. Section 7.1 introduces the chapter. Section 7.2, will provide a discussion on the empirical findings. Section 7.3 will discuss the achievement of objectives. Section 7.4 will highlight the recommendations. Section 7.5 will examine the limitations of the study and section 7.6 will identify the areas for further study. Finally, section 7.7 will conclude on the study.

7.2 DISCUSSION

The questions in the questionnaire were grouped into seven parts. So the discussions for each question will be presented with regards to the research findings gotten from chapter six and based on the objectives; hypothesis; research questions and literature review stated in the previous chapters.

7.2.1: Descriptive information of the entrepreneur

Questions such as the entrepreneurs age; gender; stage of life cycle and educational qualification were asked to enable the researcher identify specific entrepreneurial characteristics pertaining to the entrepreneurs.

From the findings in chapter six, it was seen that 56.5% of males owned and managed businesses, while only 43.5% of female owned businesses in the Motheo district. This statistics is slightly lower than the findings from statistics South Africa research (2005), which found that 45.5% of SMEs were owned and managed by females, where as in Cameroon 57% of SMEs are owned by female (Royzn, 2007: 94). This study's findings show that there is a slight decrease in female owned businesses, which explains why one of South Africa's policies of intervention is to support woman in start-up ventures. The results and findings on the age of the entrepreneur showed the average age of entrepreneurs to be between 21- 30 and 31-40, with 25.5% and 25% respectively. This is in line with a study by Moore *et al.* (2008:19), which established that the ideal entrepreneurial age falls somewhere between the late 20s and early 40s. This is the time range when there is a trade-off between confidence, usually characterised by youth, and wisdom based on years of experience, as seen in chapter two of the literature studies.

Furthermore, most of the entrepreneurs had **matric** and **degree** qualifications, with 32% and 23.5% respectively. This means that the level of education for entrepreneurs is still low, because fewer entrepreneurs were more qualified with respect to their educational qualifications. This raises an urgent need for the government and other support initiative programs to encourage entrepreneurs to further their level of education. Moreover, with regards to the various types of business management related course attended, the results revealed that it is only in business management (56.5%) that entrepreneurs had an attendance score of more than 50%, while in the

other courses, they had a percentage attendance of less than 40%. This goes to show that there is an urgent need to encourage entrepreneurs in South Africa to further their education, since a positive relationship was found between education and business creation (Rugtvedt, 2006). Likewise, Lüthje, and Frank (2002) affirm that entrepreneurship education is increasingly important because it can be taught and it can contribute to job creation and create an impact on poverty alleviation.

It is therefore recommended that the department for chamber of commerce and trade in South Africa should see to it that all businesses both formal and informal are all registered and must belong to any support mechanism available in country, so that constant training and workshop programs can be imposed on them, so as to boost their level of skills and thus help improve on the survival rates of businesses in South Africa.

7.2.2 Nature of the business

The questions included in this section were to enable the researcher keep track of what type of businesses the entrepreneurs are engaged in; their position/role in the business; how they raised up their start-up funds; if they have prior experience in the sector that their business is operating in; if their family members ever owned or operated a business; what were their motives for starting up the business and the number of employees they have.

From the results in chapter six, the findings of significant importance was that 12% of the entrepreneurs being the least on the scale started up their businesses because they were unemployed. Foxcroft, Wood, Segal, Herrington and Kew (2002) found out that the average number of necessity entrepreneurs is 2.3% while in South Africa the number is larger than the average number. This study showed that 12% of the entrepreneurs where necessity entrepreneurs and this figure larger than the average (2.3%) can be a possible explanation to the high failure rate of SMEs in South Africa. This being the case, measures should be put in place to help the necessity entrepreneurs create sustainable businesses as a means to help alleviate poverty and reduce unemployment.

With regards to experience, it was observed that 58.5% of the respondent had no experience in the current businesses they are operating, while 41.5% had experience in their current business operation. This clearly explains why 32% of the entrepreneur's reasons for stating up a business

were making money, whether or not they have experience in their current sector of operation. With a majority of entrepreneurs not having prior experience in their current business, it possibly explains why many of the businesses do not survive.

Added to these findings is the fact that in the SMEs sector in Motheo district, small enterprises employ the bulk of the work force in the Motheo district, with percentages 92.5%, while medium enterprises employ 7.5% of the population. This confirms with statistics on South Africaweb.co.za (2009) which showed that the majority of employment in South Africa (70%-80%) is created by small businesses and thus confirming why its survival and sustainability is important.

Also noticeable is the fact that, apart from business management that had a 56.5%, the remaining short courses had a percentage score of less than fifty, which indicate that few entrepreneurs still enrol in short courses. This indicates a general shortage in finance, marketing, bookkeeping, entrepreneurship, management, accounting, sales management, project management skills, amongst others, which are vital skills needed for the proper running and success of a business. This explains a possible reason for the high failure rates of SMEs in South Africa. There is therefore an urgent need for the South African government to encourage and promote training and development programmes, in order to promote skills and experience in all business sectors.

Moreover, it was also established that 41.5% of the respondents raised up their start-up capital from their personal savings, while only 24% of the respondents got their start-up funds from banks and financial institutions. This again could be an explanation as to why businesses are unsuccessful in South Africa, the reason being the lack of access to finance (Willemse, 2010; Fatoki, 2010) amongst others. This contrast with a study by the Kauffman Foundation (2007) that showed 75% of SMEs' start-up capital in the United States of America was made up of owner equity and bank loans and/or credit card debt, in equal proportion. Taking this into consideration, it will be worth suggesting that the government should start allocating more funding for the growth and development of SMEs, and should also encourage banks and financial institutions to give out loans to both new and established businesses. Also, since the majority of employment in South Africa is in the SME sector, the government should try to

ensure that the SME support mechanisms are effective and productive as this will ensure many SMEs remain sustainable and thus unemployment rates will fall.

7.2.3 Entrepreneurial Characteristics

Chapter two of this thesis focused on the characteristics of entrepreneurs. Entrepreneurial characteristics were grouped into learnable; achieved, ascribed and demand and requirement characteristics. This study adopted this approach as a means of clearly identifying which characteristics entrepreneurs possess that specifically can be nurtured, developed, inherited or acquired, to improve the long-term survival of SMEs. Henry *et al.* (2003) stated that “characteristics which help the entrepreneur to guide his/her new firm through the development period into the growth stage may be the very same characteristics which eventually lead to his/her own self-elimination”. This therefore means that there exist certain types of characteristics, vital for the long-term survival of SMEs. This study found out which characteristics lead to the long-term survival of SMEs and made a conclusion in terms **required** and **sufficient** characteristics.

