

University of Pretoria etd – Dzansi, D Y

**Social responsibility of SMMEs in rural communities**

By

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**STUDY LEADER: DR. M. PRETORIUS**

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**DEDICATED TO THE EVERLASTING MEMORIES OF**

My late grand mother Theresa Abra Abutia

And

My late aunt Apolonia Akosia Biga

## ACKNOWLEDGEMENTS

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Dennis Yao Dzansi

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**Degree:** PhD (Entrepreneurship)

**Department:** Business Management

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**ABSTRACT**

The purpose of this study was to investigate the extent to which the notion of Business Social Responsibility (BSR) has permeated the Small, Medium, and Micro Enterprise (SMME) environment in rural South Africa. It is expected that the determination of the extent of SMME BSR participation will help shed more light on this growing but highly controversial concept.

The empirical investigation was preceded by a literature survey. In particular the literature review provided a discussion on the theoretical foundations of BSR that led to the identification of ethics and stakeholder theory as the two pillars upon which BSR rests. Examination of previous studies led to the identification of the community, employee, and customer related issues as key elements of SMME BSR. These elements were used to construct a measurement instrument for SMME BSR.

The results of the empirical study show that the concept BSR has permeated the SMME mindset in the Greater Taung Local Municipality (GTLM). In particular it identified key factors to measure the BSR construct and shows that BSR is as much an SMME issue as it is a big business issue. Through discriminant analysis it is possible to classify SMME performance based on the determined factors.

The study raises issues which when attended to might increase SMME BSR performance hence increase their contribution to socio economic development especially in rural communities.

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There is need for the SMME enabling environment to be improved. The level of management within SMMEs also needs to be improved. This requires policy makers to put in place extra support beyond what currently exists. There is also the need to educate businesses especially those in the rural areas on their social responsibilities. This will help create awareness of the concept not only because it is ethical but because of its business imperative. This requires commitment from the highest office of the country. But perhaps more importantly South Africa also needs a Minister for Business Social Responsibility like the UK.

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### CV

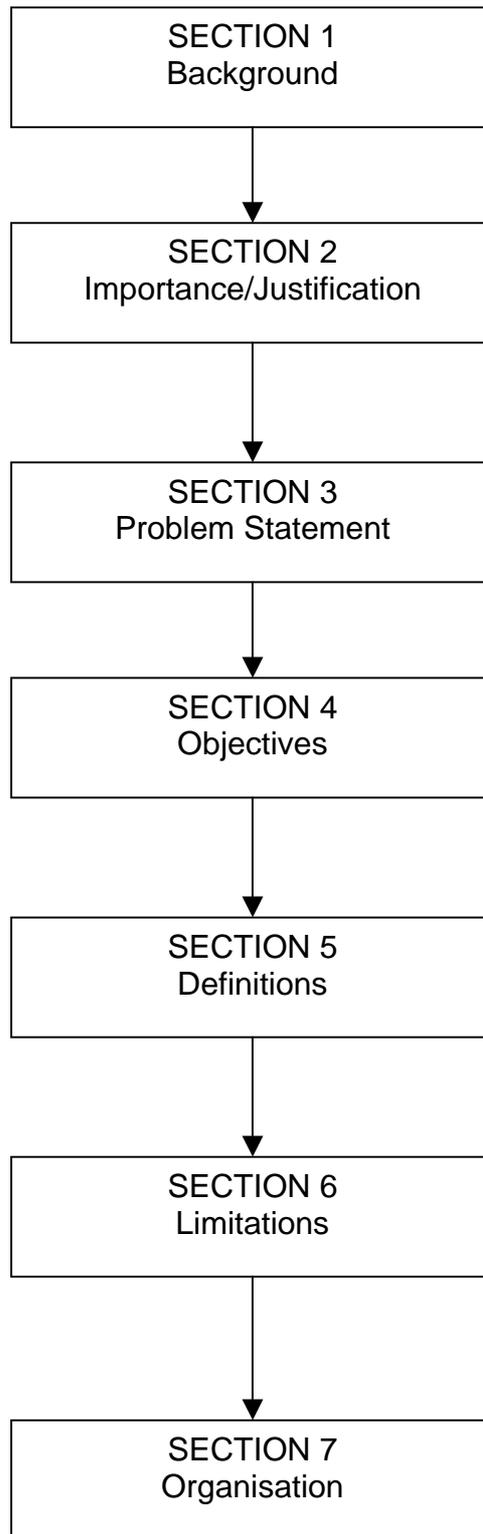
Dennis Yao Dzansi

Dennis Yao Dzansi was born in Tanyigbe-Atidzie in the Volta Region of Ghana on the 1<sup>st</sup> of April 1956. He had his elementary education at Tanyigbe-Atidzie RC primary, Ave RC primary, Tanyigbe LA Middle School, and Insu-Siding Middle School. He had his secondary education at Kpedze Secondary and Oda Secondary School. He attended the University of Ghana Legon, Accra for his undergraduate studies completing in 1979. He holds an MBA degree from Potchefstroom University for Christian Higher Education (now Potchefstroom campus of the North West University).

Dennis Yao Dzansi has been a teacher since 1979 and has taught in the following institutions: Anum Secondary School - Ghana, St Kizito's High School - Nigeria, St James High School, Khubetsoana Secondary School, and the Institute of Extra-Mural Studies (National University of Lesotho) – Lesotho and Lephatsimile High School and Mokgareng High School – South Africa. He is currently the Headmaster of Bogosing High School – South Africa (N/W province).

The MBA studies ignited his general interest in entrepreneurship and in particular, the role of entrepreneurship/SMMEs in socio economic development. The pursuit of gaining a better understanding of this phenomenon resulted in the thesis entitled, Social responsibility of SMMEs in rural communities. The promovenda's research has clarified some previous misconceptions about the role of SMMEs in society. In particular it shows that BSR is as much an SMME issue as it is a big business issue. It has also enriched the BSR literature by the addition of the small business perspective that has been lacking.

**CHAPTER 1 OUTLINE**



## CHAPTER 1: INTRODUCTION

*“BSR offers a new alternative to the idea that economic and social goals must always be in conflict. It offers an integrated approach to business in the modern world. It shows the way forward, to achieve economic, social and environmental benefits at the same time”*

(Alexander, 2002).

### 1.1 BACKGROUND

Post apartheid South Africa faces socio-economic problems similar to those of other developing countries that need urgent attention. These include a very high unemployment rate, skills shortage, high illiteracy rate, an ever-escalating crime rate and rural poverty etc. In Africa, these problems seem more prevalent in the rural communities.

For example, Botha and Visagie (1998:694), notes that in most rural areas of South Africa where the population is too small to justify large enterprises, the only source of economic activity (job creation) is that provided by small medium and micro enterprises (SMMEs). This statement gives an indication of the potential role of a dynamic SMME sector in helping solve some of the many pressing socio economic problems of rural communities in developing countries such as the case of the GTLM.

Apparently, this realisation may have prompted Botha and Visagie (1998:694) to argue that SMMEs could play a meaningful role in underdeveloped communities by providing social services. “Hence SMMEs need to consider themselves part of the communities in which they operate by developing mutual relationships with their communities” they concluded. According to them, this would require voluntary participation in social activities on the part of SMMEs.

The GTLM is situated within the southern part of the Bophirima District of the North West province of South Africa. Metro Town Planners (2001), in a study carried out for the GTLM provides the following statistics: The area covers about 5649 km<sup>2</sup>, representing about 12 percent of the Bophirima District Municipality.

There are about 94 villages/towns with the major towns being Reivilo, Pudimoe and Taung. The population is 184482 people with more than 63 percent being children under fifteen (15) years. The population density is 33/km<sup>2</sup> with an average household size of about 5 people. According to the same source, the majority of the annual household income falls below the national minimum wage with about 23 percent of the households earning no income at all while almost 62 percent earn less than R501.00 per month. The unemployment figure stands at about 23 percent with the employment figure of about 13 percent.

Except for Taung-Tusk, which can be classified as big business in accordance with national standards, the rest of the businesses are small in nature and dominated by small retailers. These are mostly concentrated in the three major towns of Reivilo, Pudimoe, and Taung. These small firms form the main source of economic activity in an area that is far removed from large commercial towns and characterised by poverty, disease, high unemployment rate and low level of development. The GTLM can thus be described as a typical underdeveloped rural area.

With the above statistics, it becomes apparent that Botha and Visagie's (1998:694) call for SMMEs to play an increasing role in the socio-economic well being of such rural people is very relevant to the GTLM. Yet the research findings so far suggest that most of the SMMEs found in the rural areas are necessity driven hence are characteristically limited in their ability to create jobs (see Chapters 2 and 4). This calls for a re-examination of how to make rural based SMMEs increase their impact on the socio-economic development of the communities in which they operate.

If only SMMEs can heed the call to become more socially responsible, they would in no doubt be able to have a more positive impact on their communities than the current level.

The fact that majority of SMMEs are limited in their ability to create jobs does not necessarily make them any less important in socio-economic development. On the contrary, in spite of their constraints, SMMEs have been credited with national,

regional, and local economic development contributions through job creation. For example, the South African Department of Trade and Industry (DTI) estimates that the SMME sector is responsible for about 50 percent of formal employment and contributes nearly 37 percent of the country's gross domestic product (GDP). In 1997, they were reputed to have accounted for approximately 50 percent of total employment and about 41 percent of the country's formal sector gross national product (Ntsika, 1998).

The government's acknowledgement of the importance of a strong and vibrant SMME sector is demonstrated in its commitment to the promotion and support for SMMEs that aim at increasing the number of new enterprises and creating an enabling environment to ensure their survival and growth. The government hopes to achieve this goal through the National Small business Act of 1996.

While supporting the emergence and growth of businesses particularly SMMEs, the government also provides legislations that guide how businesses must operate. There are legislations covering for example labour relations, tax, finance, environment, and ethical behaviour.

Strict compliance with legislation on ethical conduct is becoming a minimum requirement to remain in business. Similarly, it is also now becoming increasingly apparent that for long-term survival, businesses, irrespective of size, need to voluntarily develop long-term and mutually beneficial relationships with the communities in which they operate. In other words, businesses now need to behave voluntarily in a socially responsible manner. Establishing long-term relationship some experts say, calls for ethical behaviour over and above what the law stipulates.

This behaviour is normally referred to in the literature as Corporate Social Responsibility (CSR). The use of 'corporate' may be because most of the social responsibility research to date has concentrated on large businesses. This semantics can however be confusing for the average reader, as the word 'corporate' appears to carry big business connotation. Replacing 'corporate' with 'business' can help eliminate this confusion as it is generic hence relevant to

businesses of all sizes. Consequently, in this study, the concept is referred to as Business Social Responsibility (BSR).

Kapp (1978), in his book 'The social costs of business enterprise' first brought BSR into focus when he raised the issue of social costs of business that he said were unaccounted for in the entrepreneurial domain but which according to him were instead shifted to and largely borne by communities. Arguing further, he said that although economic progress may have been made more rapid through the activities of business enterprises, in the end, society has to pay in the form of, among others, the social costs of air and water pollution. These observations and arguments are a powerful indictment on business about their role in ensuring a safe and healthy working environment.

Meanwhile, the past decade has witnessed the emergence and drive for 'sustainable development' that according to Taylor-Gee (1999:29), requires harmonising the traditional focus of the financial bottom line with environmental and social aspects, with the underlying belief that the three are interdependent and mutually enhancing. Acknowledging that businesses now recognise the value of this 'so called' 'triple bottom line' approach, she notes that environmentalism has long become a well-established practice. Yet, it is only now that businesses have begun to address the so-called third leg of sustainable development, that is - societal aspects.

Although the results vary, some empirical studies seem to support the positive impacts of BSR on business economic performance. For example, in her doctoral research, Wingard (2001) found that there is a positive correlation between environmental responsibility and the performance of South African listed companies; i.e. the higher the environmental responsibility of a company is, the higher is the financial performance of that company.

Another study recently performed by Harvard University and cited in the 'Business for Social Responsibility' magazine found that 'stakeholder-balanced' companies showed four times the growth rate and eight times the employment growth when compared to companies that are 'shareholder-only' focused.

Although these studies have largely focused on big companies or urban businesses it does show that companies can indeed behave in a socially responsible manner and still add to shareholder wealth.

Meanwhile, the Canadian Co-operative Association (CCA) (2003) argues that in the near future, BSR will become mainstream within business and not just an add-on.

Even though the vast majority of business enterprises in South Africa are small, they constitute a very important segment of the economy and in rural areas where they are the main means of employment and economic activity they need to respond to a number of stakeholders' needs just as the large corporations do.

Despite their undisputed importance, SMMEs continue to be ignored or at best paid very little attention as most of the BSR literature focuses on large corporation. Smith and Thompson (1991) noted this by saying that little research and discussion have focused on BSR in SMMEs. Besser and Miller (2000) also point out that, little is known empirically about aspects of social responsibility relating to SMME operators regard for their communities. This lack of attention to SMME/BSR interface has created a knowledge gap that needs to be addressed in order to increase the understanding of the concept.

## **1.2 IMPORTANCE/JUSTIFICATION FOR THE STUDY**

Although it has been almost thirty years since Kapp (1978) noted that lack of progress in bringing the issue of business social costs to the fore of economic theory, much still remains to be achieved up till today. In other words, economic theory has still not fully addressed the issue of social costs. One way of addressing this shortcoming is by engaging in a study that looks at the wider aspect of the business/society relationship (business social responsibility).

Given the prevalence and importance of SMMEs in most economies there is the need to develop a framework of 'small business social responsibility' in order to understand and promote positive socio-economic impact of SMMEs. Such a

framework should also assist in improving what the UNIDO (2002) refers to as the 'silent social responsibility', which already prevails in many SMMEs. One way of developing such a framework according to UNIDO (2002), is to undertake empirical research into what SMMEs are doing in terms of responsible business practices, for example how are they engaging with stakeholders? In addition, to what extent are they contributing to local communities? This study should contribute to the development of such a framework.

Hobel (2002), asks "if nations are going to trade together on a levelled playing field doesn't that require agreement on respecting workers rights and protecting the environment from pollution? Or are more enlightened states to suffer a market disadvantage versus those that employ child labour, ignore human rights and operate without pollution controls or environmental safeguards?" Answers to these and other BSR related questions could only be arrived at by studies of this nature.

BSR research has so far focused on big businesses. Yet, research findings involving large organisations are not wholly transferable to small ones (Dilts and Prough, 1989:31). Many of the concerns underlying calls for BSR do not apply to SMMEs (UNIDO, 2002) mainly because SMMEs operate under conditions that are different from large ones. Understanding big business/BSR interface therefore cannot provide an understanding of the SMME/BSR interface. In other words, it will be inaccurate to assume that BSR behaviours of SMMEs would be comparable to those of large organisations. It is therefore surprising that research in the area of business/society relationship has been directed mainly at large corporations while small firms remain largely ignored. This research is intended to address this imbalance.

In addition, the paucity of empirical research on BSR as it relates to small businesses is some-how surprising given their number and importance in national economies. Various studies have shown that SMMEs are important contributors to growth in any economy even if only by their numerical strength. For example, according to Ntsika (2000:5), SMMEs contribute close to forty percent (40%) of the GDP in South Africa. Elsewhere, the trend appears to be the same. For example,

according to Trost (1988) as quoted by Smith and Thompson (1991:30), more than 60 percent of the U.S. work force is employed by companies with fewer than 50 employees. Thus, an important sector is ignored when small businesses are excluded from research on BSR. The addition of SMMEs to the BSR theoretical framework would therefore contribute to theory development.

Another importance of this study relates to the fact that much of the small business research concerning BSR is considered inadequate because they are either restricted to small business in the urban settings or conducted in Western developed economies where conditions may differ significantly from those of rural areas in developing countries. Research is therefore needed on small businesses in rural settings of developing countries such as the GTLM in order to gain a fuller understanding of the concept BSR within SMMEs.

Recently, Mr Douglas Alexander, the Minister for Corporate Social Responsibility in the UK presented the British Government's report on BSR that sets the way forward. According to Alexander (2002), the report recognises that BSR is not just for large, multi-national companies that have a national or global impact. The report says that the role SMMEs play in their local community is also vital. It also says that SMMEs give about three billion pounds a year to social issues but notes that these SMMEs need tools to develop their own BSR practices. Studies of this nature should contribute to the development of such tools.

Finally and perhaps, the most important justification for this study relates to the fact that BSR as an emerging field within management is not very well understood. Much theoretical and empirical study has been done on large businesses in the field but not much has been achieved in terms of small businesses. This has created a knowledge gap and a gap in the BSR literature to the extent that BSR as it affects small businesses remains a mirage. Addition to the small business BSR research literature should help fill the void hence lead to a fuller understanding of BSR as it affects all kinds of businesses. This is what this study is intended to achieve.

### 1.3 PROBLEM STATEMENT

Given the poor state of development in the GTLM, the fact that SMMEs are the major source of economic activity in the area, and the growing global recognition of BSR as a business imperative irrespective of firm size, the following research questions arise:

1. *Are SMMEs in the GTLM aware of the concept BSR and its elements?*
2. *Do the GTLM SMMEs engage in activities that can be termed BSR?*
3. *Do SMMEs in the GTLM regard BSR as beneficial to their business?*
4. *Are there differences in the level of BSR awareness and performance among SMMEs along racial/cultural lines in the GTLM?*
5. *Are there any observable positive outcomes for those SMMEs that practice BSR?*

Answers to these questions should assist in gaining a better understanding of the concept BSR especially as it relates to SMMEs in rural parts of developing countries.

### 1.4 OBJECTIVES

The primary objective of this study is to determine the extent to which the notion of BSR has permeated the SMME owner/manager mindset in a typical rural setting such as the GTLM.

The major objective leads to the following secondary objectives:

- To contribute to the body of knowledge on BSR especially as it relates to SMMEs.
- To create awareness among the SMME owner/managers in the GTLM with regard to their BSR.

- To assist SMMEs in building and protecting their reputation by being recognised as world-class socially responsible enterprises.
- To create awareness among the owner/managers of SMMEs in the GTLM, of the business benefits of engaging in BSR activities.
- To create awareness among the SMME owners of the potential pitfalls of not engaging in BSR programmes.
- To develop a framework for understanding and promoting positive social impact of SMMEs.
- To help generate strategies for the socio-economic development of the GTLM and other similar rural communities especially in developing countries.

## **1.5 DEFINITION OF KEY CONCEPTS**

### ***Stakeholders***

These are individuals and/or groups of individuals (including households, and communities) at local, regional, national or even international level that have the potential of being affected or affecting a given project.

### ***Development***

Development as used in this study refers to sustained economic growth accompanied by reducing levels of poverty, unemployment and inequality.

***Underdevelopment***

This refers to the situation of persistent high levels of poverty, unemployment, and inequality, in conjunction with low standard of living, and low rates of economic growth.

***Sustainable development***

This refers to development that meets both present and future needs without the present compromising the future.

***Freedom***

This refers to freedom to engage in activities to satisfy one's want including the freedom to establish an economic organisation.

***Prosperity***

This refers to favourable economic condition that gives an entrepreneurial organisation the opportunity to gain and grow.

***Consumerism/customer relations***

This refers to the movement that stresses the needs of consumers and the importance of serving them honestly.

***Business Social Responsibility***

This refers to a company's commitment to operating in an economically and environmentally sustainable manner while recognising the interest of its stakeholders (stockholders, customers, employees, business partners, local

communities, the environment and society at large) over and above those provided by law.

### ***Entrepreneurship***

This is the process whereby creative and innovative people use their skills, to create new economic organisations, for the purpose of making profit whilst bearing the inherent risks.

### ***Entrepreneur***

This refers to a person, who after spotting a market opportunity uses his or her personal skills of creativity and innovation to establish an economic organisation for the purpose of making profit whilst bearing the inherent risks.

### ***Necessity Entrepreneur***

This is a person who starts a small-scale business because he or she is desperate to earn a living but cannot find formal employment.

### ***Opportunity Entrepreneur***

This refers to an individual who is not driven by the need to earn a living but who establishes a small business because that person sees a potential market (perceives an opportunity) for a particular product(s) or service(s).

### ***Poverty***

This means the inability of individuals, households or communities to attain socially acceptable minimal standard of living, measured in terms of basic consumption needs or the income required for satisfying them.

### ***Inequality***

This refers to a state in which not all members of a particular society are given equal access to resources and opportunities.

### ***Entrepreneurial venture***

This is a business that is characterised by:

- Growth potential
- Innovation
- Strategic objectives.

### ***Small business***

This refers to those businesses that are small in size and characterised by:

- Little (insignificant) or no growth potential.
- Little (insignificant) or no innovation.
- Only short term (or at best medium term) objectives.

### ***Gross Domestic Product (GDP)***

The sum of all expenditures on goods and services in a country, plus goods and services exported, minus goods and services imported.

### ***GDP per capita***

GDP divided by the number of the population. This is an indication of the amount of wealth generated by one person.

## **1.6 LIMITATIONS**

The following limitations are applicable to this study:

Only firms belonging to the micro, very small and small enterprises were studied because none of the businesses in the area qualifies to be classified as medium.

The use of self-reporting may not be a true reflection of a business's social responsibility performance thus too much reliance should not be placed on claims by owner/managers.

Businesses may engage in BSR programmes without documenting it hence there is no emphasis on verification by documentary proof.

The views/perceptions of a manager/owner may not necessarily reflect the true state of affairs within the business. However, it is generally accepted that as the main role players, owner/managers attitudes and beliefs often determine the tone of SMME business conduct. Thus, for the purpose of this study, it is assumed that owner/manager perceptions/views of BSR will adequately reflect the overall BSR orientation of their businesses.

## **1.7 ORGANISATION OF THE STUDY**

Chapter 2 reviews the literature related to the role of SMMEs in socio economic development. Two major issues are addressed here. First, various perspectives and definitions of development are explored leading to the development of a working definition. This is followed by examination of major development issues facing South Africa such as inequality, poverty, and unemployment. Secondly, the discussion will cover important SMME issues such as the nature and definition, SMME enabling environment, general barriers for SMMEs and finally the role of SMMEs in development.