The **required** characteristics identified by this study are four characteristics; *creativity, self-reliance and ability to adapt (83.8%); tolerance of ambiguity and uncertainty (81%); opportunity obsession (75.8%)* and *commitment and determination (71.5%)*. They are chosen because they attained the highest score by both surviving businesses and entrepreneurs in general (also established in *subsection 6.3.3, table 6.12* on the characteristics of entrepreneurs). Moreover, two of the four characteristics are also seen to be possessed by non-surviving businesses.

The **sufficient** characteristics are *need for achievement; risk-taking propensity; self-confidence; innovativeness and motivation to excel*, since they had a score of 50% and above. Also the age of the business was seen to have a positive relationship with the long-term survival of SMEs (table 6.23). The results confirmed that businesses within 5-10 years of age survive by 55.2%, while businesses with more than 10 years of age show an increase percentage of survival (65.7%). This confirms to a study by Audretsch (1991), which established that, a firm’s survival rate increase with age. However, this study observed that the least characteristics that entrepreneurs do not

have are locus of control (21.5%); risk taking propensity (23%), need for achievement (43.5%); leadership (46%) and motivation to excel (48.5%) for both surviving and non-surviving businesses.

With regards to risk taking, Hisrich and Peters' (2002) argue that empirically “no conclusive causal relationships” has been found with regards to risk and entrepreneurs, and that the risk-taking propensity trait does not form an important part of the research on entrepreneurial characteristics. Macko and Tyszka (2009) reckon that the risk connected with running a business venture is related to the skills of the entrepreneur. Thus, entrepreneurs are encourage to take *calculated risk* when they decide to participate in a business venture in a “very calculated, carefully thought- out manner”, while making sure they get the odds in their favour and avoid taking unnecessary risks.

Likewise, Rotter (1966) established a positive relationship between need for achievement (nAch) and locus of control, stating that individuals with a high need for achievement believe in their own ability to control the outcome of their efforts. Wickham (2001:16) notes that need for achievement is not only inherent but can be taught and practiced, hence making it vital for entrepreneurs to have it. Likewise, leadership plays a vital role in the survival and success of entrepreneurial ventures (Moore and Buttner, 1997). Timmons and Spinelli (2008:14) after conducting a study at the Harvard business school revealed that motivation to excel was the single most important factor in the long-term successes of businesses. From the above, it becomes imperative for these factors to be enhanced as a means of nurturing SMEs success and long-term survival. It is therefore recommended that

- In order for entrepreneurs to develop characteristics such as creativity, self-reliance and ability to adapt and innovation, they must engage in reading books in a variety of fields; joining professional groups; attending professional meetings and seminars and devote time to pursue natural curiosities. This is because successful creations are generally led by information gathering.
- Leadership characteristics in entrepreneurs should be developed through experimental learning, social interaction learning, training in leadership knowledge and skills development, motivation, communication skills and team working.

- Emerging entrepreneurs who intend to start up their own businesses should ensure they know about the characteristics required for the long-term survival of businesses. This can be done with the help of business consultants with the use of tools such as the Neethling brain profiling tool in order to understand their thinking preferences since a person's thoughts characterise who they are and thus shapes their life. Furthermore, what a person thinks determines how he/she sees reality and how he/she makes decisions and solves problems. All these can be used to understand his personality traits and since these thinking styles can be learned and developed, it becomes imperative to cultivate the necessary characteristics required before starting a business.

7.2.4 Business Practices and Entrepreneurial/Managerial Capabilities that Enhance Business Practices

Chapter three was divided into four parts. The first part of chapter three focused on business practices of entrepreneurs, whereby a conceptual framework was presented that assumed that organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up business practices that influence business performance (Success and survival). The literature review showed that some of the organisational culture and strategies that make up business practices have an impact on either survival, success or both. The results showed that 50% of the respondents started their business from scratch; 24.5 % purchase the business which explains why they have predominate characteristics commitment and determination (72.5%); creativity, self-reliance and ability to adapt (67.5%); tolerance of ambiguity and uncertainty (60.5%). With regards to the legal structure of the business, it was observed that 57% are sole traders, which goes to show that most of the predominate businesses in the Motheo district are SMEs.

The results on the business practices of entrepreneurs for surviving businesses revealed that the dominate business practices that entrepreneurs engage in are marketing practices (81%); teamwork (77%) and planning practices (62%). While the least practices that entrepreneur does not engage in is risk management practice with 34.9% and human resource management practices with 34.5% for both surviving and non-surviving businesses (Table 6.15). Tchankova (2002) reckons risk management includes all aspects of the organisation activities and it covers all level of management, thus helping other management activities to reach the organisation's

aim directly and efficiently. He further stated that risk exists as an element of the environment in which organisations operate and should be adopted as a risk management practices. This is necessary if the probability of high failure rates of businesses in future are to be avoided. Entrepreneurs are therefore encouraged to take calculated risk in the domains they believe they are experts in them, and be more *risk averse* in areas they believe they have little knowledge. The implementation of these is vital as it will enable them estimate predictions for different outcomes. Also, entrepreneurs are encourage to engage in risk management practices such purchasing insurance; installing security systems; maintaining cash reserves and diversification; recruiting; safety; training; coaching; policy and procedure development; employee complaints of harassment or discrimination, and uniform termination procedures.

Sang (2005) states that most HRM practices can better improve performance when they are combined together consistently and correctly, since they have a reciprocal effect on one another. So in order for entrepreneurs to survive in their business operations, they must ensure that the core importance and role of every individual in the organisation are properly understood and encouraged deliberately. This is the only way of continuous organisational development through achievement of larger profit, higher quality, lower costs and higher productivity (Đurković, 2009).

The second part of chapter three focused on the entrepreneurial/managerial capabilities that enhance business practices, where it was noted that entrepreneurial/ managerial capabilities are essential to sound business practices, which influences business performance. These capabilities are enclosed in entrepreneurial characteristics, since it is believed that they have a direct relationship with entrepreneurial characteristics, because they are necessary standards for measuring successful entrepreneurship (Driessen and Zwart, 2007). The results showed that entrepreneurs had a percentage score of 50% and above for all the capabilities except commercial orientation which was 42.5%. This was identified as the only capability that entrepreneurs do not seem to fully engage themselves in. A possible explanation to the low percentage (42.5%) on commercial orientation is that the respondents were private owners of SMEs, who are not interested in expanding beyond the limits they are comfortable with and as such will not exploit other viable opportunities. Expanding on their businesses will mean keeping

their businesses in the hands of managers, while maintaining increased work load and ensuring the survival of their businesses, which may not be easy to achieve.

Also observed was that capabilities are positively correlated to characteristics, which thus confirms the study by Witt (2005) that emphasised that the quality of cognitive services an entrepreneur provides depends on the entrepreneur's capabilities and personal characteristics. Furthermore, capabilities were found to be positively interconnected to business practices, with business acumen and innovation being the two capabilities that were seen to affect business practices to a larger extent than the other capabilities. This again is similar to a study by Lathi (1999), which stated that capabilities, characteristics, knowledge and attitudes are necessary to enhance good business performance. Entrepreneurs who possess favourable capabilities and personal characteristics that allow them to make use of cognitive leadership are often able to run a profitable, successfully growing business (Witt, 2005). This therefore implies successful entrepreneurship rests in good entrepreneurial capabilities that ultimately lead to good business practices, excellent reputation and good association with industry peers and business partners (Hayward, 2009).

In view of this concerns raised above, this study recommends that

- HRM practices should be enhanced by encouraging SME owners to provide performance evaluation in place in order to promote better-achieved staff; implement productivity and quality enhancement schemes and launch new programs that can take care of staff amenities (birthdays and family funerals) and improve upon the employees working relationships with each other. This is because Welbourne and Andrews (1996) established that the presence of HRM practices in Mid-sized enterprises predict their long-term survival.
- Also, entrepreneurs are encourage to grow and expand their businesses ventures by merging and/ or engaging in partnerships with their business associates, while also ensuring that all their assets are insured so that in the case of accidents and natural disasters they can be fully covered by their insurance companies and in the case of liquidation, all partners can inquire the losses.

- Workshops should be developed to meet the conditions for effective learning. The first step is to identify entrepreneurs with implicit knowledge that is of interest for the rest of the group as it will help the entrepreneurs to think in a structured way about reality and to generate knowledge (learning to learn), which can create a shared understanding, create professional networks and thus boost the morale of the entrepreneurs.
- It is possible to improve the business practices and capabilities of entrepreneurs through developing and discussing the entrepreneur's strategic plans in workshops so that all participants get to benefit from the programme, irrespective of their characteristics or the level of capabilities at the start of the programme.
- Entrepreneurs are again encouraged to adopt the use of the planning-organizing-leading-controlling (P-O-L-C) framework, SWOT matrix and PEST Analysis in order to develop marketing strategies that can enable them to increase their revenue and thus increase their survival rate. Likewise, the balance scorecard should be used by entrepreneurs as it will not only act as a performance measure but identify what should be done and measured, hence enabling entrepreneurs to truly execute their strategies.

7.2.5 Determinants of Survival

The third part of chapter three examined the determinants of survival. Kalleberg and Leicht (1991) revealed that differences in survival and success depend on the organisations' abilities to adapt its internal structures to the contingencies linked with its technologies or task environment. Geroski (1995) established that studies on survival have associated the propensity for a firm to survive to characteristics specific both to the firm and to the industry. This study identified factors such as: **age; number of employees; net profit; equipment/ assets; business location; number of business owners and the office number** were considered as the determinants for the long-term survival of SMEs. The study adopted the belief that a business considered to have survived should at least show some increase in some or all of these factors over their years of existence. The results showed that the *age* of the business had a positive relationship with the long-term survival of SMEs (table 6.23 above). This confirms to a study by Audretsch (1991), which indicated that, a firm's survival rate increase with age. The number of employees was considered to have a positive relationship with the long-term survival of SMEs, which is in line

with McPherson (1995, 1996) analysis, which related that SMEs that added more workers were more likely to survive than SMEs that maintain their start up sizes. Furthermore, the start-up size in terms of the number of equipment/assets a business owned was seen to have a positive relationship with the long- term survival of SMEs. In this consideration, the start-up size is one of the most important characteristics for the survival of SMEs based on López-García and Puente, 2006:27) view point. However, in considering the start-up size, it is also very important that the current size of a firm should also be taken into consideration (Mata and Portugal, 2003).

Likewise, Reid (1993: 12-15) established that the key variable to consider in an analysis of a small firm's long run survival criterion is net profit, which this study also found a positive relationship between net profit and long-term survival. With regards to the number of business owners, Irastorza (2006) stated that firms created by two or more entrepreneurs survived longer than those created by individuals, which this study also confirmed a positive relationship between them. Liedholm and Mead (1999) looked at data from eight African countries and found that a firm's location is an important determinant of firm survival and growth. Lastly, the office number was used as a determinant of survival because the research believed that maintaining close contacts with existing suppliers and customers via communication by phone was a better means of ensuring their business survive. The 80/20 rule of business stipulates that 80% of business revenue is generated from 20% of its existing customers (Pfister and Tierney, 2009: 96). Thus keeping contact with existing customers will mean the entrepreneurs existing customers will continue to buy from them and also tell others about their products/services offerings, which also may bring in new customers.

This study however concludes by raising the need for further research to confirm the results on the determinants of survival identified by this study using the researcher own criteria (*table 6.19. table 6.20 and table 6.21*). It also identifies other sets of criteria that could as well be used in determining long-term survival of SMEs.

7.2.6 The External Environment

The last part of chapter three looked at the external environment. These factors are perceived to have both a direct and indirect effect on the business. The environment surrounding an individual's upbringing is vital to the formation of that individual's characteristic, because it

affects/influences the choice of business practices made by them (Blackman, 2003:46). The business external environment was portrayed as being complex and dynamic in nature and had a far reaching impact on survival and growth of SMEs (Adit, 2008). The results showed that *inflation* and *competition* are the two economic factors that SMEs perceived to have a negative impact on their businesses.

Moreover, 48.5% of entrepreneurs identified the cost of legal services, while 48% identified execution of court order as the two legal factors having a negative impact on their businesses. This situation is however not surprising because the World Bank Country Report (2003) showed a relatively inefficient legal system, when compared to developed countries. Similarly, with respect to the socio-cultural factor, crime and corruption with percentages 51.55 and 45.5 respectively were also seen to have a negative impact on the business activities of SMEs in South Africa. This further confirms to a study by World Bank (2008), on the Investment Climate Survey which revealed that 30% of businesses in South Africa, rated crime as a very severe limitation on investment, when compared with the four most frequently mentioned constraints.