Chapter 3 examines the concept 'BSR' with particular reference to SMMEs. Existing definitions are first examined leading to a working definition. Its theoretical foundations are examined. Stakeholder theory and ethics are explored; the elements/measures of BSR are identified; and finally the BSR/SMME interface is explored.

Chapter 4 provides a short discussion on the concept 'entrepreneurship'. Examination of the differences between entrepreneurial ventures and small business ventures is also reported. Necessity versus opportunity entrepreneurship is also explored.

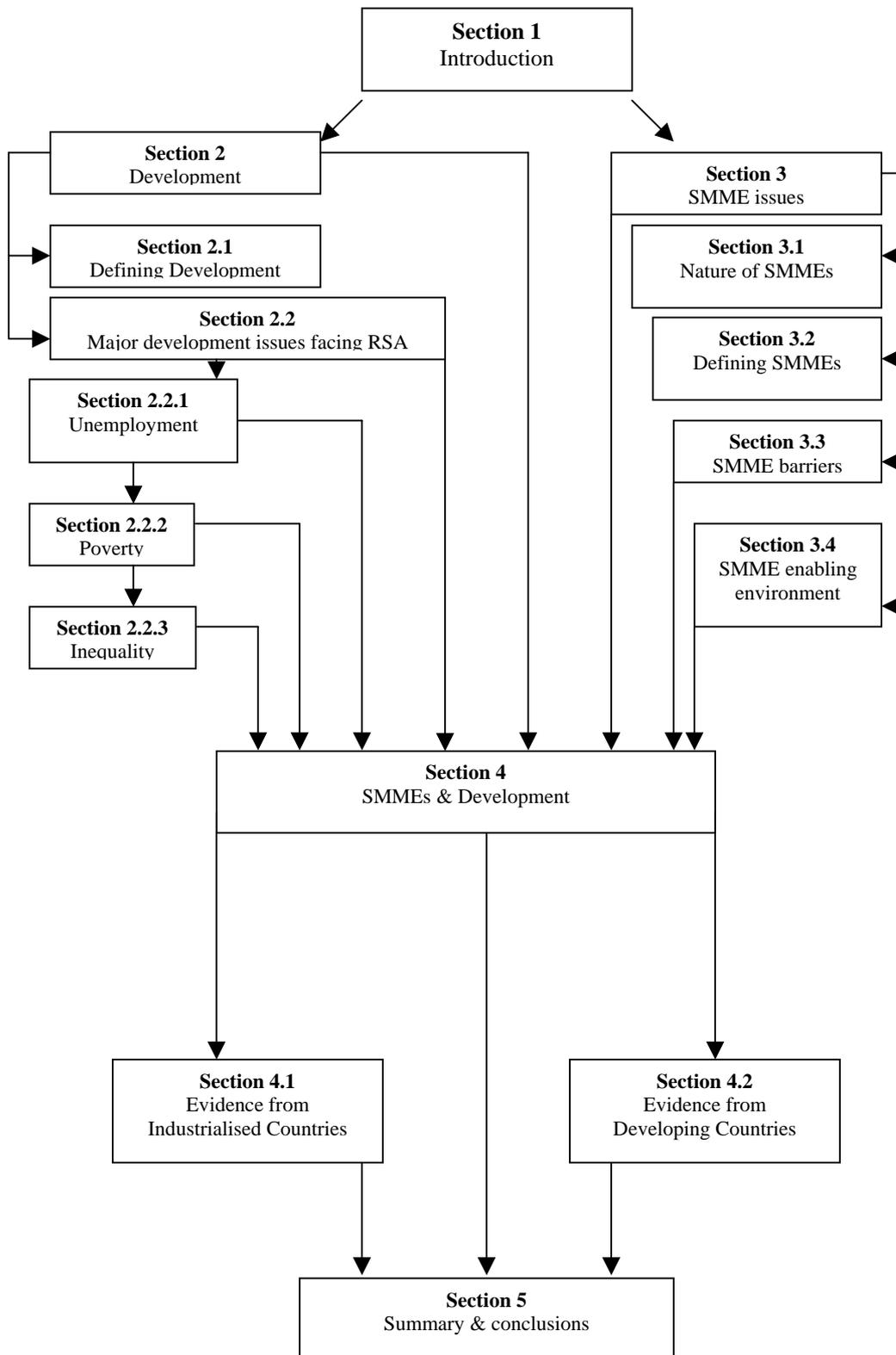
Chapter 5 continues with the literature review and deals with aspects of business management and its relevance to SMMEs. The status of management (planning, organising, leading, and controlling) within SMMEs is discussed.

Chapter 6 presents the research design and methodology including the hypotheses. The sample (business) selection criteria are stated. Based on the literature review, social responsibility performance measures applicable to SMMEs are selected. The methodology for data analysis is described.

In Chapter 7, the findings of the study are presented.

Finally, in Chapter 8, analysis, discussions, conclusions and recommendations are presented.

## CHAPTER 2 OUTLINE



## CHAPTER 2: SMMES AND DEVELOPMENT

*“It is clear today than ever before that, small enterprises are the most appropriate vehicles for job creation and job retainment.”*

(Ntsika, 2000:9)

### 2.1 INTRODUCTION

This chapter reviews the role of SMMEs in socio-economic development globally and locally. In unpacking this role, three major issues are addressed. Firstly, it is important that the concept development especially as it affects developing countries is well understood if correct policies are to be formulated and implemented. To this end, development is contextualised and defined. This is followed by examination of major development issues facing South Africa namely, inequality, poverty, and the unemployment problem. Identification of the most pressing development issues is crucial for the sake of prioritisation given the fact that the lack of prioritisation may lead to taking on too much at the same time. This is followed by an overview of some important SMME issues namely their definition nature, general barriers, and enabling environment. Understanding SMME issues is crucial for a number of reasons. Firstly, for them to play any meaningful role SMMEs need to grow. This requires that barriers to their growth be identified. Secondly, their nature and limitations need to be clearly understood in order to assign realistic social responsibility roles to them. Finally and given their nature, the role of SMMEs in socio-economic development is examined.

### 2.2 THE MEANING OF DEVELOPMENT

Williams (2003:1) posed the puzzling question, what is it that we are studying when we study development? In other words, what constitutes ‘development problem’? While it is common in the literature to come across continents, countries, regions, and communities being described as developed, developing, or underdeveloped, determining what exactly constitutes development or the lack of it continues to prove elusive. However, the main criteria used for this distinction seem to centre around level of industrialisation in a particular area thus

sometimes, the terms industrialised and less industrialised are used instead of developed and underdeveloped/developing. Irrespective of the terminology, these so-called underdeveloped/developing areas also seem to be characterised by high levels of poverty, unemployment and inequality. Thus, there is little reference to development without simultaneous reference to these three issues. Not surprisingly, the level of development in an area has also come to be associated with the severity (or the lack thereof) of unemployment, poverty and inequality, issues that according to Hopkins (2001) have the potential of leading to social instability in any country.

Coming back to the economic/social debate of development, it can be argued that irrespective of one's bias, in the context where the majority continue to experience high levels of poverty, unemployment and inequality and other associated problems, South Africa can only be described as underdeveloped or developing albeit its high degree of industrialisation (May *et al.* 1998). Thus, reducing the high rates of poverty, unemployment, and inequality remain the most important development tasks facing South Africa's policy makers.

Addressing the identified problems of unemployment, poverty, and inequality requires a consideration of the broader issue of development, a concept that appears to have an early origin but whose real meaning and ways to achieving it have always proved most elusive. In the absence of a clear understanding of the concept development, the problem of finding suitable solutions for the current developmental problems of most third world countries may never be resolved.

One major problem hindering this understanding seems to be the lack of a universally accepted definition. An examination of the development literature reveals many definitions that have the potential of meaning different things to different people. Developing a working definition (core perspective) and agreed on measurement criteria for the concept 'development' should make it easier to determine which country, region or community was actually developing and which was not (Todaro & Smith, 2000:12).

## 2.2.1 DEFINING DEVELOPMENT

As noted earlier, despite its acknowledged importance, a concrete and universally agreed upon definition of the concept 'development' remains quite elusive. In fact, authors and researchers seem to attach differing meanings to what the components should be. The Economic Development Administration (EDA) (2000) of the United States Department of Commerce confirms this assertion when it makes the following observations about the varying meanings of economic development:

- To most economists, economic development is an issue of more economic growth.
- To many business leaders economic development simply involves the wise application of public policy that will increase competitiveness.
- To labour leaders, it is a vehicle for increasing wages, benefits, basic education and worker training.
- To community-based leaders and professional, economic development is a way to strengthen inner city and rural economies in order to reduce poverty and inequality.

Thus, it is fair to conclude that depending upon ones background, and inclination, development could be defined differently. Borrowing the terms from Todaro and Smith (2003), for the purpose of this study, development is contrasted under two categories namely, ***traditional view*** and the ***new view***.

### ***Traditional economic measures***

Some authors such as Williams (2003) equate 'development' with industrialisation hence third world countries from, Latin American, Asian and African would be regarded as underdeveloped (or 'primitive' versions of their European

counterparts) that could, given time, develop. In this context, Williams (2003:40) describes development as:

*A means whereby traditional ways of doing things are modernized. Backward societies, or sectors or classes are transformed into advanced ones. Backwardness is the mark of the countryside, at least until it is transformed by mechanical or biomechanical technologies.*

Others like Todaro and Smith (2003) define development in terms of growth in gross national product (GNP), gross domestic product (GDP), per capita GNP, or 'real' per capita GNP. Todaro and Smith (2003:14) explain that 'development' measured in strictly economic terms means:

*The capacity of an economy, whose initial condition has been more or less static for a long time to generate and sustain an annual increase in its gross national product (GNP) at rates of between 5% to 7% or more.*

These posits where, development is seen in terms of level of industrialisation and economic growth, are in line with the view of the classical development theorists who view development as:

*A growth process that requires the systematic reallocation of factors of production from a low productivity, traditional technology, decreasing returns, mostly primary sector to a high productivity, modern, increasing returns, mostly industrial sector (Adelman, 1999:4).*

The above point to the primacy of economic indicators in determining the levels of development. This observation is consistent with that of Anderson (1971:29) who observed that until 1965, development or underdevelopment was measured in terms of per capita income and the relative striving of nations in rates of economic growth.

***The New View of Development***

By the mid-sixties, calls had begun to emerge for the inclusion of social indicators in the assessment of the levels of development. In the US for example, Anderson (1971) observed: “Since 1966 when the then American president Johnson directed the Secretary of Health, Education and Welfare to improve America’s ability to chart its social progress, social indicators became popular”.

Todaro and Smith (2003:14) analysing trends in development theory argue against the traditional view. They regard it as inadequate, complaining that the principal economic measures of development have only been supplemented by casual reference to non-economic social indicators such as gains in literacy, schooling, health conditions, and services. The implication is that development seen in pure economic terms whilst neglecting or relegating problems of poverty, unemployment and income distribution to secondary importance is inadequate.

Not surprisingly, Todaro and Smith (2003) favour the ‘new view’ that incorporates both economic and social dimensions. According to them, proponents of the ‘new view’ were influenced by the findings of the likes of Seers (1969), Owens (1987), and the World Bank (1992) who highlighted the shortcomings of the traditional view. Most of them cite the experiences of the 1950s and 1960s when many third world countries did realise their economic growth targets but the standard of living remained unchanged.

Earlier, Seers (1969) raised the issue of the inclusion of social dimensions rather forcefully. In his view, development can only be said to be taking place when poverty, unemployment and inequality are all reducing simultaneously. Thus, if any of the three does not improve along with the others then this cannot be called development. As in the case of Todaro and Smith (2003), the significant point made by Seers (1969), is that development is multidimensional with a strong social content. Therefore, the levels of poverty, unemployment, and inequality are also important indicators of development that cannot be ignored. Lately, the identification of education and training, health, fertility, among others as pre-

requisites for growth has led to the increasing number of social issues that must be taken cognisance of when the issue of development is discussed.

Adding to the debate on development, Kakwani (1993:307) notes the widespread dissatisfaction with per capita GNP (or related income measures) as the sole measure of the standard of living or well being of a people. Kakwani (1993:307) observes that emphasis is now shifting to alternative measures that include social indicators, quality of life, and basic needs.

Nafziger (1997:10) expresses a similar view regarding the complex and multidimensional nature of development by describing economic development as:

*Economic growth accompanied by changes in output distribution and economic structure. These changes include among others an improvement in the material well being of the poor as reflected in an increase in the education and skills of the labour force.*

It therefore appears that industrialisation and economic growth at the cost of social development or unaccompanied by social development could never adequately account for development. Instead, and as implied by Seers (1969), development needs to be seen as a social phenomenon that involves more than just economic well-being but also includes eliminating poverty, unemployment and inequality.

Using what they term 'micro-foundation' (a people-centred) approach, Coetzee, Graff, Hendricks and Wood (2003:119) also raise a number of important issues concerning development that needs mentioning.

They argue that:

- Development should be based on human well-being and that action plans should be aimed at providing opportunity for people to become more than they are.

- The meaning and the special circumstances should be at the centre of the analysis.

To Coetzee *et al.* (2003:119), some see development as a way of improving their personal circumstances to a more exciting and meaningful one. Thus, such people would argue that experience of reality should be the basis of development. The question then is what is the meaningful experience of reality? A possible answer could be easy access to basic needs, needs that can only be met through gainful employment, employment that ensures people living above the poverty line. And quoting Boudon and Bourricaudd (1989:166), Coetzee *et al.* (2003:119), describe countries in need of development as suffering from:

- Market limitations
- A lack of working capital
- High human reproductive figures
- A serious misdistribution of social benefits
- Insufficient training or educational services or
- Restricted political participation.

Allen and Thomas (2000) while adopting the definition by Chambers (1997) that describes development as 'good change', posit that:

- Development implies all-encompassing change not just change in one aspect.
- Development is a continuous process that builds on itself.
- Development involves changes at social and individual human being levels at one end the same time.

To surmise, it is reasonable to conclude that although growth and industrialization are essential for poverty, unemployment, and inequality reduction, these pure economic measures alone are inadequate determinants of the level of development. Given the fact that the so-called 'underdeveloped economies' are characterised by poverty, inequality, and high levels of unemployment, the

proponents of the 'new view' seem justified in their calls for the inclusion of social indicators in the interpretation of development. Against this background, it seems that social indicators such as the levels of poverty, unemployment, and inequality need to be included in determining the levels of development. However, doing so makes development more multi-faceted hence exacerbating the already varying meaning of 'development'. With this apparent definitional confusion it becomes necessary to always provide an operational definition of development. For the purpose of this study "development" is defined as:

***Sustained economic growth accompanied by reducing levels of poverty, unemployment, and inequality.***

This definition is consistent with Todaro and Smith (2003:18), who proposed that, the three objectives of development should be:

- To increase the availability and widen the distribution of life sustaining goods.
- To raise levels of living.
- To expand the range of economic and social choices that is available to individuals and nations.

Meeting the above objectives remains the focus of every government. To this end, developing countries are now focussing on entrepreneurship through the SMME sector (the vehicle that has proved so successful in transforming hitherto backward communities especially in the USA) to address their development issues. However, the wholesale importation of this SMME strategy in socio economic development may prove another failure if it is not tailored to local conditions. The researcher is of the view that an SMME strategy that incorporates the concept of BSR (BSR is already engrained in African culture) will yield a better result.

## 2.2.2 MAJOR DEVELOPMENT ISSUES FACING SOUTH AFRICA

The previous section identified poverty, unemployment, and inequality, as some key characteristics of places regarded as not developed. In South Africa, the Department of Trade and Industries (DTI)'s 2001/2002 annual report indicated that the levels of poverty and unemployment are unsustainable over the long term (DTI, 2003). This calls for economic policies and strategies to address these problems.

Meanwhile, SMME growth and development has become a priority for most governments in third world countries because it is touted as a major if not the most potent way of bringing about sustainable development through reducing unemployment, and its concomitants, poverty and inequality. But to understand this link it is first necessary to have a clear understanding of these three indicators (or manifestations?) of underdevelopment.

At the same time, there is a growing belief in the link between macroeconomic policy and poverty (or the absence of it). For example, it is generally accepted that in the end, sustained good macroeconomic policy leads to higher growth and, higher growth in turn leads to poverty reduction. The Government's macro economic policy is Growth Employment and Redistribution (GEAR) that among others advocates for the promotion of a vibrant SMME sector. The pursuit of this objective has led to the Government white paper on the development and promotion of SMMEs, a strategy that has been touted as good enough to lead to a vibrant SMME sector and enhance the capacity of the SMME sector to create sustainable jobs that in turn should help in the reduction of poverty and inequality.

### 2.2.2.1 Unemployment

Of all the problems facing South Africa, none seems so insurmountable as unemployment. In fact, most economists are of the opinion that unemployment translates into poverty and inequality. They therefore argue that an increased level of employment will address the equally important issues of poverty and inequality.

This perhaps accounts for the increased efforts by government, NGO's and labour to create jobs.

According to Mohr (2002:78), a major macroeconomic objective of any state should be to fully employ the available factors of production, especially labour. In other words, the aim should be to keep the unemployment rate as low as possible. Yet, in South Africa, like in other third world countries this major objective seems very impossible to attain.

The DTI (2003) reported the manufacturing sector, the powerhouse of the economy to be shedding jobs at an annual rate of 2% while the labour absorption rate fell from 88.9% in the 1960s to a record low of only 44.5% in 2000 (Du Toit, 2002:30). This resulted in most people being employed in the informal sector. Meanwhile, Ntsika (2000:18) had earlier reported that the unemployment figure for 1999 stood at 23.3% noting that although this showed an improvement over the preceding year 1998 figure of 25.2%, it still remained higher than the 1996 figure of 19.3%.

Comparison of the South African figures to those of the developed countries like the USA brings home the South African reality. For example, in the USA an unemployment rate in excess of 6% is considered alarming by analysts. For South Africa to have about 25% of its labour force unemployed is therefore an unacceptable situation that needs immediate action from policy makers.

Besides, big businesses shedding jobs, a host of other reasons are thought to be responsible for the worsening unemployment problem. Notable among these are:

- Slow economic growth that at times is lower than population growth.
- Decline in ratio of capital formation to GDP that reduces ability to create new jobs.
- Restructuring of the economy and introduction of production technologies since early 1990s that have led to layoffs of lower skilled workers.

- Labour legislations (although well intended) that are considered not conducive to job creation. For example according to Du Toit (2002:30), the Labour Relations Amendment Act (1997); the basic Employment Act of (1997); the Employment Equity Act (1998); and the Skills Development Levies Act (1999) have all been criticised for their anti SMME posture.

With the big firms continuing to retrench without any sign of abatement, the stage seems set for the SMME sector to play a leading role in ensuring the reversal of this rather unacceptable unemployment trend. However, to do so in a meaningful manner, the SMME sector needs to be strengthened so as to grow. They also need to be redirected in their approach to recruitment of employees. As will be shown in chapter four, most of the SMMEs generate only a few jobs. The usual arguments for this trend are that most of the SMMEs are either improperly managed or are not opportunity driven and therefore lack the capacity to grow and absorb more labour.

One important management issue currently making waves and which the researcher believes can make SMMEs make an impact on community unemployment is the concept of Business Social Responsibility (BSR). As will be shown in chapter three, BSR is an ethical issue. It involves how well SMMEs manage their stakeholders including employees, customers, and local communities. For example, SMMEs can fulfil some of their social responsibility to the local community by prioritisation of local employment. In this way, SMMEs would be making an impact on socio-economic development by reducing the unemployment levels in rural areas.

#### 2.2.2.2 Poverty

Poverty according to May *et al.* (1998:2) may be defined as:

*The inability of individuals, households or communities to attain socially acceptable minimal standard of living, measured in terms of basic consumption needs or the income required to satisfy them.*

Poverty can take many forms including food insecurity, crowded homes, usage of unsafe and inefficient forms of energy, lack of adequately paid and secure jobs, lack of access to basic education, high adult illiteracy, and high infant mortality rate. The list is almost endless.

Du Toit (2002:16) describing the social and wealth profile of South Africa compared with the rest of the world, notes that South Africa is only one of the eleven countries in the world that experienced a decline in the Human Development index (HDI) as calculated by the UN between 1995 and 2000. This is a clear indication of how badly the welfare of South Africans is deteriorating and therefore need intervention to bring it to internationally acceptable levels.

The reality therefore is that South Africa like most third world countries is ravaged by abject poverty or vulnerability to it. According to May *et al.* (1998) in their Poverty and Inequality Report (PIR), most households in South Africa still lack access to clean water, energy, health care and education whilst most of the poor live in rural areas. The following data provides the statistics of poverty as it affects South Africa:

- About 50% of the population live below the poverty line.
- About 50% of the population live in rural areas.
- As much as 72% of the total population's poor live in the rural areas.
- The poverty rate for rural areas is 71%.
- The 'poverty gap' (the annual amount of money needed to uplift the poor to the poverty line by means of perfectly-targeted transfer of money) was about R28 billion in 1995 and 76% of this was accounted for by the rural areas.
- Poverty is distributed unevenly among the nine provinces.
- Eastern cape has 71% poverty rate.
- Free State has 63% poverty rate.
- North West has 62 poverty rate.
- Limpopo Province 59% poverty rate.

- Mpumalanga 57% poverty rate.
- Western Cape has 28% poverty rate.
- Gauteng has 17% poverty rate.

May *et al.* (1998).

These figures show that poverty is deepest in the most rural provinces namely Eastern Cape and Free State whilst urban/industrialised provinces such as Gauteng and the Western Cape seem to be better off with relatively low poverty rates. However, with about half the country's population classified as poor this should be a cause for concern.

The persistence of poverty in the rural communities such as the GTLM is sometimes attributed to the so called 'poverty trap' (a situation in which the poor are unable to escape from poverty due to lack of resources or their inability to take advantage of resources where they existed). The usual argument is that the lack of employment opportunities tends to perpetuate poverty because people are unable to create jobs for themselves even where opportunities exist.