Hence, this study recommends that there is urgent need by the South African government to ensure the safety of both the local and foreign investors in the country, without which the investment climate may deteriorate. This is because creating an interaction between a business and its environment will strengthen the business and help them use their resources and capabilities effectively.

7.3 Achievement of Objectives

This section measures the success of the study against the research objectives formulated in section 1.3.1 and 1.3.1 in chapter one. The primary objective was to investigate which entrepreneurial characteristics and business practices have a bigger influence on the long-term survival of SMEs and to what extent they do so. The secondary objectives were;

- To review the theoretical studies on entrepreneurial characteristics and business practices within established SMEs.
- To determine which key entrepreneurial characteristics and business practices are essential for the long-term survival of SMEs.

- To find out the determinants of SMEs survival.
- To determine the relationship between entrepreneurial characteristics and business practices
- To establish a conceptual framework linking key entrepreneurial characteristics and business practices that ensure long-term survival of SMEs

The first objective was to review the theoretical studies on entrepreneurial characteristics and business practices within established SMEs. This was achieved in chapter two and three of the study. Chapter two started with a review on the approaches used in the study of entrepreneurial characteristics – trait approach, demographic/social approach, behavioural/ managerial approach (Field,2005:5), economic approach and human capital approach (Ucbasaran, 2004). Then some of their key shortcomings were identified. The main focus of this chapter was to identify all the various types of entrepreneurs and their characteristics pertaining to them. Entrepreneurial characteristics were grouped into learnable; achieved, ascribed and demand and requirement characteristics. Finally, a conceptual framework was presented which took sixteen entrepreneurial characteristics that have received the most attention in entrepreneurial literature and equated them to the long-term survival of SMEs with the aim of finding out the extent to which they impact on the long-term survival of SMEs. Chapter three was divided into four parts. The first part of chapter three focused on business practices of entrepreneurs, whereby a conceptual framework was presented based on the assumption that organisational culture and strategies enhanced by entrepreneurial/managerial capabilities make up business practices that influence business performance (Success and survival). The second part of chapter three focused on the entrepreneurial/managerial capabilities that enhance business practices. It was thus noted that entrepreneurial/managerial capabilities are essential to sound business practices and as such influence business performance. The third part of chapter three examined the determinants of survival, whereby the study identified factors such as: **age; number of employees; net profit; equipments/ assets; business location; number of business owners and the office number** that were considered as the determinants for the long-term survival of SMEs. The last part of chapter three looked at the external environment.

The second objective was to determine which entrepreneurial characteristics and business practices are essential for the long-term survival of SMEs. This objective was achieved based on the research findings gotten from chapter six (*subsection 6.4.6- table 6.44*) of the study.

The third objective was to find out the determinants of business/ SMEs survival. This objective was achieved based on the results of the findings in chapter six (*subsection, 6.3.6- table 19, 20 and 21*).

The fourth objective was to establish a conceptual framework linking key entrepreneurial characteristics and business practices that ensure the long-term survival of SMEs. This objective and researchable question was achieved based on the research findings gotten from chapter six (*subsection 6.4.6 table 6.45*) of the study.

Based on the achievement of all the secondary objectives, it is concluded that the primary and secondary objective of this study was achieved.

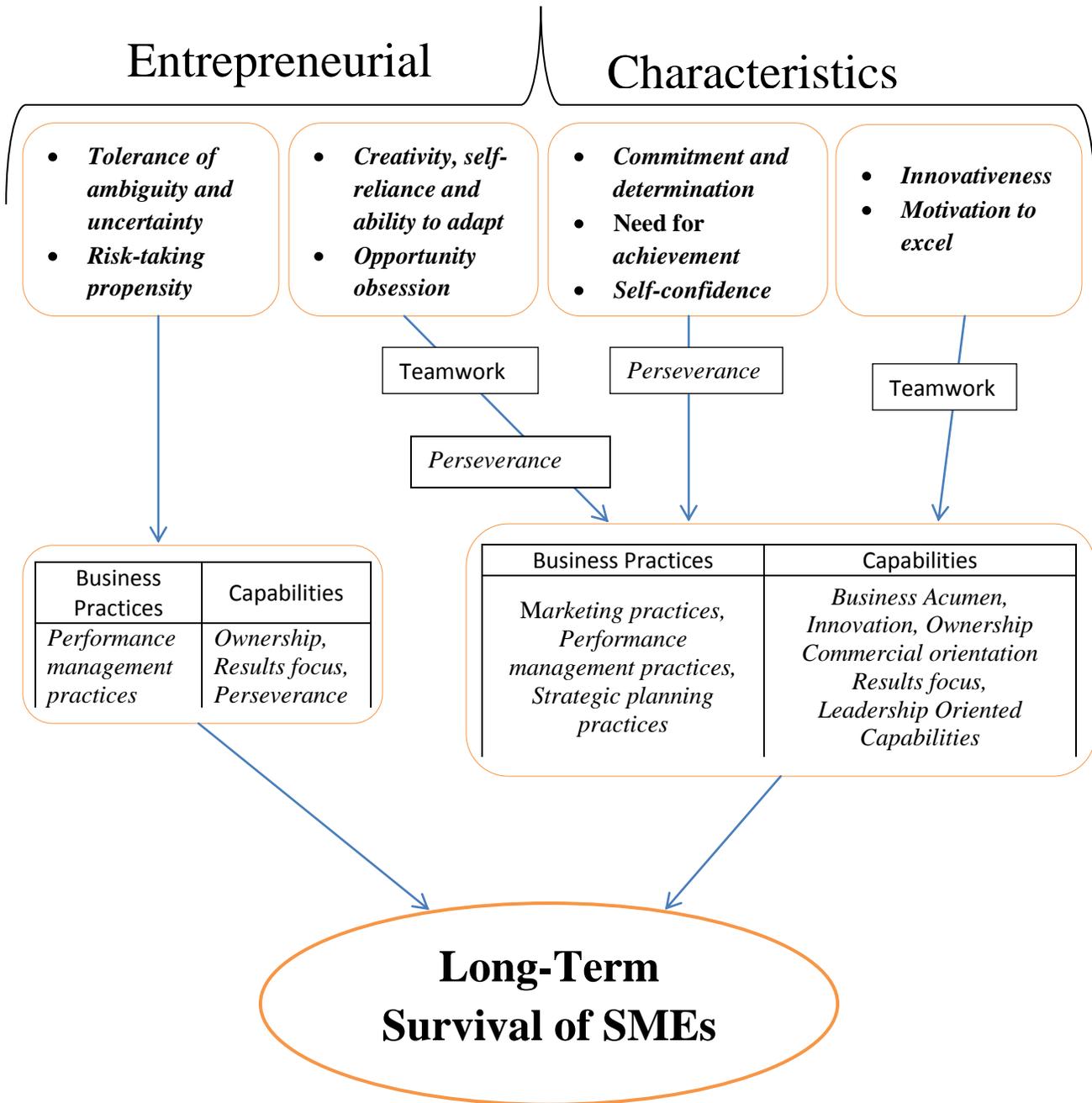
7.4 RECOMMENDATIONS

This study examined the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. In particular as identified in chapter one, primary and secondary objectives were stated and answers to these objectives were provided in the previous chapters. These created the opportunity for further discussions - the basis upon which this chapter draws on an overall conclusion, while proposing some recommendations. These recommendations are divided into specific and general recommendation.

7.4.1 Specific Recommendations

To address these specific recommendations, a conceptual framework is establish that clearly links each characteristics to its required practices and capabilities vital to the long-term survival of SMEs, seen in figure 7.1;

Figure 7.1 : A Conceptual Framework linking each entrepreneurial characteristic to the required Business Practices and Entrepreneurial/ Managerial Capabilities vital to the long-term survival of SMEs.



This conceptual framework (figure 7.1) shows which particular set of business practices and capabilities are required with specific entrepreneurial characteristics in order to achieve long term survival of SMEs. The entrepreneurial characteristics are paired in sets as these characteristics go hand in hand. Each set of paired characteristics alongside its required business practices and capabilities is sufficient enough to result in the Long-Term Survival of SMEs.

- An entrepreneur with tolerance of ambiguity and uncertainty and risk-taking propensity will achieve long-term SME survival if he/she possesses capabilities such as ownership, results focus, and perseverance and carry out business practices such as performance management practices.
- An entrepreneur with opportunity obsession, creativity; self-reliance and ability to adapt will achieve long-term SME survival if he/she possesses capabilities such as business acumen; innovation; ownership; commercial orientation; results focus; leadership oriented capabilities and perseverance and carry out business practices such as teamwork; marketing practices; performance management practices and strategic planning practices
- An entrepreneur with commitment and determination; need for achievement and Self-confidence will achieve long-term SME survival if he/she possesses capabilities such as business acumen; innovation; ownership commercial orientation; results focus; leadership oriented capabilities and perseverance and carry out business practices such as marketing practices; performance management practices and strategic planning practices
- An entrepreneur with innovativeness and motivation to excel will achieve long-term SME survival if he/she possesses capabilities such as business acumen; innovation; ownership; commercial orientation; results focus; leadership oriented capabilities and carry out business practices such as teamwork; marketing practices and performance management practices and strategic planning practices

Because each set of entrepreneurial characteristics in the framework has a strong relationship with each other, it implies that if an entrepreneur identifies his/her self with at least one of the characteristics in the set, then there is a high probability that the entrepreneur has the other characteristics in the set or can easily develop the characteristics that he/she does not have. In such a case, the entrepreneurs should use tools such as the Life Styles Inventory (LSI) measures

thinking styles and the Neethling Brain profiling to develop the missing characteristics with the help of business consultants.

Subsequently, after identifying the set of characteristics the entrepreneur possess, the entrepreneur should then focus on the business practices and capabilities that together with the identified characteristics will lead to long-term survival. In the case where such business practices and capabilities are lacking, they can be easily developed since business practices and capabilities are trainable. The development of such practices and capabilities can be achieved through participation in workshops and seminars and identify entrepreneurs with implicit knowledge that is of interest for the rest of the group as it will help the entrepreneurs to think in a structured way about reality and to generate knowledge (learning to learn), which can create a shared understanding, create professional networks and thus boost the morale of the entrepreneurs.

7.4.2 General Recommendations

- Firstly, it will be recommended that the South African government, universities, higher learning institutions and financial service providers incorporate additional simplified short course training programmes that will include business knowledge skills (book keeping, marketing, entrepreneurship and business management) in their programmes. The inclusion of these training courses will certainly foster the survival and growth of SMEs.
- Equally, specialised capacity building support programs (conferences and training, workshops) should be put in place in order to upgrade the entrepreneur's level of education, so as to help improve upon the business knowledge and skills of most entrepreneurs in South Africa. Furthermore, students at higher learning institutions with qualifications honours and above should be encouraged to start up their own businesses, as it is believe that most of them will have the necessary skills required to run a business. This can be achieved with the help and support of the government and business support mechanism, by giving out start-up capital for viable businesses and monitoring the businesses at each stage in the businesses life cycle to ensure its continuous sustainability and survival. Also, continuous workshops and talk shops should be organised at universities where in successful

entrepreneurs identified by these should give a talk on the importance of establishing new businesses and general entrepreneurship education and also share their entrepreneurial experiences as these might motivate many young people to believe in themselves to start businesses also.

- Furthermore, although the level of education of the entrepreneurs in South Africa is low, a better way to compromise this situation is to bring entrepreneurial education to low levels of education. The education department can join with other ministries to form an entrepreneurship curriculum for primary and secondary schools. Such strategies have been successful for instance in Spain where secondary school students run import-export mini SMEs as part of their curriculum. Another case is in Luxembourg where in the primary school program, there is a section of starting up a business based on a cartoon. With similar strategies, South Africa can increase the skill of entrepreneurs who end up at matric or even lower, thereby enabling a sustainable SME environment.
- Also, women entrepreneurs are a vital component for economic growth in Africa. This can be seen in the various initiatives by the African Development Bank (AFDB) and the International Labour Organization (ILO) in promoting SME creation and growth by women in many African countries. It is therefore recommended that the South African government should create long-term partnerships with such organizations so as to enable the creation of a sustainable women entrepreneurship environment in South Africa.
- With respect to family businesses and succession, SME owners should ensure the management of the family business is worked through and the best people placed in the right roles to ensure the future success of the business. This will create an arena where entrepreneurs from entrepreneurial families do not own or manage businesses they have little knowledge or prior experience on how the business is run and operated.
- It also becomes imperative that entrepreneurial characteristics be enhanced as a means of nurturing SMEs success and long- term survival. Because most SMEs are totally dependent on the entrepreneur at first, success is linked on his/her attributes and thinking styles. Business support mechanisms should use the Life Styles Inventory (LSI) measures thinking styles and Neethling Brain profiling to identity the way entrepreneurs think and use the results to modify their teaching methods. This is important because it shows how to nurture

the entrepreneurial characteristics that are needed for survival in their businesses, but absent in entrepreneurs. These support mechanisms should focus simultaneously on providing effective leadership through the formulation and implementation of focused strategies and programmes that will enable entrepreneurs to develop entrepreneurial characteristics for the long-term survival of SMEs.