A counter argument may be that in rural areas afflicted by extreme poverty, existing SMMEs that are in most instances the only source of economic activity do have the capacity to change the situation by empowering rural dwellers to break from this vicious circle of poverty. They might achieve this by engaging in certain social obligations beyond what legislation prescribes. In other words by engaging in socially responsible programmes (see Chapter 3) they can help alleviate the unemployment problem which is recognised by most people as the cause of poverty. They can do so by for instance, prioritisation of local employment where unemployed locals can be given jobs and then provided with skills training for them to perform these jobs.

Empirical evidence shows a strong correlation between level of education and living standards. May *et al.* (1998), confirm this by pointing out that the poverty rate of people with no education is 69%, those with primary education is 54%, 24% for secondary, and about 3% for those with tertiary education. There is therefore

need for concerted efforts to encourage and promote education in the rural communities where poverty is greatest.

Through BSR, SMMEs that operate in these communities can play a key role in this regard. A typical social responsibility activity that can address this problem would be for SMMEs to contribute towards bursary programmes in their communities. They can also provide adult basic education programmes in their communities (key elements of BSR). This particular strategy calls for the encouragement of good BSR practices among SMMEs (see Chapter 3).

#### 2.2.2.3 Inequality

May *et al.* (1998) define inequality as:

*A state in which not all members of a particular society are given equal access to resources and opportunities.*

Coetzee *et al.* (2003:299), observe that the most serious threat to democracy in South Africa is the level of inequality. The DTI (2003) indicate that the economy is still unequally structured and skewed in favour of only a few. Camerer (1997) also pointed out that South Africa is characterised by extremes of wealth and inequality. Thus even ten years into democracy, South Africa still seems to have two different 'nations' – one in which there are a few wealthy people and the other in which the majority live in abject poverty. There is therefore an urgent need for action to narrow the gap between the 'haves' and 'have nots'.

As mentioned earlier, most of the blame for the glaring inequality in South Africa is attributed to apartheid. For example, it is often claimed that in education, up until 1994 when apartheid finally crumbled, most of the expenditure was concentrated on the white schools. As a result, repetition and pass rates correlated strongly with the differences in expenditure (May *et al.* 1998). This vital component now receives about 25% of the government total budget with fund allocation directed mainly at the previously disadvantaged institutions. The fruits of this policy are

already evident as more black children are now going to school and the pass rate keeps improving each year.

Health care, housing, water, social welfare, and employment income, like education, all show improvement starting from 1994 onwards. In rural areas such as the GTLM, quality and easily accessible health care, good drinking water, social grants, electricity and to some extent good roads and other basic human necessities are now readily available (although not to all because of the poor finance situation of municipalities). However, much needs to be done in narrowing the inequality gap. There are widespread calls for the private sector, through SMMEs, to play a more central role in the fight to bridge the inequality gap. This perhaps, is based on the some times over exaggerated assumption that because SMMEs are reputed to be so flexible, they have the capacity to always absorb all kinds of labour especially the unskilled who find themselves at the lower end of the social ladder. The point however can be made that given the current prevailing social and economic climate; the other role players (big business and government institutions) have failed to deliver. Therefore, SMMEs remain as the best bet in the fight for a better socio economic livelihood.

Unfortunately, as has been established earlier, the SMMEs are unable to absorb all the excess labour thus their ability to reduce socio economic problems including the inequality gap through the conventional means is highly restricted. Similar to the unemployment and poverty problems, by engaging in specific BSR programmes in their communities, SMMEs can enhance their impact in bridging the inequality gap.

The view has long been held that the promotion of a vibrant SMME is critical to job creation which will help solve the unemployment, inequality, and poverty problems. However, because of the inability of rural based SMMEs to create sufficient jobs, a re-look at their role is necessary. The researcher believes that by engaging in social responsibility programmes, SMMEs can make up for any shortcomings in their traditional role of job creation.

## 2.3 SMME ISSUES

The point has earlier been made that in order to fully understand the link between SMMEs and development (particularly their role in job/employment creation and possibly to overcome some of the difficulties encountered in promoting a vibrant SMME sector), there is the need to first explore their nature. In addition, there is the need to explore existing definitions in order to develop a working definition for SMMEs so as to eliminate ambiguities since a plethora of definitions exist for this sector. Also, it has been argued that if SMMEs are to fulfil their role in socio economic development, they need to prosper. This requires that barriers they face be eliminated or at least reduced while environment conducive to SMME growth and development are established. Exploring these issues would highlight the barriers and enabling environment issues that need attention.

### 2.3.1 NATURE OF SMMES

As observed by Cronje, Du Toit and Motlatla (2001:492), it is difficult if not impossible to give a universally accepted definition for SMMEs. However, some important characteristics of SMMEs are identifiable. According to the World Bank (1978) as quoted by the same authors, the following characteristics are observable among SMMEs in developing countries:

- SMMEs are generally more labour intensive than larger ones.
- On the average, SMMEs generate more direct job opportunities per unit of invested capital.
- SMMEs are an instrument for utilising the talents, energy and entrepreneurship of individuals who cannot reach their full potential in large organisations;
- SMMEs often flourish by rendering services to a small or restricted market which larger businesses do not find attractive.

- SMMEs are breeding grounds for entrepreneurial talent and a testing ground for new industries.
- SMMEs contribute to the competitiveness of the economy.
- SMMEs create social stability, cause less damage to the physical environment than large factories, stimulate personal savings, increase prosperity in rural areas and enhance the population's general level of economic participation.

These are by no means the only characteristics that distinguish SMMEs from big businesses. In addition, SMMEs according to Cronje *et al.* (2001:492) are also characterised by their small size. In pricing, they are usually followers, whilst ingenuity, creativity and devotion are typically found in them.

Thus, the inference is often drawn that because of their small size they are most suited for rural communities where the markets are too small to justify the existence of large businesses. Also, by their nature SMMEs are often credited with the ability to bring about social stability in poorer communities by among others generating more jobs, hence increasing prosperity as a result of the population's general level of economic participation. Against this background, a thorough treatment of the definition of small, medium, and micro enterprise is unavoidable.

### 2.3.2 DEFINING SMMES

According to Cronje *et al.* (2001:494), unified definition of SMMEs will help explain their nature. However as stated earlier there is no single acceptable definition for SMMEs. Instead, it differs from one country to another (Awan, Goodson & Watfa, 1998:1) and even within a country differences exist. This perhaps may be due to the International Labour Organisation's (ILO) recommendation 189<sup>1</sup>, which states

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<sup>1</sup> On 17 June 1998, in Geneva, the ILO adopted Recommendation 189 concerning general conditions to stimulate job creation in small and medium enterprises.

that member States should define SMMEs according to their own national economic and social conditions.

SMMEs have therefore, ever since been defined against various criteria (quantitative and qualitative), the main ones being the number of workers employed, volume of output or sales, and the values of assets employed.

In South Africa, the National Small Business Act, 1996 (the act that provides the regulatory and support framework for SMMEs), defines small business as:

*A separate distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more .....and which can be classified as a micro, very small, a small or medium enterprise by satisfying the criteria mentioned in .....of the schedule (see Table 2.1).*

In general, and while differences exist among sectors/sub-sectors; the Act provides the following general classifications for SMMEs in South Africa:

- Businesses with fewer than 200 employees, with an annual turnover of less than 40 million Rands and gross asset value of less than 18 million Rands are medium enterprises.
- Businesses with less than 50 employees, with less than 25 million Rands in total annual turnover and less than 4 million Rands gross asset value is a small enterprise;
- Businesses belonging to the 'very small' category are those with less than 10 employees, with less than 4 million Rands annual turnover and less than 1.8 million Rands gross asset value.
- Lastly, businesses with less than 5 employees, with less than 0.15 million Rands annual turnover and less than 0.10 million Rands asset value are regarded as micro.

The Banking Council of South Africa defines SMMEs according to the categorisation in Table 2.2. Ntsika (2000:52) points out that even the different banks use different definitions hence proliferating the definitions further and thereby compounding the problem of arriving at a single definition for SMMEs that is universally accepted.

Cronje *et al.* (2003), quote Basson's unpublished memorandum of the Small Business Development Conference titled, 'The informal sectors in the RSA economy'. In that, Basson gives a somewhat more simplified definition of SMMEs in South Africa as any business with one or more of the following characteristics:

- Fewer than 200 employees.
- Annual turnover of less than R5 million.
- Capital assets of less than R2 million.
- The owners are directly involved in the management.

Given the differences among countries and even within countries as to what constitutes SMMEs it becomes increasingly clear that providing a universally acceptable definition will remain a daunting task for quite sometime. Nevertheless, independent ownership and control of the business by the owner as well as the number of employees appear to be distinguishing characteristics of SMMEs from big businesses that are universally accepted.

For the purpose of this study, a business can be regarded as an SMME if besides being independently owned and controlled by the owner; such a business fulfils any one or more of the following criteria:

- Fewer than 200 employees.
- Annual turnover of less than R5 million.
- Capital assets of less than R2 million.
- The owners are directly involved in the management.

Further more, for the sake of clarity, the SMME sector for the purpose of this study will be classified according to the South African Banking Council's categorisation (see Table 2.2 below).

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Table 2.1 Schedule of SMMEs in South Africa

Column 1	Column 2	Column 3	Column 4	Column 5
Sector /sub-sector (Standard Industrial Classification)	Size of Class	Total full-time employees	Annual turnover	Total Gross asset value
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	10	R0.50m	R0.50m
	Micro	5	R0.2m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity gas And water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5.10m	R1.9m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	RR26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and motor Trade and Repair services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Commercial Agents & allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very small	20	R6m	R0.6m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation And other Trade	Medium	200	R3m	R3m
	Small	50	R1m	R1m
	Very small	20	R1.9	R1.9m
	Micro	5	R0.10	R0.10m
Transport Storage and Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very small	20	R1m	R0.6m
	Micro	5	R0.20m	R0.10m

(Source: Amended Small Business Act 102 of 1996)

Table 2.2 Banking Council definitions of SMMEs

	<b>Annual Turnover</b>	<b>Employees</b>	<b>Loan</b>
Micro	<R100000	1-2	<R10000
Very Small	<R500000	1-5	R10000-R50000
Small	R500000-R24m	2-20	R50000-R2m
Medium	R24m-R60m	20-200	R2m-R5m

Source: Ntsika (2000: 52)

From the above descriptions of their nature and definitions, the following qualities are discernible of SMMEs:

- SMMEs operate mainly at local level.
- SMMEs are small in nature.
- SMMEs are independently owned, that is, they are not small parts of large corporations.
- One man owned businesses dominates SMMEs.
- SMMEs are mostly owner managed.

### 2.3.3 GENERAL BARRIERS/PROBLEMS FACING SMMEs

As noted by one author, the above attributes give rise to most of the problems/barriers faced by SMMEs (Schollhammer & Kuriloff, 1979:179). For example, of the above a particularly distinguishing characteristic of SMMEs appears to be their small size. Authors such as Baumbach and Lawler (1989:22) argue: “many of the problems of SMMEs are inherent in the small size of the enterprise rather than the individual enterprise”. Similarly, Kyambalesa (1994) and Fleury (1994) argue for the inclusion of owner/managers when discussing barriers faced by SMMEs.

Fleury (1994) identifies the following barriers faced by SMMEs namely:

- Focus barrier
- Information barrier
- Resource management barrier
- Mind barrier

- Thought barrier
- Documentation barrier
- Growth barrier.

Fleury (1994) explain these barriers as follows:

- **Focus barrier** – consists of three elements that involve SMMEs' inability to conduct proper market research, to read the economic landscape, and to identify and use alternatives to borrowing.
- **Information barrier** – SMMEs are unable to decide when to computerize, even if they decide to computerize they do not know the kind of computer system that will be suitable for their operations.
- **Resource management barrier** – SMMEs often lack the ability to manage resources. These include the inability to manage money, not having effective accounting systems, improper pricing policies, lack of initiative in managing cash for tax purposes, and lack the courage and knowledge to introduce cost-cutting measures.
- **Thought barrier** – Include the lack of decision-making skills, inability to implement pricing strategy that could result in competitive advantage, and lack of foresight and courage to change strategy when original ones become ineffective.
- **Documentation barrier** – SMMEs do not have proper record keeping systems. This may have legal implications with serious financial consequences for the business.
- **Growth barrier** – Involves promotional advertisement that is a big gamble for small business with more ways of doing it wrong than right and making a

mistake being fatal. SMMEs also do not compile good sales portfolio and have poor after sales follow up.

In their study, Van Eeden, Viviers and Venter (2001) identify and classify barriers faced by South African SMMEs under three broad categories namely (see Tables 2.3, 2.4, 2.5, and 2.6):

- Macro and market environmental variables
- Management issues
- Functional issues.

Table 2.3 Macro and market environmental variables influencing SMMEs

<b>Macro environment</b> <ul style="list-style-type: none"><li>• State of the economy</li><li>• Compliance with trade or other legislation</li><li>• Government interference</li><li>• Unavailability or changes of production factors</li><li>• Rapidly changing technology</li></ul>
<b>Market/competitive environment</b> <ul style="list-style-type: none"><li>• Industry weakness, market imperfections</li><li>• Limited market size</li><li>• Poor growth prospects</li><li>• Low barriers to market entry</li><li>• Low demand for products/services</li><li>• Major changes in the industry</li><li>• New competitors offering similar products at lower prices</li><li>• Drop in demand for a major product line</li><li>• Loss of major client</li></ul>

Source: Van Eeden *et al.* (2001).

Table 2.3 above shows that macro-environmental barriers are mainly economic, technological and political. The same Table 2.3 shows that the market or competitive environmental problems have their origin in the interaction between consumers, competitors, intermediaries and suppliers. These barriers, Van Eeden *et al.* (2001) concede SMME owner/managers can exert little or no control over.

Table 2.4 Management issues influencing SMMEs

<p><b>Management skills/attitudes</b></p> <ul style="list-style-type: none"> <li>• Generalist but not specialist or vice-versa</li> <li>• Wrong attitude – over emphasis on financial rewards</li> <li>• Inexperience in the field of business</li> <li>• Inadequate ability to visualise</li> <li>• Lack of training</li> <li>• Failure of entrepreneur to evaluate himself/herself realistically</li> <li>• Unable to control growth</li> <li>• Inability to make entrepreneurial transition e.g. to delegate authority</li> <li>• Unwillingness to make entrepreneurial transition</li> <li>• Inflexibility to change and innovation</li> </ul>
<p><b>Management action/behaviours</b></p> <ul style="list-style-type: none"> <li>• Failure to look forward, to plan, to set strategic goals</li> <li>• Lack of management commitment skills</li> <li>• Inadequate ability to manage e.g. plan, organise, lead, coordinate and control</li> <li>• Reluctance to seek advice from qualified sources due to attitude or cost problems</li> <li>• Slow response to environmental changes</li> <li>• Failure to revise strategic goals</li> <li>• No strategic direction</li> <li>• Entrepreneurial burnout/ill health/social issues</li> </ul>

Source: Van Eeden *et al.* (2001).

Table 2.5 Functional issues influencing SMME success

<p><b>Marketing issues</b></p> <ul style="list-style-type: none"> <li>• Misreading the market</li> <li>• Failure to conduct market research</li> <li>• Inability to identify target market</li> <li>• Failure to address the proper market</li> <li>• Poor products</li> <li>• Ineffective marketing</li> <li>• Poor location/inaccessible to customers</li> </ul>
<p><b>Human resource issues</b></p> <ul style="list-style-type: none"> <li>• Lack of and inability to attract suitable staff</li> <li>• Low productivity and labour problems</li> <li>• Loosing key employees</li> <li>• Not hiring additional employees soon enough/not using existing employees effectively</li> <li>• Failure to adjust organisational structure</li> </ul>

Source: Van Eeden *et al.* (2001).

Table 2.4 and 2.5 show the kinds of managerial incompetence that contribute towards SMME failures. As Murphy (1996:25), Table 2.4 and 2.5 show that managerial incompetence can be reduced to three broad categories namely functional knowledge, managerial skills, and managerial behaviour.

Table 2.6 Financial issues influencing SMME success

<p><b>Capital requirements</b></p> <ul style="list-style-type: none"><li>• Inadequate capital/funding, lack of credit</li><li>• Inadequate estimate of capital requirements</li></ul> <p><b>Bookkeeping</b></p> <ul style="list-style-type: none"><li>• No or inadequate bookkeeping</li><li>• Insufficient knowledge of bookkeeping</li></ul> <p><b>Financial Planning</b></p> <ul style="list-style-type: none"><li>• Failure to do financial planning/budgeting</li><li>• Failure to analyse information</li><li>• Inadequate financial controls</li></ul> <p><b>Working capital management</b></p> <ul style="list-style-type: none"><li>• Poor credit management</li><li>• Over-investment in inventory</li><li>• Lack of inventory control</li><li>• Difficulties in obtaining supplier credit</li></ul> <p><b>Income generation</b></p> <ul style="list-style-type: none"><li>• Inadequate or incorrect estimates of cash flow</li><li>• Overly optimistic sales forecast</li><li>• Inadequate sales/failure to reach critical mass</li><li>• Unsuitable pricing policy and strategy</li><li>• Heavy operating expenses</li><li>• High initial set-up costs</li><li>• Burdensome debt</li><li>• Insufficient profits</li></ul> <p><b>Other financial problems</b></p> <ul style="list-style-type: none"><li>• Fraud/misuse of directorship</li><li>• Withdrawing more cash from business than available, for personal use</li></ul>
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Source: Van Eeden *et al.* (2001).

Small-scale businessmen everywhere, and in particular developing countries, believe that their most pressing problem, if not their only one, is the lack of finance (Harper, 2002:366). Table 2.6 provides an indication of the myriad of finance problems faced by SMMEs. In their empirical investigation, Van Eeden *et al.*

(2001), found that heavy operating expenses and burdensome debt were the main financial reasons for SMME failures in South Africa.

Meanwhile, the above classification by Van Eeden *et al.* (2001) is based on the arguments that:

- SMMEs form an integral part of the economy and exist in a dynamic environment.
- In an open economy, business entities are influenced by and have an influence on variables in the business environment.
- The business environment can be subdivided into the internal/micro and external environments.
- The external environments in turn consist of macro and micro variables.

Therefore, seen from this context, problems/barriers facing SMMEs may have their origin in the business environment, that could be classified as macro, market, or microenvironment. It therefore follows that:

- In theory, numerous barriers to SMME success exist.
- Both internal and external factors hinder the success of SMMEs.
- The barriers mentioned by Fleury (1994) are consistent with the internal factors alluded to by Van Eeden *et al.* (2001).
- The internal factors are largely due to poor management practices that managers can do something about.
- The external barriers are beyond the control of the business but government and policy makers can do something about them.

If SMMEs are to thrive and absorb the legions of the unemployed thereby helping in the fight against poverty, they must first overcome the barriers/problems some of which are listed in Tables 2.3, 2.4, 2.5, and 2.6 above in order to become more efficient hence able to compete with their counterpart big businesses in the global market.

It must be noted that typically, most external influences (the external barriers) on SMMEs are beyond the control of management and at best can only be managed. This implies that SMME owner/managers need to learn to adapt to these uncontrollable factors. On the other hand, internal factors such as poor management practices are controllable by management but require certain managerial skills/competencies. Thus, whether internal or external, managerial competence becomes imperative in SMMEs. To acquire these skills will require the assistance of government, universities, and NGOs to provide the necessary management training for SMME owner/managers.

According to Van Eeden *et al.* (2001). The business *environment* is characterised by change, uncertainty, and complexity that SMME owner/managers must continuously monitor. The reason for continuous monitoring is that these conditions pose both opportunities that foster the development of SMMEs and threats to their establishment and growth. The next section examines some issues affecting the South Africa SMME enabling environment.

#### 2.3.4 SMME ENABLING ENVIRONMENT

Any studies on SMMEs without a discussion of the enabling environment will be incomplete for at least two reasons. Firstly, SMMEs need an enabling environment to survive and grow because according to the United Nations Development Programme (UNDP) (1999:1), in countries where the policy environment has been restrictive, SMME development is slow. Secondly as people who found SMMEs, entrepreneurs need an incubating and enabling environment in order to develop their natural entrepreneurial predisposition behaviour (Richards, 1999:4). Therefore, both entrepreneurs and the enterprises they found need a conducive and enabling environment.

The creation of a favourable environment for the birth and growth of SMMEs has been a major objective of many countries hence governments have made the development of policies to promote a viable SMME environment their top priority. Of this, South Africa is no exception. In South Africa, the National Small Business Act 102 of 1996 and the government White Paper on national Strategy for the

Development and Promotion of Small Business 1995 are the two main instruments that the government is using to stimulate the birth and growth of small businesses.

While the Small Business Act 102 of 1996 provides the legal framework for the conduct of small businesses, the white paper provides a support strategy for the SMME sector.

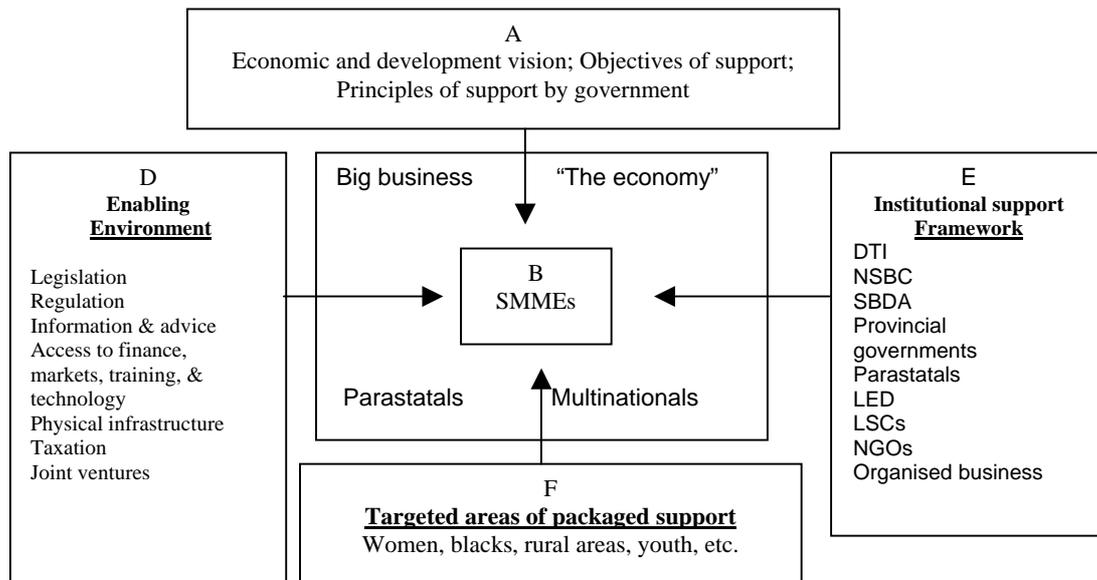


Figure 2.1 The national SMME support strategy

(Source: White paper on National Strategy for the Development and Promotion of Small Business, 1995:54 which later became Small Business Act 102 of 1996).