- Moreover, in order for entrepreneurs to develop characteristics such as creativity, self-reliance and ability to adapt and innovation, they must engage in reading books in a variety of fields; joining professional groups; attending professional meetings and seminars and devote time to pursue natural curiosities. This is because successful creations are generally led by information gathering.
- Likewise, leadership characteristics in entrepreneurs should be developed through experimental learning, social interaction learning, training in leadership knowledge and skills development, motivation, communication skills and team working.
- With regards to business practices, HRM practices should be enhanced by encouraging SME owners to provide performance evaluation in place, as it will help to promote better-achieved staff. This can be achieved by implementing productivity and quality enhancement schemes and launch new programs that can take care of staff amenities (birthdays and family funerals) and improve upon the employees working relationships with each other. Furthermore, in order to encourage the development of commercial orientation and promote risk management practices, entrepreneurs are encouraged to insure all their investments to enable them take appropriate account of the specific risk and return characteristics of these investments. Also, Entrepreneurs should join partnerships or look for investors to jointly invest in a business opportunity and management of the business so that in the case of success, failure, liquidation or bankruptcy, they all can share the losses and profits.
- Workshops should be developed to meet the conditions for effective learning. The first step is to identify entrepreneurs with implicit knowledge that is of interest for the rest of the group as it will help the entrepreneurs to think in a structured way about reality and to generate knowledge (learning to learn), which can create a shared understanding, create professional networks and thus boost the morale of the entrepreneurs.

- It is possible to improve the business practices and capabilities of entrepreneurs through developing and discussing the entrepreneur's strategic plans in workshops so that all participants get to benefit from the programme, irrespective of their characteristics or the level of capabilities at the start of the programme. Also, with regards to entrepreneurial/managerial capabilities, entrepreneurs are encouraged to accumulate internal capabilities and develop external networks simultaneously.
- When considering the area of external environment, this study recommends the urgent need by the South African government to ensure the safety of both the local and foreign investors in the country, without which their investment climate may worsen. This is because creating an interaction between a business and its environment will strengthen the business and help them use their resources and capabilities effectively.
- Additionally, with the current trends of inaccessibility of funding to SMEs (as more 41.5% of the respondents use personal savings to start up their businesses) due to lack of collateral, poor business plans, poor management and lack of business skills, there is need for the government to allocate more funding for the growth and development of SMEs. Banks and financial institutions should also be encouraged to give out loans to both new and established businesses. It is therefore recommended that banks and financial institutions should add to their objectives of promoting the growth of SMEs sector, measures to address this financial situation. This can be done by developing a department of business management in their institutions, which will focus on evaluating loan applications, carrying out research on the viability of the businesses, drawing up business plans and ensuring the implementation of the business ideas, which will act as a condition for giving out loans to the entrepreneurs. This will further encourage the banks and financial institutions loan providers to give out loans with full confidence since they will be sure of future repayments of the loans. This step will further enable the circulation of money between the SMEs, banks and financial institutions - hence leading to economic growth. It will also help in reducing the high failure rates of most SMEs in South Africa, amongst other reasons, while also providing actual business opportunities for necessity entrepreneurs as a means for creating sustainable businesses to help alleviate poverty and reduce unemployment.

7.5 LIMITATIONS OF THE STUDY

- One limitation of this study is that it investigated only the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs in the Motheo district (Bloemfontein; Botshabelo and Thaba’Nchu).
- The respondents identified for the study were the entrepreneurs (owners of businesses), without taking into consideration the managers and employees of the business. Also, a limited number of characteristics; practices; capabilities, determinants of survival and external environmental factors were identified and tested by this study.
- The respondents were identified by using the stratified random sampling and snowball sampling. Data was collected with the use of a structured questionnaire and interviews, administered by both hand deliveries to the entrepreneurs in the Motheo district. The data obtained from the respondents were analysed using SPSS and GNU PSP statistical software.

7.6 AREAS FOR FURTHER STUDY

- Since the respondents identified for this study were the entrepreneurs (owners of businesses), further studies can also be conducted to find out which characteristics are possessed by both the managers and employees of a business, as well as how they carry out the business practices assigned to them by their owners.
- Also, a limited number of characteristics; practices; capabilities, determinants of survival and external environmental factors were identified and tested by this study, which gives room for further research on the study.
- Furthermore, potential areas for future exploration could be to determine the characteristics and practices that lead to the success and growth of a firm.
- Additional studies could be conducted to investigate and to confirm the results on the determinants of survival identified by this study using the researcher’s own criteria (table 6.19, table 6.20 and table 6.21 above), while also identifying other sets of criteria that could as well be used in determining long-term survival of SMEs.

- Lastly, future research could also be conducted on what strategic alternatives can be put in place to give a hand to SMEs in their activities.

7.7 CHAPTER SUMMARY

This chapter examined the discussions; achievement of objectives, limitations and areas for further study with respect to the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs. Looking at the division of this chapter, Section 7.1 introduced the chapter, while Section 7.2, provided a discussion on the empirical findings. Explanations and arguments to each question on the questionnaire were raised according to the literature review of each chapter. Section 7.3 discussed the achievement of objectives, where the success of the study was measured against the research objectives formulated in section 1.3.1 and 1.3.1 in chapter once. Based on the achievement of all the secondary objectives, it can be concluded that the primary objective of this study was achieved.

Section 7.4 highlighted both specific recommendations and general recommendations were suggested based on the arguments raised in the discussions in section 7.2, which the researcher believes that a full implementation of the above mention suggestions will help in reducing the high failure rates of most SMEs in South Africa, amongst other reasons. In Section 7.5, the limitations of the study was examined and it was found that the study only focused on investigating the impact of entrepreneurial characteristics and business practices on the long-term survival of SMEs in the Motheo district(Bloemfontein; Botshabelo and Thaba’Nchu). The respondents identified for the study were entrepreneurs (owners of businesses), without taking into consideration the managers and employees of the businesses. Section 7.6 highlighted the areas for further study, where in, four possible areas for further studies were identified, of which the researcher again believes that if investigated could further help to improve the activities of SMEs in South Africa.

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APPENDIX

QUESTIONNAIRES

PART A: DESCRIPTIVE INFORMATION OF THE ENTREPRENEUR/SMEs

1) Gender?

Male	1	Female	2
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2) Age group?

≤ 20	1	21- 30	2	31- 40	3	41- 50	4	≥ 50	5
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3) Race/ Ethnic group

Black	1	Coloured	3	Asian	5
White	2	Indian	4	Others	6

4) Age of the business at present?

Less than 1 years	1	1- 3years	2	3-5 years	3	6-10 years	4	Greater than 10 years	5
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5) In which stage of the life cycle phase is your business currently in? (Mark an X)

Start up stage	1	Growth stage	2	Maturity stage	3	Declining stage	4
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6) Highest formal educational qualification?

Matric	1	Degree	2	Honours	3	Masters	4	Doctorate	5	Diploma		Others	
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If Others, Please specify

7) What type of degree program did you complete? Please indicate by marking an X

Accounting	1
Marketing	2
Business management	3
Finance	4
Human resource management	5
Economics	6
Engineering	7
IT/ Computing	8

8) Have you ever enrolled for any short course; training programs or diplomas in business management or related discipline (Please indicate with a tick)

	YES	NO
Business Management	1	2
Finance	1	2
Bookkeeping	1	2
Marketing	1	2
Entrepreneurship	1	2
Human resource management	1	2
General management	1	2
Management Accounting	1	2
Marketing management	1	2
Sales management	1	2
Tourism management	1	2
Project management	1	2

9) If you have any other degree; diplomas or training program not mention in question 7 and 8 above, please specify

.....

PART B: ENTREPRENUERIAL CHARACTERISTICS

Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level

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

CHARACTERISTICS	STATEMENTS					

Need for achievement (nAch)	I am open to new ideas and prefer to work independently than in teams	1	2	3	4	5
	I set my mind to achieve a goal in relation to a set of standards	1	2	3	4	5
	I am a moderate risk taker and like to anticipate future possibilities	1	2	3	4	5
	I do not see negative feedbacks and challenges, as a source of discouragement	1	2	3	4	5

Characteristics	Statements					
Locus of Control	I believe that I can determine my own destiny	1	2	3	4	5
	I am willing to accept both positive and negative consequences of my decisions and actions	1	2	3	4	5
	I believe my success lies in my own abilities and efforts	1	2	3	4	5
	I believe success is a product of luck and fate, rather than personal efforts	1	2	3	4	5

Characteristics	Statements					
Leadership	I build communication processes that make it safe for people to say what is on their minds.	1	2	3	4	5
	I demonstrate to my peers that I believe that trust is the foundation for successful collaboration.	1	2	3	4	5
	I reward employees on good performance and provide encouragement to motivate them	1	2	3	4	5
	I facilitate the development of a joint vision and communicate the vision broadly	1		3	4	5

Characteristics	Statements					
Commitment and determination	I am driven by the wiliness to undertake personal sacrifices	1	2	3	4	5
	I am decisive and very persistent in problem solving	1	2	3	4	5
	I am able to overcome setbacks when faced with challenges	1	2	3	4	5

Characteristics	Statements					
Risk taking propensity	I prefer being low-paid employee with apparent job security	1	2	3	4	5
	I am willing to take a low risk for a sure rate of return	1	2	3	4	5
	I do not fear investing my money on a project whose risk I have calculated	1	2	3	4	5

Characteristics	Statements					
Tolerance of Ambiguity and uncertainty	I always response positively in uncertain situations	1	2	3	4	5
	When determined, I continue with my course of actions, even when results seem uncertain	1	2	3	4	5
	I consider certainty to be unchanging	1	2	3	4	5

Characteristics	Statements					
Self confidence	I have the ability to achieve my set goals and objectives	1	2	3	4	5
	My success or failure does not depend on luck nor fate	1	2	3	4	5
	Even when faced with setbacks, I still believe my personal control and influence will enable me achieve my goals	1	2	3	4	5

Characteristics	Statements					
Creativity, Self reliance and ability to adapt	I am open minded and a quick learner	1	2	3	4	5
	I believe my achievement lies within my control and power	1	2	3	4	5
	I always adapt my business strategies to the changing business environment	1	2	3	4	5

Characteristics	Statements					
Innovativeness	I know my "customers" and understand their requirements	1	2	3	4	5
	I have an ability to identify fresh and innovative approaches to existing situations	1	2	3	4	5
	anticipate change and perceive trends before they become apparent to others	1	2	3	4	5
	anticipate future consequences or implications of current situations or events	1	2	3	4	5

Characteristics	Statements					
Opportunity obsession	I have an intimate knowledge of customers needs and market drive	1	2	3	4	5
	I prefer to focus on new opportunities than on money	1	2	3	4	5
	I am highly market-driven (e.g., focused on customer and technology trends, competition, etc.).					

Characteristics	Statements					
Motivation to excel	I have a drive to achieve and a low need for power and status	1	2	3	4	5
	I am results oriented and strive to build and grow a business	1	2	3	4	5
	I am aware of my strengths and weaknesses	1	2	3	4	5

PART C: BUSINESS PRACTICES

Please circle the extent to which the following business practices was/ is used in your business. Please indicate by marking an X.

- 1) How did you start up your business (Path to ownership)?

From scratch	1	Family inheritance	2	Purchase the business	3	Franchise	4
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- 2) Legal structure of business?