This strategy hinges on four components namely: Government vision for economic development and principles of support, the institutional support framework, targeted areas of support, and an enabling environment. A key component of the strategy (see Figure 2.2) is the creation of an enabling environment that involves:

- Creating an enabling legal framework that includes the National Small business Act, a transaction and procurement Act, and a Small Business Finance Act.
- Streamlining regulatory conditions so as to ensure the appropriateness of the rules and regulations for the SMME sector taking into cognisance the

fact that unduly restrictive legislation and regulations are viewed as critical constraints to SMME development.

- Ensuring access to appropriate, relevant and easily understandable information and advice especially to micro, survivalist and small start-up enterprises (that often lack own information resources) with the knowledge that information is now critical for the survival of businesses of any size.
- Access to market and procurement, training, finance, and technology are major constraints facing SMMEs. For example, newly established businesses are often unable to sell their products and services while lack of access to finance remains a global problem. Most SMME owner/managers lack entrepreneurial and basic business skills.
- Creating a conducive industrial and labour relations environment with the fact that often, the relationship between labour and SMMEs is complex and widely perceived as adversarial.
- Encouraging joint ventures for the fact that the needs of SMMEs are so complex that it impossible to devise support mechanisms that will satisfy each category. Hence, the only viable way is to encourage partnerships that will allow for transfer of experience.
- Devising differential taxation and other financial incentives in order to reduce the tax burden as well as facilitating the reinvestment of profits. For many years, there have been calls for the tax burden of SMMEs to be reduced. (White paper on National Strategy for the Development and Promotion of Small Business, 1995 which later became Small Business Act 102 of 1996).

Ntsika and Kula Enterprises are the main institutions created to carry out responsibilities and functions to realise the above objectives.

Perceptions about the South African SMME enabling environment vary.

Ntsika (2002) through data provided in its annual review of the State of Small Business Development in South Africa believes that government has laid a solid foundation and has created the necessary conditions and infrastructure and what is left is for the citizens to take advantage of the prevailing circumstances.

Other influential bodies like the Small Business Project (SBP) (2002) and the South African Chamber of Business (SACOB) (1999) believe that although the government is trying, it has not done enough. They argue that issues like the minimum wage are suffocating the ability of SMMEs to grow and to survive. SACOB (1999) argues that the SMME sector has not been able to absorb much of the jobs shed by large enterprises nor have they been of much assistance in reducing the overall level of unemployment in the country because:

- Prevailing labour regulations impose significant direct costs on the business; there is a high 'hassle factor' associated with compliance; and the legislation robs owners and managers of some of the control and flexibility that they perceive as being both desirable and necessary to the effective running of their business.
- Access to and cost of finance remains a major obstacle to entrepreneurs and owners of emerging and 'start-up' SMMEs. The high cost of loans (relatively higher interest rates) results from an underlying shortage of savings within the economy. An even bigger problem relates to the Banks Act and the Usury Act that set maximum interest rates for smaller loans at a level insufficient to cover administrative costs and bad debts of the financial institutions hence their reluctance to service this sector.
- The tax system particularly as it affects SMMEs is too complicated and need to be reviewed.

- The judicial process is rather too expensive for SMMEs to enforce contracts. Unless an SMME is unincorporated, it cannot seek redress at the small claims court that is relatively cheap.

SBP (2002) agrees with the above observations by pointing out that the South African business environment places unnecessary regulatory costs on businesses of all sizes. These costs they argue arise from inappropriate regulations. Thus one may conclude that: although government intention to create an overall positive business environment is not in doubt, its attempt to address other wider economic and social concerns at the same time has created a situation in which the environment has become not quite 'too friendly' to SMME survival and growth.

Consequently, it may be appropriate to consider some of the suggestions proposed by SACOB (1999) in addressing these issues.

#### *Labour regulations*

Firstly, SACOB (1999) argues that pursuing labour regulations based on the premise that low wage competition should as far as possible be eliminated from the South African labour market and that business should instead compete based on costs, quality, and reliability, is unsuitable for an exposed economy (due to globalisation) like that of South Africa. Secondly, the speed at which these laws are being introduced is too great. The problem here is what rate will be considered appropriate given the fact that SACOB acknowledges the need for some of these laws?

#### *Access to and cost of finance*

While agreeing that the Banks Act should remain the same, it recommends government guaranteeing the capital of investors in the event of failure. This suggestion seems reasonable since it will make servicing the SMME sector more attractive to the financial institutions. Regarding the Usury Act, the suggestion of totally repealing the Act may make rates too high therefore still inaccessible.

Perhaps a solution could be found in encouraging 'teaming up' of loan seekers where a number of loan seekers are grouped together. Their individual needs are totalled and the bigger requirement presented in a single application. Of course, this will require government to devise operational mechanisms for such a scheme.

### *Taxation*

Although not directly aimed at SMMEs (in fact SACOB admits that only a few of its suggestions are 'targeted' specifically at small businesses), it contends that the whole of South African business (including SMMEs) will benefit. SACOB (1999) suggests that:

- Because Secondary Tax on Companies (STC) is too complex it should be scrapped.
- The corporate tax rate and maximum marginal personal tax rates are too high and should be reduced whilst bias against unincorporated businesses should be eliminated.
- Properly designed tax incentive would be more cost effective than a general tax rate deduction.

There is no doubt that tax remains the main source for government to raise revenue to meet its obligations. However, a tax regime that places undue burden on the 'goose that lays the golden egg' is rather suicidal or counter productive. The burden is therefore on government to find more 'creative' ways of generating tax.

### *The Judiciary*

SACOB (1999) particularly takes issue with registration of trademarks, tender procedures, liquor bill, and the VAT Act and recommends that measures be taken

to remove these burdens since these are areas that affect SMMEs the most. Considering the fact that the judicial process is indeed an expensive one, and the fact that financial resource is one thing most SMMEs do not possess in abundance, it is imperative that the costs associated with this area be structured to be more bearable to SMMEs.

From the above it is clear that government and other role players will have their work cut out for them in ensuring a vibrant SMME sector because among others it is an expensive and time-consuming exercise. Thus, there has to be real and enough justification for embarking on such endeavour.

The next section examines the link between the SMME sector and socio economic development hence the justification or otherwise of committing so much resources to developing a vibrant SMME sector.

## **2.4 SMMES AND DEVELOPMENT**

A number of strategies, action plans, and programmes have been suggested for improving the well being (development) of communities. And in recent times the general question of the role of SMMEs in the socio-economic development whether at local, regional or national level has been dominating social and economic agenda of both public policy makers and researchers all over the world. The works of experts such as Murphy (1996:5); Longenecker *et al.* (2000:3); and Smallbone and Welter (2001:63), just to mention a few indicate a general consensus that notwithstanding difficulties in promoting a vibrant SMME sector, the best way to bring about sustainable socio economic development is through SMMEs. UNIDO (2002:2) confirms this observation by pointing out that SMMEs offer the best way of overcoming poverty and inequality.

That SMMEs have come to be seen as the most powerful economic institutions and thus crucial to socio-economic development should not be surprising for a number of reasons.

Firstly, they are reported to resolve the problems of insufficient employment growth while being highly efficient and flexible. Secondly, the importance of the SMME sector in promoting economic growth hence development especially in developing countries has been well documented and emphasised by authors, individual researchers, organisations and joint research initiatives. Thirdly, important international institutions such as the International Labour Organisation (ILO) and UNIDO (2002:2), acknowledge the importance of the SMME sector in development. Reinecke (2002:1) in a working paper for the ILO acknowledges that small enterprise development is a crucial ingredient of strategies to create employment (jobs) and to alleviate poverty.

Manning (1996:63) also adds that governments intervene in SMME promotion due to the perception that SMMEs play three key roles in the economy namely, their ability to generate employment, as agents of redistribution, and the enhancers of competitiveness.

The United Nations International Development Organization (UNIDO) confirms the importance of the SMME sector in the socio-economic development of developing countries when it says: “SMMEs in developing countries are critical to the development process” (UNIDO, 2002:37). It argues that for developing countries, integration into the global economy through economic liberalisation, deregulation, and democratisation is the best way to overcome poverty and inequality. “And crucial to this process is the development of a vibrant private sector, in which SMMEs play a central role” (UNIDO, 2002:2).

According to the same source, research evidence suggests the following as some of the important reasons why SMMEs are considered so crucial to development:

- SMMEs (mainly because of the industrial sub-sectors and product groups covered by them) tend to employ more labour-intensive production process than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, generation of income and ultimately, the reduction of poverty.

- Countries with a high share of SMMEs have succeeded in making income distribution more equitably. This in turn is a key contribution to ensuring social stability by reducing economic disparities between rural and urban areas.
- SMMEs are crucial to the transition from agro led to industrial economies as they provide simple opportunities for processing activities that can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.
- SMMEs are seedbeds for entrepreneurship development, innovation and risk taking behaviour and provide the foundation for long-term growth dynamics and the transition towards larger enterprises;
- SMMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.
- These linkages are of increasing importance also for the attraction of foreign investment. Investing Trans National Corporations (TNCs) seek reliable domestic suppliers (usually SMMEs) for their supply chains. There is therefore a premium on the existence of domestic supporting industries in the competition for foreign investors.
- SMMEs as amply demonstrated in the information and communication technologies are significant source of innovation, often producing goods in niche markets in highly flexible and customised manner (UNIDO, 2002:2).

Kesper (2000:1), adds to the debate on the growing and undisputed importance of SMMEs in socio-economic development when she wrote:

*The experience of prospering localities in industrialised countries, in particular Western Europe and Japan, suggests that the SMME sector is at the forefront of local economic development.*

This holds relevance for developing countries especially in Africa where governments have for years been searching for sustainable ways of improving living standards without much success. Harrison (1994) in Kesper (2000) was however quick to warn against rushing into “premature and overly general conclusions as to the economic and social implications of the shift towards smaller units”.

Not surprisingly, it has become axiomatic in the economic literature, to say that economic development and the rate at which it occurs depend among other things on the rate at which SMMEs are established.

At the same time, Foxcroft, Herrington, Kew, Segal, and Wood (2002) in the ‘Global Entrepreneurship Monitor’ (GEM) acknowledged the importance of SMMEs in economic development in their conceptual framework for studying the relationship between entrepreneurship and economic growth. According to this framework, both large and small enterprises play important roles in economic growth (Foxcroft *et al.* 2002:10). GEM has conducted empirical research using this framework since 1999, the diagram of which is reproduced in Figure 2.1.

Seen from the GEM perspective, there is the need for SMMEs to simultaneously exist alongside the large ones where they play complementary roles in national economic growth that eventually leads to sustainable economic development. The GEM framework is consistent with the views expressed in the UNIDO (2002) document discussed above.

Arzeni and Pellegrin (1997:27) argue that, “with the shift from mass to flexible production, the link between local development and the role of small firms has become increasingly clear”. In their view, large firms have often been slow in making the necessary socio-economic adjustments due to their specialised skills and economies of scale thus leaving them ill-prepared to tackle high

unemployment and meet the advent of globalisation. This assertion is even more relevant now than ever before due to the large-scale retrenchments by big companies due to restructuring in order to become more competitive in a more globalized economy; and the ability of the small business sector to act as a shock absorber in absorbing the extra labour force.

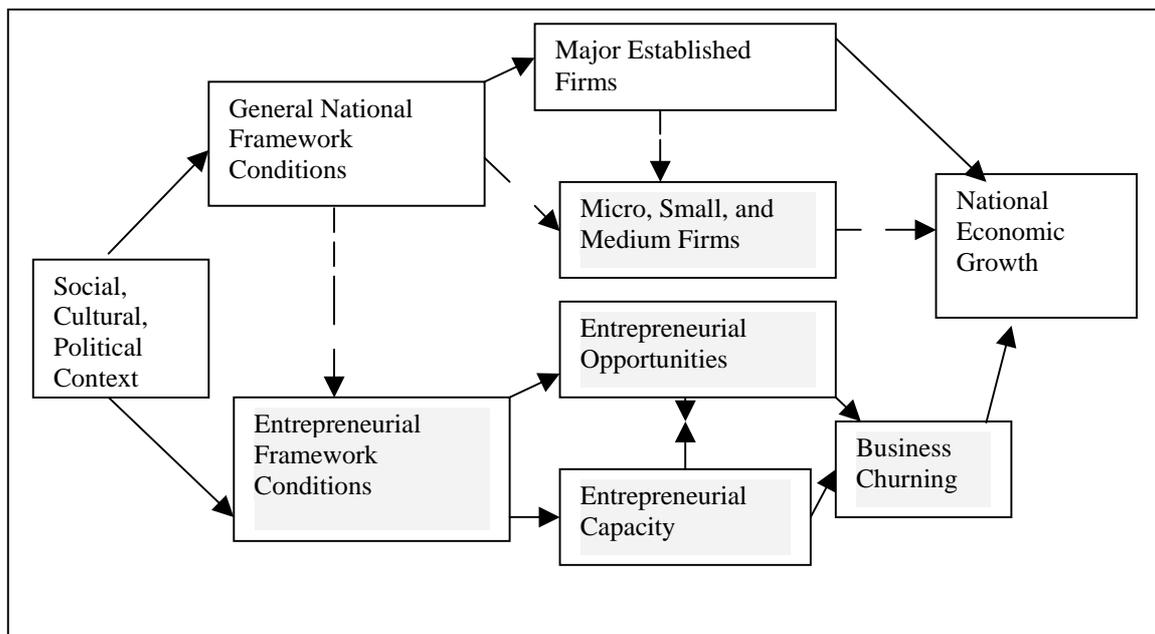


Figure 2.2 The GEM conceptual model.

(Source: Foxcroft *et al.* 2002:8)

According to the ILO (2000:15), the desired outcomes of SMME development can be categorised as follows:

- Adding value, wealth creation, increased production and improved quality.
- More jobs, improved job quality, more security and better pay.
- Affordable services, product flexibility and responsiveness.
- Development of skills, creating employment opportunities and community cohesion.
- Poverty alleviation, community networks and overcoming social exclusion.

From the above, it is not surprising that SMMEs have attracted unprecedented attention of late. Nevertheless, is there real evidence to support the aforementioned assertions?

#### 2.4.1 EVIDENCE FROM INDUSTRIALISED COUNTRIES

Arzeni (1998:18) notes that in Canada, an important proportion of all new employment growth in the first five years of the 1990s came from self-employment and micro-enterprises. The same source indicates that in the USA, small firms created about 35% of the jobs in 1995. Birch (1979; 1987) as quoted by Kesper (2000:1), found that small firms created most of the new jobs in the USA.

The same trend has been reported at regional level in the USA. For example, the Chicagoland Chamber of commerce (CCC) (2002) in acknowledging the crucial role of SMMEs in strengthening the Chicago region's economy reported that in 2001 alone, there were more than 41000 new small business starts in the six counties that make up the Chicago Metropolitan area. This is a clear indication of the extent to which SMMEs have helped in accelerating development in disadvantaged rural communities despite some differences in the definition of SMMEs for the USA

Webb (1998) also observed that in the last few years, third world characteristics have been recognised in both urban and rural parts of the USA. As a response, micro-enterprise development programs have been used to stimulate and reduce poverty in these areas of the USA with much success. Not surprisingly, SMMEs now form an important component of the USA economy, a further attestation to the SMME sector's role in development.

These are by no means small achievements yet the data from third world countries particularly Asia looks even more convincing.

#### 2.4.2 EVIDENCE FROM DEVELOPING COUNTRIES

While SMME development as an anti-poverty and economic development strategy had its origins in third-world countries in the 1970s (Webb, 1998), in recent years, a number of Asian countries have reportedly made tremendous progress in terms of development, most of which have been attributed to the promotion of the SMME sector.

According to ASEA-EU Partenariat '97, countries such as Vietnam, Indonesia, Thailand, Singapore, and Malaysia all owe their level of development to the SMME sector.

The same source provides the following data about the SMME sector contribution to the above economies:

- **Malaysia** – SMMEs assume a critical role in the country's industrialisation programme through the strengthening of backward and forward linkages. They provide critical parts and components for larger businesses. They account for more than 80% of the total manufacturing establishments.
- **Vietnam** – SMMEs have contributed significantly to the economic development by among others solving many social problems during the last 10 years of economic renovation. They employ about 13% of the labour force; accounts for about 28% of industrial output value and make up about 35% of the companies.
- **Singapore** – SMMEs employ about 50% of the labour force and contribute close to a third of the total value-added in Singapore. It spearheaded the export-led growth of the economy. 92% of the establishments are SMMEs and form a key component of the manufacturing, services and commerce sectors.

- **Thailand** – SMMEs constitute more than 90% of the manufacturing establishments, employ about 65% of industrial workers and contribute about 47% of the total manufacturing value-added.

Similarly, in most African countries the small business sector is widely acknowledged as a major contributor to the national economies.

For example in 1997, SMMEs accounted for approximately 50 percent of total employment and about 41 percent of this country's formal sector gross national product (Ntsika, 1998). This led Ntsika (2000:10) to conclude that in South Africa, SMMEs are the largest employment contributors to the economy. Ntsika's assessment of the importance of the South African SMME sector is based on the following:

- The decrease in formal employment.
- The SMME sector absorbing workers who have been retrenched from the larger corporations and the public sector.
- SMMEs contributed about 40% of the GDP in 2000.

According to the South African Department of Trade and Industry (DTI) (2003), the SMME sector is responsible for about 50% of formal employment and contributes nearly 37% of the country's GDP. But widespread reservations about the contribution of SMMEs to economic development have also been raised regarding their ability to generate employment, redistribute wealth, and enhance international competitiveness.

Kesper (2000) for example found that although there is a general perception of the South African SMME sector as a key contributor to job creation, international competitiveness and economic empowerment, only a small segment has the potential to contribute to economic growth.

Kesper (2000) quotes Levy (1996); Rogerson (1996; 1997); and Hanival and Hirsch (1998), contending that:

“Although it is widely agreed that the SMME sector has the potential to contribute to poverty alleviation and economic growth, it is not capable of simultaneously playing the role of job creator, fierce international competitor, income distributor and economic empowerer”.

Manning (1996) also challenged the norm that SMME promotion can be equated to job creation by stating, “Evidence in support of the perception that SMMEs are an important source of employment creation is rather weak”. His study actually found that SMMEs’ share of employment creation is substantially lower in South Africa than in other international countries.

On the question of wealth redistribution ability of SMMEs, Manning (1996) in Rogerson (1997), points out that although SMMEs contribute to redressing the severe inequalities created by apartheid in terms of patterns of economic ownership, over reliance on the SMME sector as the main agent for economic redistribution in South Africa would be dangerous for three main reasons namely:

- The core of the South African economy remains large, white-owned, corporations. In promoting the SMME sector care must be taken not to tamper with the former.
- The number and size of most black-owned businesses are too small and yield limited income to their owners, which incomes cannot significantly shift the patterns of income distribution.
- Even if SMMEs were a successful channel of wealth to the black, this would not necessarily translate into reduced income inequality; instead, the likely outcome will be the enrichment of a few blacks at the expense of the majority black population.

Regarding competitiveness especially internationally, there is much debate at present. Competitiveness of the SMME sector has been attributed to its ability towards flexibility yet as found by Visagie (1997), the South African SMMEs do not possess the required technology especially in terms of IT that would enable them

react proactively. As such, their ability to compete favourably with their international counterparts is in serious doubt.

From the above, there appears to be a consensus among experts that a vibrant SMME sector is crucial to the socio economic development of any community. Whether in industrialised or developing countries, the contribution of this sector to the national and regional economies have been significant. There also appears to be the belief that despite the significant contribution made by the SMME sector, only a small segment really has the potential to contribute to economic growth. Considering the evidence cited above, this statement is quite relevant. However there is need for caution in implementing policies that may be aimed at promoting the so-called 'real contributors' to the neglect of those that are often termed "survivalist". If these survivalist SMMEs are left to die their natural deaths one wonders how many more unemployed people will enter the system? Therefore, there should be different policies for different target groups.

The following trends regarding the role of SMMEs in development can be identified:

#### *Global scale*

Studies on a global scale suggest a definite link between the SMME sector and small firms (Arzeni & Pellegrin, 1997). Specifically they are regarded as important sources of new jobs, poverty alleviation, income distribution, international competition, and economic growth but are unable to play these roles simultaneously. Therefore, countries should not rely on this sector alone to solve all the social and economic problems they face.

#### *Industrialised countries*

In industrialised countries, the SMME sector has been instrumental in local economic development. In the USA and Canada for example, they have contributed significantly towards new job creation resulting in employment growth. Perhaps this is a suggestion that SMMEs can be used to target local areas in need

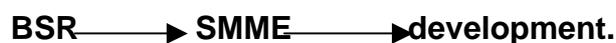
of economic impetus. This should be particularly useful for a country like South Africa that is said to have a dualistic economy. While part of the society lives in comfort and a booming economy, most rural areas live in poverty with little or no economic activity. These impoverished areas are therefore ideal candidates for targeted SMME development that will boost them economically.

### *Developing Countries*

In developing countries including South Africa, the SMME sector has helped in the fight against poverty and contributed to economic growth. For example in South Africa as much as 40% of the GDP is attributed to this sector. However, only a small segment is capable of making any significant contribution. Perhaps this calls for studies to find out why other sectors are unable to contribute in a significant way. The segments that are found to contribute significantly are the areas that people should be encouraged to engage in to bring about economic efficiency.