Sole trader	1	Partnership	2	Corporation	3
Public limited company	5	Private limited company	6		

- 3) Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level

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

PRACTICES	STATEMENTS					
Teamwork	Team members are mutually supportive and help each other to overcome problems to achieve success	1	2	3	4	5
	Team members share their knowledge and skills openly to grow together	1	2	3	4	5
	Team members actively listen to each other striving to create a better working environment	1	2	3	4	5
	Team members actively affirm and encourage one another to build a high level of morals	1	2	3	4	5

Practices	Statements					
Risk management	My organization carries out a comprehensive and systematic identification of its risks relating to each of its stated aims and objectives.	1	2	3	4	5
	I ensure improved management information resulting in more informed decision making	1	2	3	4	5

	I ensure better use of existing resources by focusing them on the highest risks	1	2	3	4	5
	I ensure that all relevant risk areas are considered including those coming from the services of external providers and contractors	1	2	3	4	5

Practices	Statements					
Planning	Business level objectives; production targets; profits and sales targets are all included in my strategic plan	1	2	3	4	5
	My business makes use of vision; mission statement; business plan; SWOT analysis and PEST analysis	1	2	3	4	5
	I try to change my approach to building knowledge and skills: in technical matters, knowledge of clients' business, consultation skills	1	2	3	4	5
	I implement new approaches in tracking and capitalizing on emerging client needs	1	2	3	4	5

Practices	Statements					
Marketing	Delivery on time	1	2	3	4	5
	Establish good relationships with our suppliers and distributors	1	2	3	4	5
	Emphasis on good product quality to customers	1	2	3	4	5
	Enter into negotiations with potential partners	1	2	3	4	5

Practices	Statements					
Human Resource Management	Involving employees in decision making	1	2	3	4	5
	Emphasize on the provision of rewards and punishment systems of all employee	1	2	3	4	5
	Emphasize employees on good training opportunities to improve skills	1	2	3	4	5
	Emphasize on the provision of amenities and facilities	1	2	3	4	5

Practices	Statements					
Performance Management	Target dates are clearly communicated to employees	1	2	3	4	5
	Feedback is received on good and poor performance	1	2	3	4	5
	During the year specific areas for improvement are clearly pointed out	1	2	3	4	5
	Business review focuses equally on my strengths and areas for improvement	1	2	3	4	5

PART D: ENTREPRENEURIAL/MANAGERIAL CAPABILITIES THAT ENHANCE BUSINESS PRACTICES

Please indicate the extent to which you agree or disagree with each of the following statements by selecting the appropriate level

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

CAPABILITIES	STATEMENT					
Business Acumen	I have a clear understanding of the key business drivers inside my organization, industry, market and customer segment	1	2	3	4	5
	I am knowledgeable about the current and potential future policies affecting my business	1	2	3	4	5
Innovation	I always have new abilities to create wealth	1	2	3	4	5
	I constantly pursue new and different work approaches to improve the company products and processes	1	2	3	4	5
Ownership	I have the ability to work with a high level of self determination and flexibility	1	2	3	4	5
	I demonstrate high standards to discipline in the business	1	2	3	4	5
Commercial orientation	I have the ability to correctly assess a business potentials and profitability of market opportunities	1	2	3	4	5
	I always employ the most cost effective in my business	1	2	3	4	5
Results focus	I am always willing to focus all time and energy on things that impact the business the most	1	2	3	4	5
	I have the ability to act fast, spot and seize new opportunities when they arrive	1	2	3	4	5
Perseverance	I rarely give up in the face of setbacks but employ different strategies	1	2	3	4	5
	I do not let negative responses or setbacks affect my enthusiasm	1	2	3	4	5
Leadership oriented capabilities	I am able to get people change their minds	1	2	3	4	5
	I have the ability to lead others	1	2	3	4	5
	I demonstrate patience, maturity and poise and respond well in high pressure situations.	1	2	3	4	5

PART E: DETERMINANTS OF SURVIVAL

- 1) Please provide me with the necessary information that applies to your business career. Please note that information provided is strictly confidential

	At start up date	At present, 2011
Number of employees		
Turnover/ profitability		
Percentage increase in sales revenue		
Equipments/ Assets		
Number of business owners		
Business location		
Office number		

- 2) Please indicate approximately your business results of the last year, by marking an X on the most appropriate answers

Indicators	Increase > 20%	Increase 10-20%	Stable	Decrease 10- 20%	Decrease 20%
Net profit/ year	1	2	3	4	5
Total amount of sale/ year	1	2	3	4	5
Inventories turn over	1	2	3	4	5
Number of customers	1	2	3	4	5
Number of employees	1	2	3	4	5

PART F: THE EXTERNAL ENVIRONMENT

Please indicate the extent, to which you agree or disagree with each of the following statements, you believe have an impact on your business, by selecting the appropriate level.

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

FACTORS	STATEMENT					
Economic factor	Exchange rate	1	2	3	4	5
	Inflation rate	1	2	3	4	5
	Access to credit	1	2	3	4	5
	Taxes	1	2	3	4	5
	Competition	1	2	3	4	5

Political Factors	Documentation to start-up a business	1	2	3	4	5
	Labour disputes and strikes	1	2	3	4	5
	Labour Union	1	2	3	4	5
	Stable government	1	2	3	4	5

Socio cultural factors	Crime/ Theft	1	2	3	4	5
	Corruption	1	2	3	4	5
	Racism	1	2	3	4	5
	Language barrier	1	2	3	4	5

Legal factors	Cost of legal services	1	2	3	4	5
	Access to legal assistance	1	2	3	4	5
	Response from police services	1	2	3	4	5
	Execution of court orders	1	2	3	4	5

PART G: NATURE OF THE BUSINESS

1) In which Economic Sector will you classify your business? (Mark an X)

Agriculture	1	Technology/IT	2	Wholesales, Motor vehicles and Repairs	3
Manufacturing	4	Financial Services	5	Accommodation & Hospitality	6
Property & Real Estate	7	Business Services & Consultants	8	Retailing & Consumer Services	9
Health care, Education, Social service	10				

2) How many people does your business employ?

A micro enterprise (0-5 people)	1	Very small (5-10 people)	2	A small enterprise (10-50 people)	3	A medium enterprise (50-120 people)	4	A large enterprise (≥ 120)	5
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3) What is your position/role in the business?

Owner	1	Manager	2	Shareholder	3	Employee	4
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4) How did you raise up your startup capital?

Personal savings	1	Family and friends	2	Inheritance	3	Banks and other financial institutions	4
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5) What were your reasons/motives for starting the business?

Make money	1	Be your own boss (independent)	2	Escape bad situations (unemployment)	3	Enjoy a satisfying life	4
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6) Did you have a prior experience in the sector that your business is operating in?

Yes	1	No	2
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If yes, Please indicate in details

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7) Have any of your family members ever owned or operated a business?

Yes	1	No	2
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THANK YOU