## **2.5 SMMES, DEVELOPMENT, AND BSR**

The link between SMMEs, development, and BSR has been alluded to in the earlier sections. The argument here is that through engaging in BSR activities SMMEs can impact more on socio economic development particularly in rural communities. The link between SMMEs, development, and BSR can be illustrated in the diagram below:



The concept BSR is the subject of Chapter 3 and will thus be fully covered there.

SMMEs have been credited with impacting positively on socio economic development but not to the expected levels. Their impact is not up to expectation because the traditional means of achieving this (job creation) has failed due to reasons that also include their inability to prosper and grow. Besides job creation, it is hypothesized that SMMEs can enhance their contribution towards local development by engaging in activities that can be termed BSR. The notion of BSR

and its relevance to SMMEs in socio economic development will be fully discussed in Chapter 3.

## 2.6 SUMMARY AND CONCLUSIONS

This chapter discussed the role of SMMEs in socio economic development and established that indeed a vibrant SMME sector is critical to the well being of every community whether in developed or developing countries.

The chapter found that indices of development are important for the following reasons:

- Politicians and development analysts regularly use changes in these rankings as a basis for assessing the efficacy of national policies.
- Governments and international organisations use measures of development to allocate funding to countries or regions.
- The underlying indices of national progress are extensively used in econometric testing of theories of growth and development.

However, for these indices to become useful, the concept of development must be understood. Unfortunately, the lack of a commonly accepted definition makes this task rather difficult.

Although the concept of development has been around for sometime, there is yet to be a universally agreed on definition due to the different meanings that it attracts. However, over time the concept has shifted from a purely economic perspective and now incorporates social dimensions as well. Specifically indices of development now have social indicators such as life expectancy and access to health care as major components.

Like most developing nations, the major development issues facing South Africa today are poverty, inequality, and unemployment. The pervasive nature of these three evils in the South African society makes it a top priority for governments at provincial and national levels to find quick but lasting solutions. Presently, South Africa's unemployment rate of about 27.5% is still too high, the average poverty rate of 50% is also too high, and in the case of the inequality gap, although narrowing due to some effective government policies, there is still much work to be done to bring the figures to acceptable levels.

This is where the role of SMMEs becomes very significant. For example, SMMEs through their ability to act as absorbers of excess labour makes them ideal candidates to turn the tide of the growing unemployment rate that has largely been caused by the big business shedding jobs. In other words, with the reduced employment opportunities in big business SMMEs have become important sources of new jobs. In rural communities, their role is even more significant because they are the only viable form of business due to the small markets in these areas.

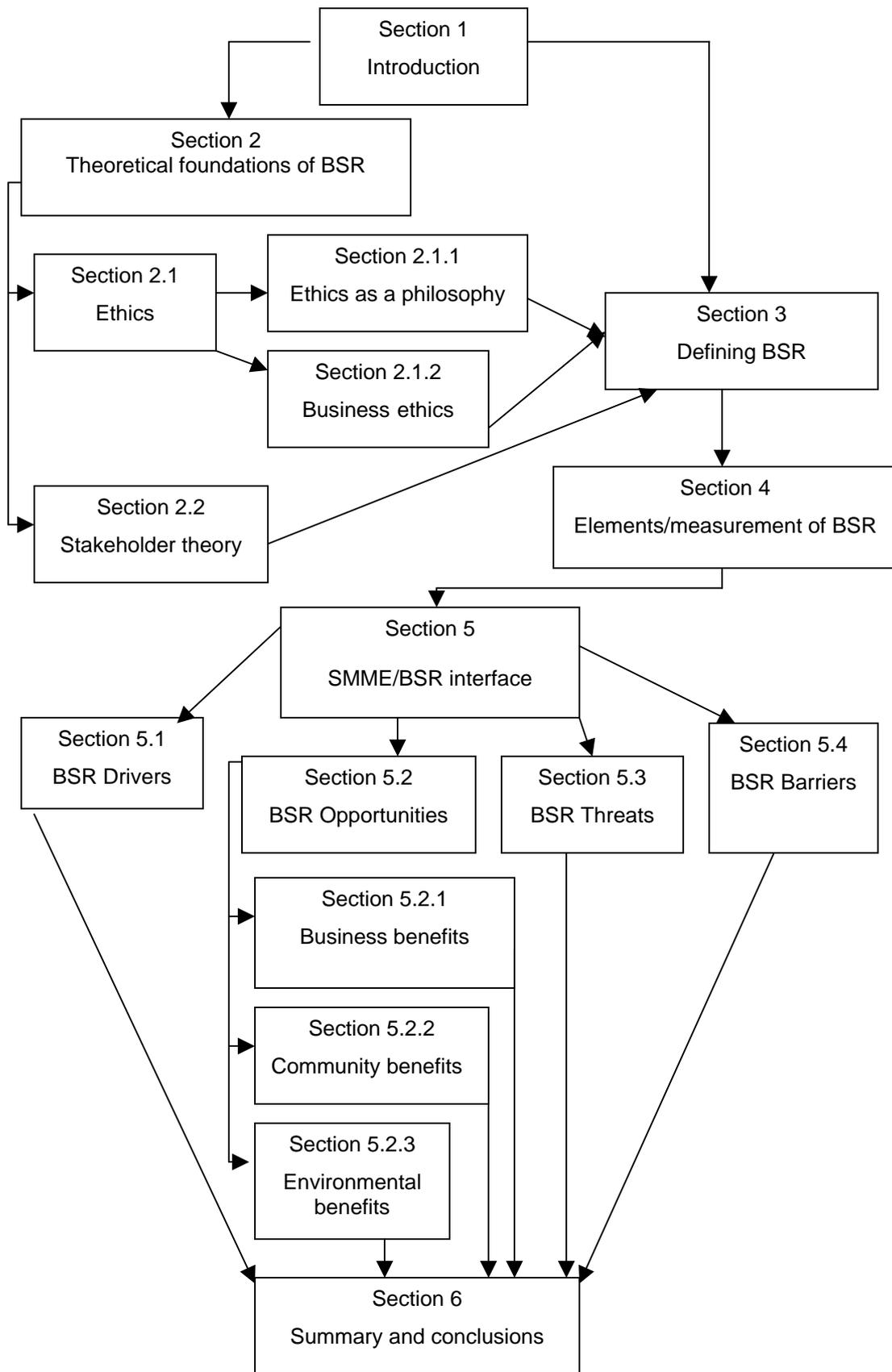
Although a globally uniform definition does not exist for SMMEs, in almost all the definitions examined, they contain reference to some common qualitative and quantitative descriptors. The common qualitative descriptors are the type of ownership and the sector. Common quantitative descriptors are number of employees, gross annual turnover, and value of fixed asset employed. At least this indicates a move towards an eventual uniformity that is most desired.

The SMME sector faces a number of challenges that need urgent attention in order for it to fulfil its potential. The barriers to the establishment and growth of this sector need to be eliminated. Importantly, three issues need addressing. Firstly, the unfavourable conditions in the enabling environment need urgent attention. Secondly, access to modern technology and the level of technological literacy needs to be enhanced among South African SMMEs in order to improve their competitiveness. Thirdly, the management skills of the owner/managers need upgrading. This will ensure that their ability to manage their businesses towards

success is enhanced. Chapter 4 examines management issues as applicable to SMMEs.

The SMME sector has played a major role in the socio economic development in both developed and developing countries in no small way and still seems to have a promising future in this role. However, the ability of this sector to contribute significantly is restricted to only a small segment especially in developing countries. As will be discussed in Chapter 3, the implementation of BSR activities in SMMEs may enhance the contribution of all segments of the SMME sector in socio economic development.

### CHAPTER 3 OUTLINE



## CHAPTER 3: BUSINESS SOCIAL RESPONSIBILITY

*“Businesses are economic entities for sure, but they are also social institutions that justify their existence by their overall contribution to society”*

(Mintzberg, Simons & Basu, 2002)

### 3.1 INTRODUCTION

Chapter two examined a number of issues related to entrepreneurship/SMMEs in socio-economic development. In particular, the issues of unemployment, poverty, and inequality reduction through SMMEs were discussed. This led to the conclusion that regardless of the problems facing SMME, there is an agreement among experts about the important contribution a vibrant SMME sector makes to local, regional, and national development. Empirical evidence from both developed and developing (underdeveloped) countries confirms this. The literature also revealed in chapter two that the full potential of SMMEs is yet to be realised and that only a small segment of this sector actually makes any meaningful impact on development.

This chapter explores how SMMEs can enhance their impact and help solve or minimise some of the societal problems of the communities in which they operate through their engaging in socially responsible programmes. At the same time it explores how engaging in such activities would enable them establish long-term relationships with their communities hence enhance business performance.

Establishing long-term relationships calls for ethical behaviour over and above what the law prescribes Business for Social Responsibility (2001). It is this type of behaviour that is often referred to as BSR and which have generated so much inquiry of late.

According to Bowen (1953); Freidman (1962); Heyen (1968); and Levit (1958), as quoted by Smith and Thompson (1991), managers and scholars have been searching for a better understanding of a company’s social responsibility for some time now.

The chapter explores the concept BSR in five main sections. First, the theoretical foundation of BSR is explored. Secondly BSR is defined. Thirdly, the various elements and the measurement of BSR performance are explored. Then, the BSR/SMME interface is examined. Finally, conclusions based on the discussions are drawn.

### **3.2 THEORETICAL FOUNDATIONS OF BSR**

Two common views are usually expressed regarding the role of businesses in society. On the one hand is a philosophy that states that businesses have no social obligations. The usual explanation for this reasoning is based on the idea that businesses are entities separate from society rather than foundations upon which lives and communities are built. Thus, from this perspective, the primary aim of business appears to be to enrich shareholders.

According to Kohls and Christensen (2002:223) this perspective finds support from those who believe in the underlying philosophy of modern market-based economies that states that through their wealth creation activities, businesses already fulfil their responsibilities. Implying therefore that, it is the responsibility of political institutions to ensure equitable distribution of the wealth so created and not the task of businesses. This view according to the same authors (the separation of wealth creation and wealth distribution function) however is now subject of intense criticism and rejection from experts.

Like others, Hobel (2002) for example believes businesses form an integral part of society with their activities, shaping it for good or bad. In other words, business conduct in society could impact either negatively or positively on the communities in which they carry out their activities. A negative impact one may argue would adversely affect the business while a positive impact will boost business.

Therefore, if a business wants to have a positive influence on its community or at least minimise its negative impact (a must in today's highly competitive market place), it would have to behave in a manner that is socially acceptable. This leads to the argument that businesses have to consider the interest of all parties

because their activities affect more than just the shareholders. In other words, in any business there are stakeholders other than shareholders, suggesting that BSR is rooted in stakeholder theory.

This view, of business as part of the larger society, is further emphasised by McCline and Gilinsky (1998), when they say, “Business ventures have a social contract with society at large to include the needs of the public in pursuing the business objectives of the venture. Business ventures from this perspective are presumed to exist at the pleasure of society and, therefore, should only continue to exist when they do no harm to society”.

In addition, virtually all the definitions of BSR found in the literature have some reference to businesses acting *ethically* over and above that prescribed by law. This indicates that BSR is also rooted in ethics (both business and personal).

For example, Kohls and Christensen (2002:224) assert the business social obligation by pointing out that business organisations are obliged on ethical grounds (based on moral economics and Catholic social teaching) to consider the effects of their economic decision-making on the distribution of wealth within societies (stakeholders and communities). They argue that since business organisations act within a social context their acts must serve the common good (fair trade over free trade). For, it is only by placing their economic decisions within the societal context that these economic organisations will be acting ethically. This again is an affirmation of ethics as a basis of BSR.

The above leads to the identification of ethics and stakeholder concepts as basic foundations upon which BSR is built.

### 3.2.1 STAKEHOLDERS AND THEIR INFLUENCE

The BSR literature identifies stakeholder engagement - a concept that has found wide application in business and society as one of the trends expected to shape BSR in the future (Atkins & Lowe, 1994; Clarkson, 1995; Carroll, 1999).

Citing the work of Carroll (1989), Argandona (1998:1098) contends that stakeholder theory has long been presented within the framework of business ethics. A step he sees as a shift from the neoclassical theory in which the company's goal is profit maximisation hence the only stakeholder that mattered is the shareholder. Instead, he notes that stakeholder theory is rooted in the concept of 'common good', a concept that occupies the centre stage of most discussions of BSR. And as its name suggests a 'common good' is everything that is good to more than one person, which is common to all (Argandona, 1998:1095).

Meanwhile, the concept of 'common good' which is well expressed in the pervasive Zulu word *ubuntu* an African value system is seen as the backbone of the new South Africa especially when one considers definitions of *ubuntu*.

Tutu (2000) for example aptly and most succinctly describes *ubuntu* as "embracing hospitality, caring about others, and being able to go the extra mile for the sake of others".

According to the Human Sciences Research Council (HSRC) (2002), *ubuntu* means humanity and its 'philosophy' is reflected in the African adage 'Umntu Ngumntu Ngabantu', or alternatively the Xhosa proverb – "Ubuntu ugamuntu ngabanye abantu" which means 'a person is a person through other people'.

The same source contends that *ubuntu* is essential in transforming among others management systems. If this is so and against the background that virtually every study on identifying problems facing SMME mention 'management' as a major problem, then *ubuntu* (the African terminology for 'stakeholder') which in business context translates into BSR (UNIDO 2002 contend that silent BSR is thriving in developing countries, albeit under different name and with different approaches) offers a way of improving the systems of management within SMMEs thus contributing to their success.

From the above, it is fair to conclude that 'Stakeholder theory' (which in African terminology may mean *ubuntu*) has relevance to BSR and provides a solid

foundation for studying and understanding BSR within SMMEs in the rural parts of South African where cultural influences are strongest.

The stakeholder concept meanwhile is gaining wide acceptance and application in business (Atkins & Lowe, 1994; Clarkson, 1995; Carroll, 1999). Reed (2002:168) acknowledges this trend by stating that stakeholder analysis has become a key conceptual device over the past couple of decades in fields such as business and society, business ethics, and management.

Questions that often emerge in the application of stakeholder theory in the field of BSR are, who are the stakeholders interested in the activities of businesses? And what are their influences, if any? Answering these questions has proved most elusive and as noted by Donaldson and Preston (1995), it has only generated more controversy. Nevertheless, a stakeholder perspective of the firm as opposed to the traditional view of input-output perspective, both authors agree, provides a new and useful way of studying the society versus business relationship.

For the purpose of this study, stakeholder theory, stakeholder management, and stakeholder analysis are used interchangeably as they are regarded as referring to the same concept.

As with any theory or conceptual framework, particularly emerging ones, stakeholder management/theory has met with a wide range of criticisms. Therefore, and as noted by Reed (2002, 168), it is important and worthwhile to first note some of the contentious issues involving stakeholder theory.

From Reed's (2002:168-172) analysis, the following emerge as some of the most contentious issues in the application of stakeholder theory in BSR:

- **Definition of stakeholder** – Like BSR, there is no universally agreed on definition, instead, a multitude of criteria have been suggested that include among others, being necessary for the survival of the firm, being affected or affecting, just to mention a few. This raises the question of how the understanding of who is the stakeholder should be determined.

- **The Function(s) of stakeholder analysis** – Stakeholder analysis has been used for different functions. It is therefore argued that this may underlie to a great extent the diversity of definitions of stakeholder analysis. The fundamental questions are how the function(s) of stakeholder analysis is (are) to be determined, how the different functions relate to one another, and whether some functions of stakeholder analysis should take precedence over others.
- **Autonomy of different forms of analysis** – The view here is that, in attempting to address the issue of how to categorise stakes and stakeholder theory in a more theoretically adequate fashion, authors (even prominent ones such as Freeman and Clarkson) often tend to mix up or conflate these different forms of analysis. The issue here is that the autonomy of the different forms of analysis is not being respected.
- **Development of more specific types of stakeholder theory** – A number of theorists have tried to develop specific types of stakeholder theories: descriptive (Jawahar & McLaughlin, 2001), instrumental (Jones, 1995), and normative thereby seemingly making it easier to develop acceptable definitions along the same lines. However, while acknowledging its potential helpfulness in this regard, Reed (2002:168-172) also recognises the arguments of its critics who point out that these distinctions rather than increased clarity of stakeholder theory, only lead to more confusion.

In spite of the above and many more misgivings/criticisms of the use of stakeholder theory in the field of BSR, the theory has gained in popularity over the years and has many adherents many of them notable BSR authors. Not surprisingly, Clarkson (1998) in Reed (2002) concluded, “The use of stakeholder analysis to investigate BSR has burgeoned over the past two decades”.

Clarkson (1995) first proposed that stakeholder theory provides a framework for the systematic collection, organisation and analysis of data relating to BSR. He explained that BSR could be analysed and evaluated more effectively by using a

framework based on the management of a company's stakeholders. Brown, Janney, Muralidhar, Paul and Ruf (2001) reiterated this point by arguing that stakeholder theory provides a framework for investigating the relationship between business social performance and business financial performance. Donaldson and Preston (1995), also acknowledge the usefulness of stakeholder theory in the study of the firm. Their two contrasting models that illustrate the distinction between a stakeholder conception of the firm and a conventional input-output perspective are shown in Figures 3.1 and 3.2 below.

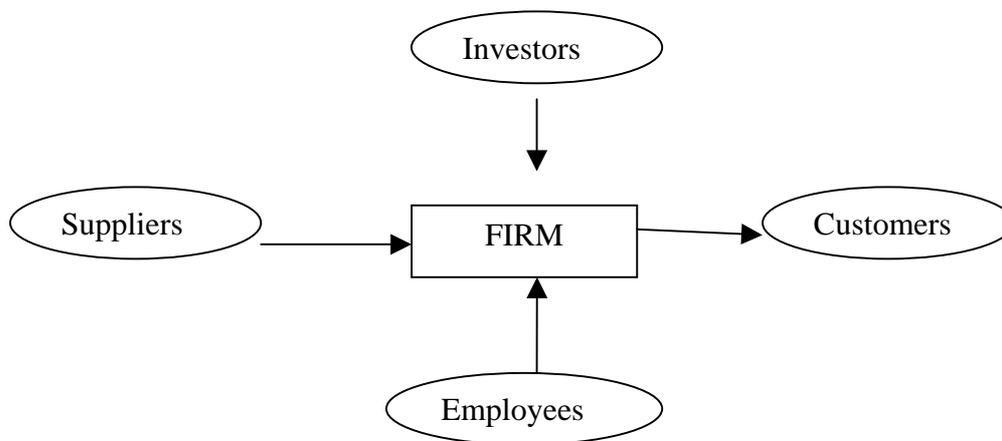


Figure 3.1 The Input-Output Model of the Firm.  
(Source: Donaldson and Preston, 1995:68)

According to Figure 3.1, investors, employees, and suppliers contribute input that the firm transforms into output for the benefit of consumers with each contributor expecting to receive appropriate compensation. However, as a result of competition throughout the system, the bulk of the benefits go to the customers (Donaldson & Preston, 1995:68).

The stakeholder model (Figure 3.2) differs explicitly with the input-output model with the stakeholder adherents arguing that all groups with legitimate interests participating in an enterprise do so to obtain benefits with no one set enjoying priority over the other (Donaldson & Preston, 1995:68).

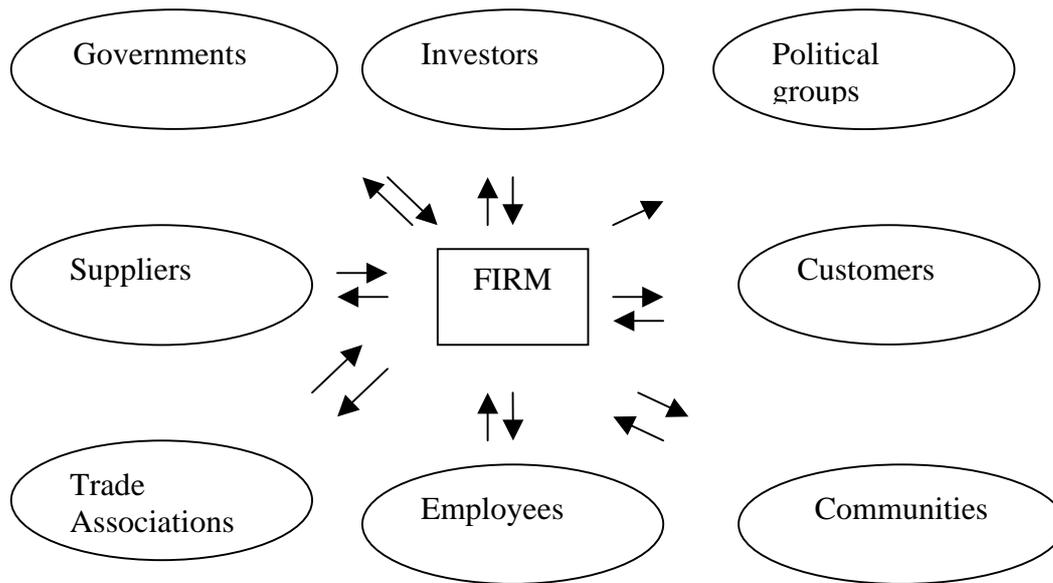


Figure 3.2 The Stakeholder Model of the Firm.

Source: (Donaldson & Preston, 1995: 69).

If this assertion is accepted, then it implies that all participants are important hence can influence the performance of the company. Therefore, it will appear prudent for businesses to follow the stakeholder management route.

Besides attempting to explain the concept stakeholders, the model clearly shows who the stakeholders are (government, investors, political groups, suppliers, employees, communities, and customers).

Meanwhile Brown *et al.* (2001) argue that the seemingly two opposing views should not necessarily be the case. That is, the neo-classical economists argument that business expenditures on social cause are a violation of management's responsibility to shareholders to the extent that the expenditures do not lead to higher shareholder wealth on the one hand and others who contend that managements' responsibility extend beyond shareholders to include causes that benefit society as a whole. Rather, the introduction of the stakeholder theory actually allows these two seemingly opposing views to be combined (Freeman, 1984 in Brown *et al.* (2001:144)).

Argandona (1998:1) holds similar views to those above and argue that BSR oscillates between the two extreme views of the firm: the profit maximisation for

shareholders on the one hand and the extension of the firm's responsibility to include a wide range of actors with an interest or 'stake' in the firm: the shareholders, managers, employees, suppliers, customers, interest groups, unions, competitors, the local community, society in general and eventually the world at large.

The Stanford Research Institute (SRI) referred to in Donaldson and Preston (1995:72) define 'stakeholders' as "those groups without whose support the organisation would cease to exist". This definition is an indication that managers need to induce constructive contribution from their stakeholders in order to achieve their desired results of profitability, stability, and growth.

Meanwhile, Laczniak and Murphy (1993:14) believe that it is sometimes useful to distinguish between *primary stakeholders* and the *secondary stakeholders*. To this end Laczniak and Murphy (1993) describe them as follows:

**"Stakeholders** are persons or groups of people that have or claim, ownership, rights, or interest in a corporation and its activities, past, present or future. Such claimed rights are the results of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on, and can either be primary or secondary".

"A **primary stakeholder** group is one without whose continuing participation the company cannot as going concern. Primary stakeholders typically are comprised of shareholders and investors, employees, customers, and suppliers together with government and communities that provide infrastructure and markets, whose laws and regulations must be obeyed, and whose taxes and other obligations may be due. There is a high level of interdependence between the company and its primary stakeholder group".

**"Secondary stakeholders** are those who influence or affect or are influenced or affected by, the company but they are not engaged in transactions with the

company and are not essential for its survival. The media and other specialist interest groups fall within this category. They have the capacity to mobilise public opinion in favour of or against a company's performance. The company is not dependent for its survival on secondary stakeholder groups but they can cause significant damage to the company".

This distinction of stakeholders into primary and secondary groups and their subsequent definition is likely to cause problems for managers in terms of how to manage them. As rightly pointed out by Laczniak and Murphy (1993:15) the definition of primary stakeholders is likely to make them receive more weight when managers make decisions that affect various stakeholder groups. They however argue that this should not necessarily be the case. Instead, they advise that organisations that subscribe to the stakeholder concept should try to see to it that its primary stakeholders attain their objectives, while at the same time keeping the other stakeholders happy (a 'win-win' situation). A pertinent extension to this argument may be that even within the primary stakeholder group the temptation may arise for managers to allocate more weight to particular stakeholders. But similar to the earlier suggestion this group could also be managed to produce the so-called 'win-win' situation.

In concluding the discussion on stakeholder theory, Donaldson and Preston (1995:72) surmise:

- Stakeholders are persons or groups with legitimate interest in procedural and/or substantive aspects of the firm and who are identified by their interest in the firm.
- Stakeholder theory is 'Managerial' (there are attitudes, structures and practices that taken together constitute stakeholder management philosophy).
- Ultimately, normative assertions, lend support to the idea that stakeholder theory contributes to successful economic performance of the firm. Therefore, the proposition that businesses practicing stakeholder

management will, other things being equal, be relatively successful in conventional terms (profitability, stability, growth, etc.) is justified.

- The most prominent alternative to stakeholder theory (i.e. the ‘management serving the shareowners’ theory) is morally untenable.
- The theory of property rights, which is commonly supposed to support the conventional view, in fact, in its modern and pluralistic form-supports the stakeholder theory instead.

The situations described above lead to ethical decision-making dilemmas for management that raise the issue of ethics in general and business ethics in particular.

### 3.2.2 ETHICS AS A FOUNDATION OF BSR

The link between ethics and stakeholder theory was alluded to in the earlier section when it was said that firms that subscribe to the stakeholder theory face ethical dilemmas when they have to make decisions that have different consequences for the different stakeholders. At the same time, it was mentioned above that the concept BSR has a foundation in the stakeholder theory. These connections alone make ethics an important (if not more important) basis for BSR. Ethics as a foundation for BSR has been intimated by Longenecker *et al.* (2000:35). They described an ethical business as one in which customers, and employees are treated honestly and one that acts as a **good citizen** in the community some of the obligations of **good citizenship** being **social responsibility**.

#### 3.2.2.1 Meaning of Ethics

The literature agrees that ethics derives from the Greek word *ethos*, which means custom or mode of conduct and is used to distinguish right from wrong conduct.

Hodgetts and Kuratko (2004:162) trace its prominent use in philosophical thought to the greats such as Socrates, Plato, and Aristotle.

Although a number of attempts have been made, a contemporary definition of the term by the same Hodgetts and Kuratko (2004:162) which appears to capture the essence of most definitions as well as BSR describes ethics as:

*A set of principles prescribing a behavioural code that explains what is good or bad and right or wrong, and in addition outlines moral duty and obligation.*

Another definition by Rue and Byars (1995:104) that captures the essence of BSR states:

*Ethics is the set of principles of conduct used to govern the decision-making and behaviour of individuals or group of individuals.*

Based on the above and several other definitions from the literature search, deciding between *right* versus *wrong*, the concept of the *greatest good for the greatest number of people* in decision-making, *morality*, and *obligations* seem to appear in all definitions and discussions of ethics as a concept.

In conclusion, it is fair to say that the question of ethics arises because people are constantly faced in their daily lives with situations where they have to make decisions that affect more than one stakeholder group. What may be *good* for one group may be *bad* for the others because of differing needs. For example, what may be in the best interest of a business (stockholders) may not be so for the other stakeholders such as customers, employees, or society at large. This leads to the next point that is – **ethics in business**.

#### 3.2.2.2 Business ethics

As implied in the previous paragraph, moral versus business obligations, is a major dilemma business managers have to grapple with in discharging their

duties. SMME owner/managers are in a particularly difficult situation because unlike their big business counterparts they are often members of, attract their employees from, or have relatives in the communities in which their businesses operate. Hence, they feel more obliged to behave ethically while trying to ensure profitability.

In order to assist managers and employees resolve many of the ethical dilemmas they face, companies especially the large ones usually develop **codes of ethics**. This is not to say that codes of ethics are non-existent in SMMEs. In fact, a large number of the SMMEs interviewed in the empirical part of this study had some form of code of ethics that were directed at how well they behave or are expected to behave towards their customers. The point however is that codes of ethics would be more readily available in big businesses than in smaller ones because unlike their counterparts, SMMEs hardly believe in documentation for various reasons.

**Code of ethics** – According to Rue and Byars (1995:106) codes of ethics are normally based on one or more of the following three philosophical approaches namely the *principle of justice*, the *principle of individual rights* and the *principle of utilitarianism*. These principles they define as follows:

*Principle of justice*

“Involves making decisions based on truth, a lack of bias, and consistency”. This implies that the business for example engages in truthful advertising and marketing.

*Principle of individual rights*

“Involves decisions based on protecting human dignity”. A typical example is that managers would not force workers to do overtime work.

*Principle of utilitarianism*

“Means making decisions based on promoting the greatest good for the greatest number of people”. Gorlin in Rue and Byars (1995:116) recommend that as a general rule codes of ethics should cover the following topics:

- Fundamental honesty and adherence to the law
- Product safety and quality
- Health and safety in the workplace
- Conflicts of interest
- Fair selling and marketing practices
- Financial reporting
- Supplier relations
- Pricing, billing, and contracting
- Insider information
- Acquiring and using other people's information;
- Political activities
- Environmental protection
- Intellectual property.

Most of the topics form major portions of the questionnaire for the empirical part of this study that investigated SMME owner/manager awareness and performance of their social responsibilities. In particular, issues relating to fair selling and marketing practices, health and safety at workplace, product quality and safety, and political activities received prominence in the questionnaire.

Loucks in Hodgetts and Kuratko (2004:162) first attributed the origin of determining what exactly constitute right and wrong (ethical) conduct to the Greek thinker Chilion who in as far back as 560 B.C. said, “A merchant does better to take a loss than to make dishonest profit”. He reasoned that although a loss may be painful for a while, dishonesty hurts forever. This is an indication that ethics actually originated from the business domain and quite early too. Granted this assertion is accepted then it is quite baffling why it's application in business has lurked in the background for so long.

According to *Business for Social Responsibility* (2002), business ethics define how a business integrates core values such as honesty, trust, respect and fairness into its policies, practices and decision-making. Longenecker *et al.* (2000:375) agree with this view in stating that right or wrong business practices by employees and managers reflect their underlying **values**. For example, their beliefs affect their behaviour towards customers and others. This behaviour in turn may reflect their underlying value system. Thus, behaviour may reflect commitment (or lack of it) to honesty, respect and truthfulness-that is integrity in all its dimensions. From this perspective, it is clear that a strong value system is a pre-requisite for ethical behaviour and is dependent on the individual. Given that individual's values determine ethical behaviour, it should not be surprising that the owner/manager's values should determine the ethical tones of SMMEs given the influence they wield over their organisations as the owners.

As Longenecker *et al.* (2000:375) point out, even with strongly held ethical values hard choices need to be made. Sometimes the choices become so hard that employees and managers are torn between the most economical and the most ethical choice. Thus, ethical or unethical behaviour is not confined to only managers but equally extends to employees.

Related to the above, Waters and Bird (1989) in Hodgetts and Kuratko (2004:164) constructed a typology of morally questionable acts and suggested that such acts are either for or against the firm. Unethical behaviour that runs against the business and attributed to employees normally has to do with loafing on the job, working too slowly, and unjust sick leave (Longenecker *et al.* 2000:372). On the other hand, fraudulent reporting of income for tax purposes, and deceptive advertising are the main unethical behaviour on the part of management in favour of the business.

For SMMEs, unethical conduct in most cases is a matter of survival, a situation that Hodgetts and Kuratko (2004:166) call economic trade-off. In other words and as Longenecker *et al.* (2000:375) allude to, the vulnerability of SMMEs to behave unethically is greater than in large corporations due to their small size that places severe resource limitations on them. Consequently, they are more prone to

unethical practices such as extortion, and bribery etc. In addition competitive pressures, limited product line, limited market presence and the sheer desire to make profit at all cost may be sufficient motivation for the SMME owner/manager to behave unethically.

That a strong ethical inclination provides a foundation for BSR is not in doubt. The discussion so far indicates this and shows that a strongly ethical business conduct requires concern for society (role and relationships in society).

That ethical business is taken seriously at all levels is no longer in doubt. Almost a decade ago, Vyakarnam, Bailey, Myers, and Burnett (1997) noted that corporate leaders were taking ethics seriously. It can similarly be argued that managers and owners of SMMEs now realise the importance of ethical behaviour and therefore take it seriously.

But for SMMEs to engage in BSR, they need to know what activities constitute socially responsible behaviour and whether there is a business justification for doing so. This requires deeper understanding of the concept BSR. Having discussed the two legs on which BSR stands (stakeholder concept and ethics), the following sections explore the concept further by examining existing perspectives and definitions of BSR in order to identify Key elements that form the basis of the empirical study.

### **3.3 DEFINING BSR**

Although the concept 'BSR' has been around for sometime now, there are however, several problems still confronting researchers, scholars, and business managers during its application. One of these problems is that no single definition has as yet emerged for BSR. Instead, as Jones (1999:163) confirms, a plethora of definitions exist. Thus BSR may mean different things to different people depending upon the definition adopted. BSR is variously defined and described as:

*Business' obligation to seek socially beneficial results along with economically beneficial results in its policies, decisions and actions (Kyambalesa, 1994:201).*

In defining it so, Kyambalesa (1994) argues that “business enterprises should make concerted efforts to relate their objectives and activities to the changing expectations of the social milieu which they are also part of”.

*The obligations of a business to protect the interest of its customers, employees, suppliers and the general public (Longenecker et al. 2000:365).*

In support of this definition Longenecker *et al.* (2000) argue that a firm's social responsibility goes far beyond its relationship with customers and includes such areas as environmentalism, consumerism, support for education, compliance with government regulations, response to community needs, and contribution to community organisations.

*A business obligation to set policies, make decisions and follow courses of action that are desirable in terms of the values and objectives of society (Byrd et al. 1994:484).*

According to Byrd *et al.* (1994), social responsibility as practiced by small firms usually takes the form of:

- Consumerism
- Employee relations
- Environmental protection.

*BSR is a company's commitment to operating in an economically and environmentally sustainable manner while recognising the interest of its stakeholders. Stakeholders include investors, customers, employees, business partners, local communities, the environment, and society at large (Peyton, 2003).*

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*The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. (World Business Council for Sustainable Development, 2001)*

The European Commission (EC), in its July 2001 green paper entitled “promoting a European framework for Corporate Social Responsibility” describes BSR as essentially:

*A concept whereby businesses decide voluntarily to contribute to a better society and a cleaner environment.*

And according to EC’s July 2002 press release entitled ‘Corporate Social responsibility: New Commission strategy to promote business contribution to sustainable development’, responses to the above green paper show a general consensus on the following:

- BSR is linked to the concept of sustainable development.
- BSR means the recognition of the need for business to address the social, economic and environmental impact of their operations (triple bottom line approach).
- BSR involves activities that are integrated into overall business strategies (not just an add-on to core business activities).
- BSR is not about shifting public responsibilities to the private sector.
- BSR complements rather than replaces legislation and social dialogue.
- BSR is a global issue and the external dimension is the most challenging one.
- BSR requires the development of dialogue between companies and other stakeholders.
- BSR education and training of managers, workers and other actors is vital.
- BSR stands or falls on transparency and credible validation tools.

Meanwhile the Business for Social Responsibility defines it as:

*Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. (Business for Social Responsibility, 2001).*

Nicholas (1994), in McCline and Gilinsky (1998) asserts that business ventures that claim to be socially responsible are characterised by:

- Their employees being self-directed yet inspired by a visionary leader.
- A transformed workplace with a flat organisational chart.
- An organisational environment that feels like a family or friendly village, where everyone has flexible schedules to accommodate their personal lives and everyone creates products that they themselves love.

The common thread running through all these definitions and characterisations appears to be reference to the meeting of expectations of society at large and meeting profit motives of the business at the same time. Therefore, building upon the above definitions and characterisations, and for the purpose of this study, BSR is defined as:

***A company's commitment to operating in an economically and environmentally sustainable manner while recognising the interest of its stakeholders (stockholders, customers, employees, business partners, local communities, the environment and society at large) over and above those provided by law.***

The term **corporate** social responsibility (**CSR**), which is often used in the literature, appears to have big business connotation. In order to avoid this and make the concept more relevant to businesses of all sizes **business** social responsibility (**BSR**) is used in this study.

As stated earlier, businesses need to know what activities constitute socially responsible behaviour if they are to adopt the concept. The next section explores

these activities and examines how performance or non-performance can be measured.

### **3.4 ELEMENTS/MEASUREMENT OF BSR**

What constitutes a firm's social responsibility seems as diverse as its definition. For example, Longenecker *et al.* (2000:365) observe that a firm's social responsibility includes its relationship with customers, environmentalism, consumerism, support for education, and compliance with legislation, response to community needs and contribution to community organisations.

According to Kyambalesa (1994:201), examples of how small businesses can contribute to the uplifting of the economic and social welfare of their local communities include:

- Supporting the efforts of their communities to rehabilitate the mentally deranged, physically handicapped, and other disadvantaged members of society;
- Making generous contributions to educational institutions, thereby helping to educate and prepare the citizenry for tasks that will benefit their communities and society at large;
- Working hand in hand with municipal authorities and other institutions in providing low-cost housing, combating crime, creating employment opportunities and the like; and
- Charging fair prices for their goods and services.

After reviewing a number of research publications that involves the works of BSR experts such as Longenecker, McKinney, and Moore (1989); Chrisman and Archer (1984); Brown and King (1982); Chrisman and Fry (1982); Kedia and Kuntz (1981); Wilson (1980); Gomolka (1978); and Reeder (1978), Thompson and Smith (1991) found that the empirical research suggests the following:

- Customer relations (i.e. customer satisfaction) are viewed as the primary BSR of small business.
- Consumer relations, product quality, employee concern, and profitability are perceived by managers to be key BSR areas of small business.
- Managers and owners have perceptions of BSR similar to those of non-business people.
- Social involvement by small businesses may be moderated by the extent of minority ownership.
- Managers of small business and large corporations indicate few differences in their perception of acceptable ethical practices.
- Social involvement activities of small businesses are informally structured.

These findings by Longenecker *et al.* (2000) have far reaching implications for research into small business social responsibility in a number of ways.

Firstly, since BSR in SMMEs may be informally structured, it may be impossible to find evidence of BSR in SMMEs by merely examining documents or from company vision, mission, or BSR being formally integrated into their business strategies. This suggests that any measurement of BSR performance in SMMEs should look beyond these areas that may include perceptions measurement.

Secondly, since small business social involvement may be moderated by the extent of minority ownership, small businesses included in any such study should be examined for the extent of minority ownership and measures taken to prevent their possible effect on the study findings.

Thirdly, consumer relations, product quality, employee concerns, while remaining the focus and key elements of BSR should in no way undermine the business imperative of any organisation, that of being profitable. Any BSR efforts whether in

large or small enterprises must be aware of profitability implications. Thus from the literature, a variety of ways exists that can be used by SMMEs to contribute to the development of the communities in which they operate. However, to what extent businesses perform these tasks is another sphere of debate.

The Canadian Co-operative Association (CCA) (2003) provides a framework for understanding the extent of BSR performance within businesses. Arguing that in the near future, BSR will become a mainstream within business, where BSR standards will become a business basic and not an add-on, they contend that future BSR companies will be found along a continuum of impact, innovation, and commitment to social and environmental responsibility and could be classified thus:

1. BSR Lite
2. BSR Compliant
3. BSR Strategic
4. BSR Integrated or
5. Deep BSR.

This continuum shows the extent to which a company is engaged in BSR activities namely:

- Companies at BSR Light stage would show minimum commitment to BSR probably just to fulfil legal requirements.
- BSR compliant companies would be committed to ensuring adherence to BSR standards. They would focus on building stakeholder support for their BSR endeavours in an attempt to obtain their social license to operate.
- As the name suggests, those companies at the BSR strategic stage would adopt basic standards and become strategic about their approach to BSR.
- At the BSR Integrated stage, companies would integrate BSR throughout their business mode, not simply as a strategic advantage in niche markets,

but to fulfil their commitment to reduce their environmental footprint and improve the social impact of their operations.

- The highest form of BSR on this continuum is BSR Deep where companies would adopt or be founded on business models whose mission is to improve social or environmental conditions.

From the literature, and for the purpose of this study, the elements of BSR can broadly be classified as having internal and external dimensions, which in turn can be sub-divided thus:

- Consumerism
- Employee relations and
- Community participation

The external dimensions would involve community participation and consumerism, while employee relations that involve all human resource issues are seen as an internal dimension.

**Consumerism** - This is a movement that stresses the needs of consumers (customers) and the importance of serving them honestly as well in contrast to the past when the business philosophy was 'Let the buyer be ware' (Longenecker *et al.* 2000: 369). As far as Kyambalesa (1994:202) is concerned, the customer is the 'King' or 'Queen' as they form business most critical public. Business people therefore need to foster cordial relations with their customers if they are not to fold up (Kyambalesa, 1994:203; Scarborough; Dorrian, 1996:55 & Zimmerer, 1996:83). Today, buyers expect safe, reliable, durable and honestly advertised products (Longenecker *et al.* 2000: 369). But consumers these days appear to expect more than safe, reliable, durable, and honest advertising. According to Dorrian (1996), it is only when business practices good customer care that includes good after sales service that it can be assured of continued operation. Customers are therefore the most important stakeholder group of any business (Kyambalesa, 1994; Scarborough & Zimmerer, 1996:83; Longenecker *et al.* 2000;).

Emerging from all this is that customers form an important stakeholder group of businesses; businesses need to foster close relations with their consumers; businesses need to produce durable, and reliable products that are advertised with honesty; but because customers require more than physical products, businesses need to need to engage in good customer care practices. This last point according to Dorrian (1996) requires active participation of dependable employees.

**Employee relations** – This involves how well employees are treated and looked after at the work place. It includes among others, employee safety and health, scholarships for the children of employees, day care facilities for the children of workers, etc.

Scarborough and Zimmerer (1996:68) state “few other stakeholders are as important to a business as its employees”. And Dorrian (1996) observed that employees could have a big impact on other key relationships such as customers through their customer relations. Hence, Scarborough and Zimmerer (1996:69) noted that it has become common for managers to refer to their employees as their most valuable resource. It can therefore be argued that perhaps the most important BSR issue is the relationship between a business and its employees.

SMMEs appear to be in a more precarious position as far as employee relations is concerned because it is popularly believed that workers in SMMEs are closer to customers since most of the employees are members of the communities within which these businesses operate in.

Therefore, the critical and first question for owner/managers of SMMEs comes down to how employees are dealt with. Does the firm pay a fair wage (living wage in developing countries), does the company invest in training and development, does the company comply with health and safety regulations, how does the company respond to extraordinary circumstances such as HIV/AIDS or does the company design working arrangements that suit individual needs, are just but a few of the numerous employee issues that owner/managers may have to address.

Scarborough and Zimmerer (1996:69) suggests that for SMME owner/managers to prove to their employees that they are their number one assets they need to:

- Listen to employees and respect their opinion;
- Ask for their input;
- Involve them in decision making process;
- Provide regular feedback;
- Always tell them the truth;
- Let them know exactly what is expected of them;
- Reward employees for performing their jobs well;
- Trust them; and
- Create an environment of respect and teamwork.

**Community participation** – According to Scarborough and Zimmerer (1996:85), besides wealth and job creation, businesses contribute to communities in many ways. This may include contributions to community programmes such as disaster relief, financial and material support to local schools, combating crime, and minority contracting.

As noted by the European Community (2001:12), BSR is also about the integration of businesses in their local settings. It argues that while contributing to the local communities in the form of taxes, job creation, etc. businesses also depend on the health, stability and prosperity of the communities in which they operate.

According to the European Community (2001:12), SMMEs recruit majority if not all their employees from the communities within which they operate. Therefore, they have a direct interest in the availability of skills they need. Consequently, involvement in community causes such as the provision of vocational training places, employment of socially excluded people just to mention a few will help develop positive relationship with the local community. However, SMMEs because of their limited resources can only engage in limited community activities.

Longenecker *et al.* (2000:366) argue that the extents to which SMMEs are sensitive to the various community issues vary. They note that some businesses

emphasise minority contracting and economic development while others focus their attention on volunteerism, philanthropy, and day care for employees' dependents. Therefore, any study on BSR in SMMEs should not take the absence of one or two indicators to mean non-performance. It may be that the business does not regard some of these issues as urgent enough or they do not have the resources to engage in such activities.

Upon due consideration, it was decided to include consumer relations, employee relations and community participation (see Chapter 6 for details) in the questionnaire for measuring BSR performance in the GTLM SMMEs. These issues are selected because based on the literature review, they appear to be the ones that affect rural based SMMEs and their communities the most and also because they appear to be the most likely arrears SMMEs can participate in considering their resource limitations.

### **3.5 THE BSR/SMME INTERFACE**

UNIDO (2002) provides a framework for the study and understanding of the SMME/BSR interface that is relevant to this study. According to this model, the BSR/SMME interface comprises of drivers, threats, opportunities (benefits), and barriers. Elucidation of this framework and its components should provide a further understanding of the concept BSR.

#### **3.5.1 DRIVERS OF BSR**

The idea that companies should look beyond the needs of their shareholders and take into consideration other stakeholders and the communities within which they conduct their business is not new. What is new is the attention that BSR in small business has received in recent years. Many factors are driving this move towards business social responsibility:

- New concerns and expectations from citizens, consumers, public authorities and investors in the context of globalisation and large scale industrial change.
- Social criteria are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors.
- Increased concern about the damage caused by economic activity to the environment.
- Transparency of business activities brought about by the media and modern information and communication technologies.

(European Commission, 2001).

Hanford, the former project manager of the Geneva-based World Business Council for Sustainable Development (WBCSD) in UNESCO (2000:4) notes, “Business social responsibility (BSR) as a business concept, is getting more and more attention as globalisation raises new issues and dilemmas for business and as the spread of information increases exponentially”. This implies that developments in information and communication technology (ICT) and globalisation are key drivers of BSR.

According to the United Nations Industrial Development Organisation (UNIDO, 2002), the key drivers of this increased attention seem to come from four main sources namely:

- Supply chain pressure from Trans National Corporations (TNC) codes of conduct that requires SMMEs to behave in a socially responsible manner.
- Shifting markets that require companies to align production to consumer preferences.
- Local pressure from regulation public policy and civil society (Consumers, media and pressure groups).

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- Strategic business case benefits where being more socially and environmentally responsible is considered important for the strategic development of any business.

The above suggests values, strategy, and public pressure as basic drivers of BSR.

The Boston College Centre for Corporate Community Relations (2000) in UNIDO (2002) cites the following reasons for the growing importance of BSR:

- Globalisation and the associated growth in competition.
- Increased size and influence of companies.
- Retrenchment or the repositioning of government and its roles.
- War of talent – companies competing for expertise.
- Growth of global civil society activism.
- Increased importance of intangible assets.

Although numerous factors seem to be driving the increased interest in BSR irrespective of firm size, from the above discussion, the following three issues emerge as the most recognisable drivers of BSR within SMMEs:

- **Supply chain pressures from TNCs** – As big businesses begin to integrate BSR values and practices throughout their operations due to their code of conduct that requires them to do so, they in turn confront the issue of their supplier relation. For example, to what extent do their suppliers who are usually SMMEs practice BSR? As stated by CCA (2003) this type of questioning leads to the development of procurement policies that require their suppliers (usually SMMEs) to demonstrate a commitment to BSR. Thus among others social standards are now becoming a precondition for SMMEs to do business with TNCs;
- **Investor and customer pressure** – Investors and buyers these days are showing preference for investing in and buying from businesses they view as socially responsible while some consumers would prefer dealing with

businesses with good BSR track record. For example, the Canadian Business for Social Responsibility (CBSR, 2003) published a report of a recent poll that suggests that 77% of Canadians are most likely to invest in, 81% to purchase from and 79% to work for companies they view as socially responsible. At the same time 66% of Canadians surveyed want firms to move beyond simply obeying laws to being fully accountable for conduct that might undermine social and environmental health the same source argues. The major issues here are: the price of consumer boycotts and loss of finance. These pressures apply to all kinds of businesses irrespective of size but being closer to their customers and heavily dependent on external investor finance who can therefore easily assess their compliance or non-compliance, SMMEs are compelled more to adopt policies on these issues;

- **Globalisation** – One major effect of globalisation is the increased competition for markets. Small businesses located in rural areas are no longer protected from international competitors. If they want to be competitive with their international counterparts hence remain in business, local SMMEs are compelled to adopt best BSR practices of their international competitors else they will be squeezed out of business.

The increased pressure from the above drivers on businesses of all sizes to take into account the wider interests of other stakeholders along side those of the shareholders appears to come from at least three main reasons/factors.

Firstly, it may be argued that such calls for greater responsible behaviour on the part of businesses stem from recent business scandals such as the case of Enron. These misdeeds have been largely attributed to managers who often face ethical dilemmas when they try to maximise shareholder value and in so doing sometimes, hurt consumers, the general public, and the environment. In their attempt to correct the negative perceptions that result from such misdeeds, businesses often engage in innovative strategies. One such recourse is to engage in activities beyond what legislation prescribes.

Secondly, for companies to survive in today's setting of globalisation they may have to think in wider strategic terms. These include social, and ecological elements, besides the economic ones. At the same time, UNIDO (2002:1) observes that the relationship between business and civil society has moved from that of paternalistic philanthropy to the re-examination of the roles, rights and responsibilities of business in society. These arguments lead one to agree with UNIDO (2002:1) that, the last twenty years or so have seen a radical and unprecedented change in the relationship between business and society.

Thirdly, the same period has witnessed a growing emergence and drive for 'sustainable-development' that according to Tailor-Gee (1999:29), requires harmonising the traditional focus of the financial bottom line with environmental and social aspects arguing that the three spheres are inter-dependent and mutually enhancing. Tailor-Gee however observes that whilst environmental protection has become well established, the so-called third leg of development namely societal aspects has had less focus noting that it is only recently that businesses have begun to address the social aspects of their businesses.

CBSR (2003) also notes that although at Federal level, sustainable development has been adopted as a government priority, the focus is more on the environmental aspects than the social.

UNIDO (2002:1) while noting that Business Social Responsibility (BSR) is now being debated in public policy sphere also highlights the growing importance of social dimensions of responsible business behaviour by intimating that:

- The UK has a Minister for Business Social Responsibility (in the Department of Trade and Industry).
- The EU has recently published a green paper on the subject.
- 2005 has been designated the European year of BSR.

- The UN Global Compact is bringing together companies and UN agencies to address BSR.

The above developments are clear indications of the importance governments and policy makers now attach to BSR and which have profound implications for SMMEs particularly those in rural parts of developing countries.

One such important implication is that small businesses in rural areas need to engage more visibly in community support activities in the areas in which they do business. This is because as argued by Botha and Visagie (1998:694), in most rural areas of South Africa where the population is too small to justify large enterprises, the only source of economic activity is that provided by SMMEs. Further, more, SMMEs could play a meaningful role in underdeveloped communities by among others providing social services. “Hence SMMEs need to consider themselves part of the communities in which they operate by developing mutual relationships with their communities” Botha and Visagie (1998:694) conclude.

In order for businesses particularly SMMEs to engage in BSR, they need to know what activities constitute socially responsible behaviour and whether there is a business case for them to adopt good BSR practices.

### 3.5.2 OPPORTUNITIES (BENEFITS)

It is argued that by adopting and becoming strategic about their approach to BSR, businesses irrespective of size will be able to add to shareholder value whilst at the same time creating benefits to other stakeholders. Other stakeholders, as mentioned earlier, would include among others the community, and the environment. These benefits are discussed below.

#### 3.5.2.1 The Business Case

As mentioned above, one of the key drivers of BSR is the strategic business case benefit. According to this view (UNIDO, 2002; EC, 2001; IISD, 2002) businesses

irrespective of size stand to benefit by engaging in social responsibility programmes within the communities in which they operate.

In the case of SMMEs UNIDO (2002) argues that, benefits might include:

- Better alignment with consumer concerns.
- Partnership opportunities with Trans national Corporations (TNC).
- Cost saving.
- Improvement in productivity.
- Improved capacity for learning and innovation.

However, “these benefits will not be significant for every business”, warns UNIDO (2002). It further argues that for SMMEs in developing countries there might be equal need for upgrading the quality of technology, management and marketing therefore these issues will have to be addressed parallel to the social and environmental impacts. The same source also argues for donor led initiatives aimed at BSR ‘boosterism’ to concentrate on industries where clear business case is apparent or can be demonstrated and in industries where the business case is not yet apparent, it would be more useful to work to strengthen the business case drivers.

The International Institute for Sustainable Development (IISD, 2002) in recognising the importance of BSR lists the following as some of the positive outcomes that can arise to businesses when they adopt a policy of social responsibility:

- Improved financial performance
- Lower operating costs
- Enhanced brand image and reputation
- Increased sales and customer loyalty
- Greater productivity and quality
- More ability to attract and retain employees
- Reduced regulatory oversight
- Access to capital
- Workforce diversity
- Product safety and decreased liability.

Empirical studies by (Ruf, Muralidhar, Brown, Janney, & Paul, 2001; Wingard, 2001; Simpson & Kohers, 2002) have since supported this view. Wingard (2001) found a positive correlation between environmental responsibility and the performance of South African listed companies; i.e. the higher the environmental responsibility of a company is, the higher the financial performance of that company. Ruf *et al.* (2001) on their part found a positive correlation between growth in sales and increased BSR performance. Finally, Kohers and Simpson (2002) also found a positive correlation between social and financial performance of USA based banks.

It may be argued that the positive relationship between BSR and financial performance (FP) may be due to large firm size. However, Orlitzky (2001) conducted a study in which he controlled for firm size and found no such evidence. In fact, he concluded that even after controlling for firm size, BSR and FP remained positively correlated. Using logistic regression to analyse survey data from 800 small businesses in 30 small towns of the state of Iowa (USA), Kilkenny, Nalbarte, and Besser (1999) found that the interaction effect of an entrepreneur's service to the community, reciprocated by community support of the business, was the single most significant determinant of business success. Similarly, using multi-stage sampling, Besser (1999) found that 77% of socially responsible businesses were more successful due to enhanced level of loyalty among consumers and employees. This led him to conclude that community involvement among businesses can be considered as a significant tool for advancement.

Although these studies have largely focused on developed countries it does show that companies small or big can indeed behave in a socially responsible manner and still add to shareholder wealth. However, it is worth noting that meeting societal expectations can be very expensive. For small businesses, this means they must sometimes purchase new equipment or make changes in their operations. This therefore limits small businesses ability to engage in BSR to the extent that society would expect of them or to the extent that big businesses do.

The above findings show that businesses that engage in BSR activities in their communities stand to benefit substantially thus, confirming the Coleman (1988)

social capital model that states a positive relationship between the stock of goodwill that a business has within the community and its success.

The most evident business benefits would include:

- Operational cost savings.
- Enhanced company reputation.
- Increased ability to recruit and retain skilled staff.
- Better risk management.
- Increased ability to innovate.

#### 3.5.2.2 Benefits to the community

According to the IISD (2002), communities can reap the following benefits when businesses located in these communities engage in credible BSR practices:

- Charitable contributions.
- Employee volunteer programmes.
- Business involvement in community education, employment and homelessness programmes.
- Product safety and quality.

#### 3.5.2.3 Environmental benefits

The same IISD (2002), lists the following as environmental benefits due to businesses engaging in good BSR practices:

- Greater material 'recyclability'.
- Better product durability and functionality.
- Greater use of renewable resources.
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

Thus the idea that both society and business are in a 'win-win' situation with benefits accruing to both sides is justified. However, since engaging in BSR is not easy, owner/managers of SMMEs need to find innovative ways of practicing BSR so as to find a balance between business profitability and satisfying societal needs.

### 3.5.3 THREATS TO BSR

Regardless of the degree of optimism about the positive impacts of BSR, most agree that BSR has its drawbacks. According to the sceptics, there is the danger that BSR may undermine SMME development in developing countries (UNIDO, 2002).

(UNIDO, 2002) identifies three main sources of threat to BSR in SMMEs namely:

- Protectionism by the backdoor.
- Burden of monitoring and auditing.
- The BSR paradox.

**Protectionism by the backdoor** – The key argument is that developed countries use BSR standards as a protectionist mechanism for retaining jobs, trade and investment in developed countries at the expense of developing economies, which tend to compete through lower labour costs and less stringent environmental regulations. According to UNIDO (2002:49), a number of issues arise from this namely:

- Currently there are moves to link BSR standards with trade agreements.
- Companies and NGOs based in the North have initiated a number of standards with little consultation with business, workers and other affected stakeholders in developing countries.

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- The focus of issues and standards often reflect the concerns and priorities of consumers in the North regardless of relevance or importance of those issues in developing countries.
- Standards often reflect prevailing technologies and best practices in the countries where they were developed and overlook relevant acceptable methods of production elsewhere.

**Burden of monitoring and auditing** – The general belief is that BSR will be the veil behind which TNCs may hide as they rationalise their suppliers (SMMEs) or pass on costs for monitoring and auditing social and environmental performance (UNIDO, 2002). This affects SMMEs in a number of ways including:

- The burden of monitoring and certification can be a significant expense that may bar developing country SMMEs from some markets.
- Lack of access to technology, environmentally friendly materials, credit, information, and training may hinder developing SMMEs from making environmental and social improvements;

**The BSR paradox** – Pressure for greater BSR has the underlying concern that corporate influence is too great. The paradox is that it is easier for large TNCs to respond and make commercial gains from engaging in BSR than smaller ones thereby tipping the scale of power further in favour of TNCs. According to UNIDO (2002), this happens because:

- It is easier for TNCs with their developed systems and economies of scale to deal with the demands for formal monitoring and standards. SMMEs do not have the resources to invest heavily in BSR unless there is the promise of immediate tangible benefits.

- Global brands (usually TNCs) can outsource production and pass the cost of necessary improvements down the supply chain to their suppliers (normally SMMEs) while gaining the reputation benefits for these improvements. Global brands are therefore in a better position to make commercial benefits for these improvements.
- BSR is often regarded as the ‘human face of globalisation’ as such it eases the entry of global companies into home markets, and sectors where SMMEs have dominated.

The conclusion here is that even with standards based on internationally agreed UN conventions, these standards may put developing country SMMEs at a disadvantage because they lack financial and human resource, the technology, and readily available supply of environmentally friendly input materials. This places unnecessary burden on developing country SMMEs. These burdens it is argued would only increase poverty levels and not lead to the intended positive development.

#### 3.5.4 BARRIERS/CHALLENGES TO BSR

The basic question to be asked here is, given the numerous drivers of BSR and its perceived positive effect on business financial performance, why are SMMEs failing to adopt it? Alternatively, what is preventing SMMEs from engaging in best BSR practices?

Again, the UNIDO (2002) framework offers a way for identifying the key barriers developing countries face in their attempt to implement best BSR practices that may include among others:

- Lack of technology, expertise, training and investment necessary to make improvements.
- Little understanding of the SMME business case.

- More pressing need to upgrade the quality of technology, management, and marketing.

**Lack of technology, expertise, training and investment** – SMMEs because of financial constraints, are unable to acquire the technology, expertise, and training required to engage in BSR activities. For example upgrading production methods to meet environmental standards requires financial commitments to acquire the necessary technology, expertise, and to provide training that most SMMEs cannot afford.

**Little understanding of the SMME business case** – BSR as understood now is mostly a western phenomenon in terms of strategy and language (UNIDO, 2002) that most SMME owners especially in developing countries hardly understand. This is because as stated earlier, most of the research on BSR has concentrated on big business. Secondly, the literature also reveals that what little research has been done on BSR in SMMEs has been in the West. Consequently there is little or no understanding of BSR as it applies to SMMEs in developing countries. For example, will BSR benefit SMMEs?

**More pressing needs** – SMMEs in developing countries need to upgrade their quality of technology, management, and marketing if they are to survive in the face of increasing globalisation. However, due to limited financial resources they are forced to prioritise. Consequently issues such as BSR, which could be regarded as not too important to their survival, could easily be relegated to the periphery.

The above suggests that the core barriers faced by SMMEs in running responsible business is mostly because of their limited financial resources. Thus it becomes difficult for them to spend part of their profit on purchasing green products, spending time in their communities, giving bursaries etc.

### 3.6 SUMMARY AND CONCLUSIONS

This chapter examined the concept social responsibility with specific reference to SMMEs.

In the global market place where some contend that businesses owe their allegiance to share holders and can only do as the law prescribes, this chapter provided evidence to the contrary.

Starting with its theoretical foundations, the picture that emerges is that firms irrespective of size have many stakeholders that include among others customers, suppliers, employees and the local community. Proactively managing relationships with these constituencies for the purpose of furthering the objectives of the firm augurs well for both business and society. To this end managers of SMMEs need to implement a stakeholder management system in their organisations. This will require them to do the following things suggested by Laczniak and Murphy (1993:15):

- Delineate who their stakeholders are.
- Determine the primary and secondary stakeholders with their corresponding stakes.
- Establish what responsibilities the business has towards each group.
- Decide organisational response strategy to the opportunities and threats inherent in sometimes conflicting stakeholder claims.

Managing various stakeholder groups raises ethical problems for managers. This makes ethics and stakeholder concept virtually inseparable.

The discussion also linked the two-concept ethics and stakeholder theory to the concept BSR. In fact it was argued that the two form the theoretical foundation of BSR.

It also emerged from the literature that arriving at a universally acceptable definition for BSR is perhaps an exercise in futility given the divergent philosophical perspectives BSR enjoys.

It appears that the concept of 'common good', which in African value system is illustrated in the philosophy of 'Ubuntu', is closely linked to the values projected by BSR. Therefore, within the rural African settings, where culture is strongest, businesses will do well to engage in good BSR practices because these societies expect nothing less from them.

Although BSR has been studied from several perspectives, the stakeholder theory provides a useful framework or model for the systematic collection, organisation and analysis of data relating to BSR especially in rural based SMMEs.

However, if BSR is going to contribute to sustainable development and the elimination of the negative externalities of business, then as noted by (UNIDO, 2002: 65), it is imperative that:

- BSR supports the role of SMMEs in development, and does not serve as a tool to undermine and disadvantage them.
- SMMEs themselves are not able to undercut universal BSR standards and become a blind spot in which exploitative practices flourish.
- SMMEs' BSR efforts should target both the internal and external environment. This can be achieved by finding ways in which their personnel practices can improve the well being of their employees and at the same time finding ways in which their products and services and other activities can add value to the lives of their communities.

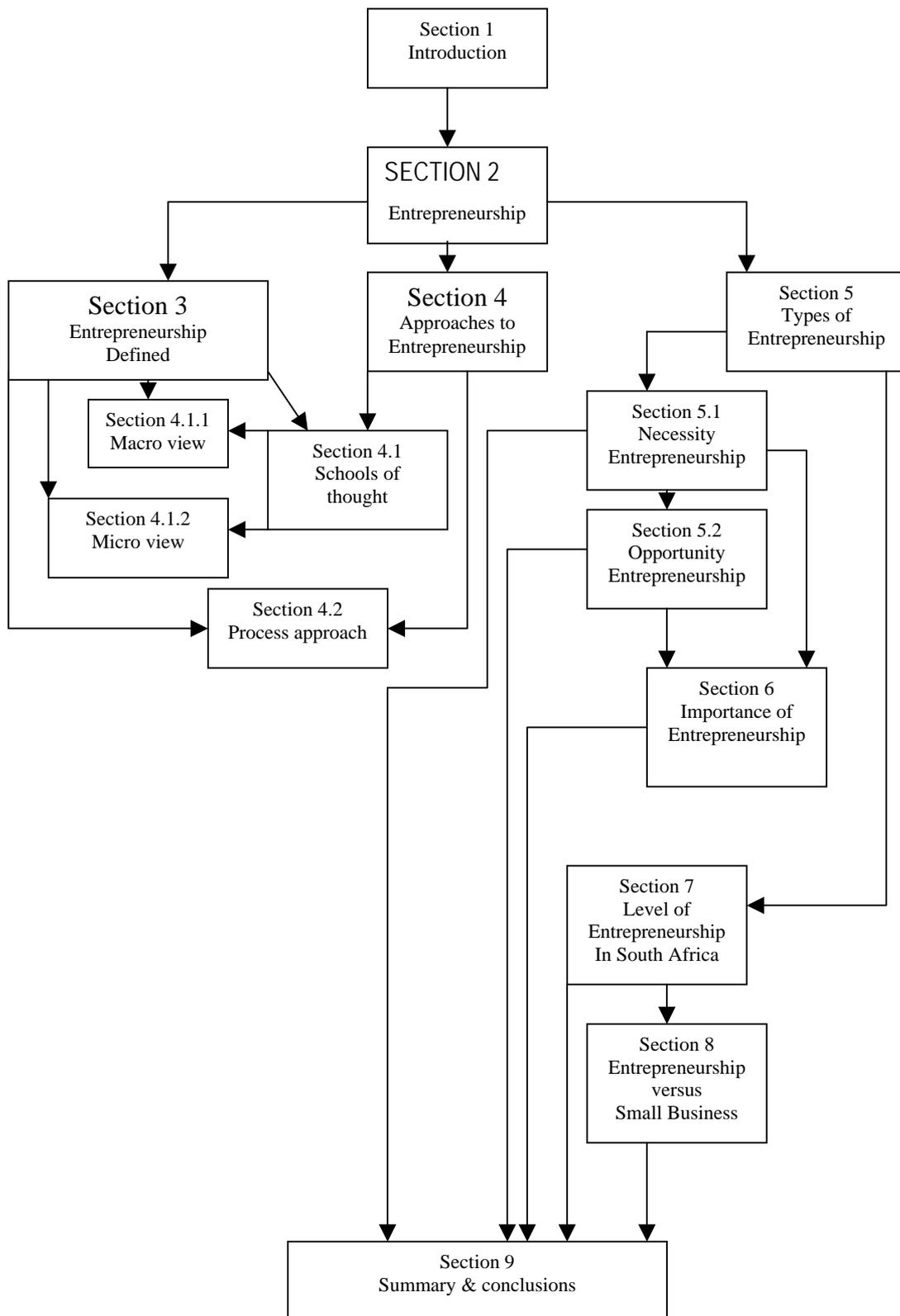
In addition, if governments particularly those in third world countries are to achieve the levels of sustainable development envisaged, then there is the need to shift the focus on environmental and economic aspects to also include social dimensions.

The challenges for governments therefore are to:

- Understand the social components of sustainable development and then decide how best to integrate social, economic, and environmental aspects.  
And
- To reduce the barriers and threats while strengthening the opportunities and drivers in order to ensure that BSR has a wide and positive impact on SMMEs (UNIDO, 2002).

Most of the BSR research to date has focused on big businesses, and although many of the findings are largely also applicable to SMMEs, to gain a better understanding of BSR, there is need for SMME BSR research to be accelerated. Equally important in gaining a deeper understanding of the SMME/BSR interface is the need to gain a better understanding of small business management and entrepreneurship, two concepts that although are similar in many respects also differ significantly for reasons that will be explained in the next chapter. Such a distinction will help researchers in further focusing the BSR research on each of these segments since as will be shown later the modus operandi of entrepreneurs and small businesses owners differ. The next chapter (Chapter 4) therefore focuses on the small business versus entrepreneurship debate.

## CHAPTER 4 OUTLINE



## CHAPTER 4: ENTREPRENEURSHIP AND SMALL BUSINESS

*“Indeed, the courses in entrepreneurship ...are linear descendants of starting one’s own small business that was offered thirty years ago... But not every new small business is entrepreneurial or represents entrepreneurship”.*

(Drucker, 2002:1)

### 4.1 INTRODUCTION

In Chapter 2 the role of SMMEs in socio economic development was explored and the case was made for BSR in SMMEs as a means of increasing their impact on socio economic development.

In Chapter 3, the concept of BSR and its relevance to small businesses was further explored. It emerged that the BSR focuses of businesses differ because of the differences in their nature and size. Thus, the BSR focus of large organisations may differ from those of SMMEs. Similarly, even within the SMMEs, their BSR focuses differ. It is therefore important to understand the fundamental differences between the various types of SMMEs for realistic BSR expectations from them.

There are many ways to classify SMMEs. One popular way is to distinguish them as either an entrepreneurial venture or a small business. This chapter examines the concept entrepreneurship and its relationship with small business management.

In addition to helping in realistic BSR expectations from SMMEs given their differences and capabilities numerous other reasons make any type of study on entrepreneurship/small business management very appealing.

Firstly, it may help explain the earlier observation in Chapter 2 that not all SMMEs are able to contribute significantly to socio-economic development. This exercise may further help explain the confusion in arriving at a consensus on a single definition for entrepreneurship that seems to partially derive from the often hazy

distinctions between small business management and entrepreneurship. Furthermore like the rest of the world, South Africa within the last few years has witnessed unprecedented explosion in attention accorded to entrepreneurship itself especially in the press. As such an exposition on the concept no matter how brief is irresistible.

#### **4.2 WHAT IS ENTREPRENEURSHIP?**

According to Anderson (2002:1; Hisrich & Peters, 2002:7), the term 'entrepreneurship' originates from the French verb 'entreprendre' meaning 'undertake' or 'go-between'. Explaining 'entrepreneurship' is rather difficult. This difficulty arises because the construct of entrepreneurship is both complex and controversial as there is no agreement on the definition (Wickham, 2001:6; Pretorius and van Vuuren, 2002:4; Nieman, Hough; Nieuwenhuizen; 2003:8). Although there seem to be lack of unanimity of opinion on a singular definition, the term 'entrepreneurship' is widely used in the literature to refer to the creation of new and small ventures. However, this creates a number of problems.

A major problem is that the two terms 'entrepreneurship' and 'small businesses' are often used interchangeably as though they mean the same thing. Yet as observed by Cronje, Hugo, Neuland and Van Reenen (1994:427), this is not the case as not all small businesses are entrepreneurial. They claim that this confusion arises only because entrepreneurship is more readily identified and observed in SMMEs. Nieman, Hough, and Nieuwenhuizen (2003:3) also agree that most entrepreneurial activity takes place in SMMEs.

Nieman, Hough, and Nieuwenhuizen (2003:9; Hisrich & Peters, 23) suggest that comparison of definitions of the term yields a consensus (or commonalities). This means that comparison of various definitions may help explain the term entrepreneurship. Following this suggestion, the next section examines some definitions of entrepreneurship in order to answer the initial question, what is entrepreneurship?

According to Carton, Hofer, and Meeks (1998:2), there are two distinct ways of defining entrepreneurship namely: to define what an entrepreneur is and then inductively define entrepreneurship in terms of what individuals do; and to propose a *priori* definition of entrepreneurship and its related behaviours, and thereby define entrepreneurs as those who engage in entrepreneurial activity. Bygrave and Hofer (1991) in Carton, Hofer, and Meeks (1998:2) support a *priori* approach because they believe entrepreneurship focus needs to change from a characteristic approach to that of a process a process approach. Wickham (2001: 5) proposed that defining the entrepreneur makes the task of defining entrepreneurship a little easier. This is because the actions and decisions of individuals form an important and popular unit of analysis of entrepreneurship (Audretsch, 2002:3). In pursuit of overcoming some of the definitional difficulties of entrepreneurship and for the purpose of this study, it is considered necessary to first define the term 'entrepreneur' (the person who engages in entrepreneurship).

#### **4.3 ENTREPRENEURSHIP DEFINED**

Entrepreneurship attracts numerous definitions. Gartner (1988) for example identified no less than thirty-two different definitions. This massive volume of definitions makes the task of students a daunting one. This section attempts synthesising some existing definitions in order to develop a working definition thus in a way answer the two questions often posed namely: what is entrepreneurship? And who is the entrepreneur?

**Cantillon**, widely acknowledged to be the earliest person to have used the term, in Hisrich and Peters (2002:8) defined the entrepreneur as:

*A person who buys at a certain price and sells at uncertain price, therefore operating at a risks.*

Wickham (2001:19) interprets Cantillon's conception of an entrepreneur as "a person who brings people, money and materials together to create an entirely new organisation". The major criticism of this definition is that it seems to suggest that

entrepreneurship is limited to the creation of new organisation, which is not the case. Instead, the view now is that entrepreneurship in the form of intrapreneurship does occur in existing large organisations as well. Another view of Cantillon's conception of the entrepreneur is "bearer of uninsurable risk" (Jennings, 1994:12; Hisrich and Peters, 2002:8). Thus, *risk taking* appears to be the main characteristic of Cantillon's view of the entrepreneur.

**Say** (1964), defines the entrepreneur, as:

*The person who estimates needs and unites all means of production to satisfy the needs.*

This definition connotes an individual with exceptional skills of creativity. He characterised the entrepreneur as creator of enterprise, moderate risk taker, and coordinator of resources. This definition assumes management perspective with the entrepreneur having certain special personal qualities (Cole, 1946; Stevenson & Jarillo, 1990; Carton, Hofer & Meeks, 1998).

**Schumpeter** (1934) an eminent economist in Jennings (1994: 11) describes the entrepreneur as:

*The innovator who implements change within markets through the carrying out of new combinations.*

This definition represents a major paradigm shift from the entrepreneur as manager to that of innovator and change agent. Critics of Schumpeter's conception of an entrepreneur/entrepreneurship take issue with his idea that, for entrepreneurship to take place, incumbents first have to be *destroyed* (i.e. 'creative destruction') meaning a condition where new firms with entrepreneurial spirit displace less innovative incumbents, ultimately leading to a higher degree of economic growth (Audretsch, 2002:2).

**Dollinger**, (1999:19) defines entrepreneurship as:

*The creation of an innovative economic organisation (or network of organisations) for the purpose of gain or growth under conditions of risk and uncertainty.*

This definition emphasises innovation, economic organisation, and risk. This implies an economic perspective with the economic organisation as the vehicle through which goods and services of value are provided to customers for the purpose of profit.

**Richards** (1999:3) defined the entrepreneur as:

*One possessed of a high capacity of imagination, flexibility, creativity and innovation; one willing to think conceptually and to seek change opportunity. The entrepreneur has a high tolerance of risk, and dogged optimism about the world and the eventual right to succeed in it.*

To **Bolton and Thompson** (2001:5), an entrepreneur is a person:

*Who habitually creates and innovates to build something of recognised value around perceived opportunities.*

This definition implies a serial entrepreneur. That is, the one who is always endeavouring to find new ways to add value to existing products or services, changing products or services or production methods, or sells off existing business to start a completely new one. The emphasis of this definition seems to be on new business formation, risk, and profit motive.

According to **Hisrich and Peters** (2002:10) entrepreneurship is:

*The process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.*

This definition as Dollinger's assumes an economic and managerial perspective with four important components identifiable namely: venture creation, committing resources, taking risk and the reward of profit.

The **University of Pretoria**, Department of Business Management, Chair of Entrepreneurship (2002:2), describes the entrepreneur as:

*A person, who sees an opportunity in the market, gathers resources and creates and grows a business venture to satisfy these needs. He/she takes the risk of the venture and is rewarded with profit if it succeeds.*

And it (2002:2) defines entrepreneurship as:

*The emergence and growth of new businesses and firms.*

A rather lengthy yet useful operational definition provided by **Carton, Hofer, and Meeks** (1998:8) states that:

*Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organisation (or sub-organisation) with the expectation of value creation to the participants. The entrepreneur is the individual (or team) that identifies the opportunity and gathers the necessary resources, creates and is ultimately responsible for the performance of the organisation. Therefore, entrepreneurship is the*

*means by which new organisations are formed with their resultant job and wealth creation.*

An important aspect of this definition is the job creation criterion, a view widely accepted as a key contribution of entrepreneurship/SMMEs to economic development.

Examination of the above definitions shows creativity, innovation, resource management, profit under risk, founding new organisation, and the identification of market opportunity, new venture creation, as key elements of entrepreneurship.

Meanwhile, Wickham (2001) identified the entrepreneurs main tasks as consisting of: owning the organisation, founding a new organisation, bringing innovation to the market place, identification of market opportunity, application of expertise, provision of leadership, and management.

Formaini (2001) lends support to the above in arguing that modern economic theory regards the entrepreneur as an individual who takes on certain tasks solely based on a perception of market opportunities and how to exploit them. To him, this person is a risk taker, resource manager, innovator, arbitrageur, and both creator and destroyer.

Nieman, Hough and Nieuwenhuizen (2003:9) identified the following key concepts in definitions of entrepreneurship and the entrepreneur:

- **Identifying of opportunity:** Real business opportunity must exist.
- **Innovation and creativity:** Something new and different is required.
- **Getting resources:** Capital, labour, and operating equipments must be found.
- **Creating and growing a venture:** Starting a new business or the conversion of an existing one.
- **Risk taking:** Personal and financial risk involved for the entrepreneur.

- **Being rewarded:** As an essential element of the free market system, it can take the form of profit or an increase in the value of the business.
- **Managing the business:** This means that there must be proper planning, organising, leading and controlling of all the functions in the business for it to prosper (See chapter five).

Following from the above, the **entrepreneur** is operationally defined in this study as:

*A person, who after spotting a market opportunity uses his or her personal skills of creativity and innovation to establish an economic organisation for the purpose of making profit whilst bearing the inherent risks.*

And **entrepreneurship** is defined as:

*The process whereby, creative and innovative people use their skills, to create new economic organisations, for the purpose of making profit whilst bearing the inherent risks.*

These operational definitions capture very important aspects of contemporary entrepreneurship namely: creativity, innovation and risk. More importantly, in a developing country like South Africa where socio economic problems such as poverty, unemployment and inequality can to a large extent be overcome or minimised through creative and innovative business practices (such as BSR) this definition is even more relevant. Key elements of the operational definitions also provide a basis for categorising entrepreneurship by type and in differentiating small business from entrepreneurial business.

#### 4.4 APPROACHES TO ENTREPRENEURSHIP

In the previous section, a number of definitions of entrepreneurship by various people who have studied the subject were examined in order to develop a working definition for the concept hence explain the nature of entrepreneurship. This task proved quite daunting because of the divergent disciplines from which these definitions are approached.

Meanwhile, Hodgetts and Kuratko (2001:33) makes the important point that in order to understand the nature of entrepreneurship, it is necessary to first consider theory development. Virtually all entrepreneurship literature consulted for the purpose of this study including (Jennings, 1994; Hodgetts and Kuratko, 2001; Kroon, 2001; Bolton and Thompson, 2001; Wickham, 2001; Hisrich and Peters, 2002; Nieman, Hough, and Nieuwenhuizen) considered theory development in their work.

While acknowledging the interdisciplinary nature hence divergent theory base of entrepreneurship, Kaufmann and Dant (1998) in Pretorius and van Vuuren (2002:4); Hodgetts and Kuratko (2001); Wickham (2001); all agree that it is still possible to classify these theories.

Kaufmann and Dant (1998) in Pretorius and van Vuuren (2002:4) while admitting that the construct of entrepreneurship remains elusive, identified three theoretical approaches of entrepreneurship namely:

- **Characteristics traits approach** – emphasises traits or qualities supposedly possessed by entrepreneurs including risk taking, leadership, motivation, creativity, low risk aversion, and more.
- **Process of entrepreneurship approach** – that results in the creation of new enterprise, introduction of new combinations of production factors, and new, unique and valuable combinations of resources in an uncertain and ambiguous environment.

- **Activity approach** – focuses on the activities entrepreneurs perform including connecting to new markets, overcoming market deficiencies, supplying resources lacking in the marketplace, filling currently unsatisfied needs and more.

Another perspective offered by Wickham (2001) identifies three approaches. According to Wickham (2001:7), the following three distinctions of the entrepreneur can be made:

- As a **Manager**, the entrepreneur undertakes certain tasks including owning the organisation, founding a new organisation, bringing innovation to the market, identifying market opportunity, providing leadership, applying expertise, managing the business.
- As **agents of economic change**, they bring about important effects on the world economies by combining the other three production factors (land, labour, and capital), providing market efficiency, accepting risk, maximising investors' returns, and processing of market information.
- As **individuals**, they possess certain psychological, personality, and personal characteristics and traits that can be used to distinguish them from non-entrepreneurs.

The two perspectives discussed so far share a number of similarities. Firstly Kaufmann and Dant (1998) **Characteristics traits approach** is identical to Wickham's (2001) **individuals approach**. Secondly, Kaufmann and Dant (1998) **Activity approach** is identical to Wickham's (2001) **Manager**. Lastly, Kaufmann and Dant (1998) **Process of entrepreneurship approach** is identical to Wickham's (2001) **agents of economic change**.

Finally, according to Hodgetts and Kuratko (2001) entrepreneurship theory can be examined using either the 'school of thought' approach or the 'process' approach.

#### 4.4.1 ENTREPRENEURIAL SCHOOLS OF THOUGHT

The 'schools of thought' approach according to Hodgetts and Kuratko (2001:33) can be divided into **macro view** and **micro view**.

##### 4.4.1.1 The Macro view

This view emphasises external factors relevant to the success or failure of ventures. Three schools of thought are identifiable here. They include:

- **The environmental school of thought:** Hodgetts and Kuratko (2001:35) maintain that external environmental factors (positive or negative forces) affect the potential entrepreneur's lifestyle and desires. They believe that institutions, values, mores, and social groups issues influence hence promote or deter the development of entrepreneurial propensity. In Chapter 2, the point was made that the entrepreneurial environment in South Africa can be described as not very conducive hence the high failure rate in SMMEs.
- **The financial school of thought:** According to Hodgetts and Kuratko (2001:35) this school of thought views the entrepreneurial process from an entirely financial management point. In this respect, certain decisions are made at each stage of the venture. At start-up, depending on availability or lack of seed capital, you either proceed or abandon. As on going process, cash management, investment, and financial analysis and evaluation take place. A typical decision in this respect would be to maintain, increase or decrease size. Finally, at decline or succession stage the questions of profit, corporate buyout, or succession emerge. At this stage sell, retire, or dissolve. Much has been written about finance and how it affects the establishment, success, or failure of SMMEs. In Chapter 2, some of the SMME problems identified were related to acquisition of finance and Owner/manager's ability (or rather inability?) to manage finance.

- **The displacement school of thought:** Hodgetts and Kuratko (2001:35) believe this school of thought is based on the idea that individuals will not pursue a venture unless they are prevented or displaced from doing other activity. According to them, three major types of displacement are identifiable namely, *political*, *cultural* and *economic*. The emphasis according to them is on how individuals behave as a group. This thinking explains some trends in South Africa. For example, black South Africans are predominantly found in taxi and informal trading. This is probably so because this was a group that was excluded from other entrepreneurial activities because of the then existing **political regime**. Secondly, as a minority **cultural/ethnic** group, Afrikaners are known to be more successful commercial farmers than any racial group perhaps because right from childhood, they are exposed to farming as they are born on farms. Thirdly, the upsurge of street trading by foreigners in South Africa can be partially explained by the deplorable **economic** situation in their home countries.

#### 4.4.1.2 The Micro view

This view examines entrepreneurship from internal locus of control perspective (Hodgetts & Kuratko, 2001). It argues that the individual has the ability to direct the outcome of business venture. Variants of this approach exist but the one adopted by Hodgetts and Kuratko (2001:36) identifies three schools of thought namely: the entrepreneurial trait theory, the venture opportunity theory, and the strategic formulation theory.

- **The entrepreneurial trait school of thought:** This appears to be the most popular and since the work of McClelland in the *achieving society*, has been extensively studied with varying outcomes. It argues that there are characteristics akin to successful entrepreneurs. Examples of such characteristics are: creativity, determination, achievement motivation, family development, and technical knowledge. Of particular relevance to the South African context is the *family development concept* where it is argued that people born into entrepreneurial homes end up being entrepreneurs themselves because of the nurturing and support from home.

The argument goes that eventually, such people would takeover the family business. An important reason for the popularity of family business in South Africa is the lack of job opportunities (Nieman *et al.* 2003:181).

- **Venture opportunity theory:** The focus here is on opportunity detection aspect of venture creation. In the authors view, creativity, market awareness, and developing the right idea for the right market at the right time are critical. In South Africa, results of various research undertakings imply that those who pursue new venture creation through opportunity detection are alarmingly few (see section 4.5 below).
- **Strategic formulation school of thought:** The importance of strategic management in any business can never be over emphasized. Thus Steiner (1979) in Hodgetts and Kuratko (2001:39) observe, “strategic planning is inextricably interwoven into the entire management; it is not something separate and distinct from the process of management”. The strategic formulation school of thought according to Hodgetts and Kuratko (2001:39) emphasises the planning process in successful venture creation. Various strategies exist within this domain that include: **mountain gap strategy, great chef strategy, better widget strategy, and water well strategy.**

According to Hodgetts and Kuratko (2001:39) *strategic formulation school* requires managerial capabilities, the focus of chapter five.

#### 4.4.2 PROCESS APPROACH

As said earlier the two approaches form two sides of the same coin. They both attempt to explain the same concept through different angles. The schools of thought has been explored somewhat in detail. However, only essential elements are highlighted here with the intention of merely showing how the other “side” looks like.

According to Hodgetts and Kuratko (2001:39), there are numerous types of process approaches however three stand out as the most favoured. They are: **Entrepreneurial events approach**, **Entrepreneurial assessment approach**, and **Multidimensional approach**.

**Entrepreneurial events approach:** According to this approach, which Hodgetts and Kuratko (2001:40) credits to Bygrave (1989), entrepreneurship is not regarded as an isolated event. Instead it is regarded as a process during which individuals plan, implement, and control their activities. Factors considered important in this approach are: initiative, organisation, administration, relative autonomy, risk taking and the environment. The basic model for this approach is, *innovation* followed by *triggering event* then *implementation* and finally *growth*.

**Entrepreneurial assessment approach:** According to Hodgetts and Kuratko (2001:41), this approach places emphasis on the assessment of the entrepreneur, the venture, and the environment. This assessment is qualitative, quantitative, strategic and ethical in nature.

**Multidimensional approach:** According to Hodgetts and Kuratko (2001:41), this approach views entrepreneurship as a complex and multidimensional process that emphasises individuals, the environment, the organisation, and the venture as important dimensions.

The above provide the theoretical foundations necessary for further examination of this complex phenomenon. The next section explores the concept entrepreneurship in a more practical way by attempting to classify it according to typology.

#### 4.5 TYPES OF ENTREPRENEURSHIP

There seems to be a growing realisation among both policy makers and Non-Governmental Organisations (NGOs) that for effective policies to be implemented, entrepreneurs need to be segmented (Foxcroft *et al.* 2002). The argument is that,

a refined, careful, and appropriate segmentation (classification) will enable appropriate support and resources to be made available. Secondly and perhaps more importantly, an appropriate segmentation should make support and resources more accessible to a greater number of entrepreneurs in all sectors.

There are many ways of classifying or segmenting entrepreneurship. But according to Foxcroft *et al.* (2002) size, (that distinguishes entrepreneurial businesses into small, micro, and medium) appear to be the most preferred approach.

However, another popular way to categorise entrepreneurs is as either necessity or opportunity driven. The two together form the most accepted perspectives. Categorisation by size has been extensively discussed in Chapter 2. The following section explores *necessity* and *opportunity* entrepreneurship.

#### 4.5.1 NECESSITY ENTREPRENEUR(SHIP)

The literature is unanimous on one fact. That is, SMMEs are the creations of entrepreneurs/entrepreneurship.

Firstly, small businesses may result from the activities of people who are desperate to earn a living but cannot find formal employment. That is, they are in entrepreneurial work because they have no other choice. Storey (1996), calls these types of entrepreneurs 'replacement-income' entrepreneurs and their businesses he calls 'trundlers'. He argues that these businesses after start up would plateau out at a certain given time. In the small business literature, they are often referred to as necessity entrepreneurs. Informal businesses usually fall into this category.

According to Foxcroft *et al.* (2002), about 26% South African entrepreneurs are necessity driven and the whole of the developing countries taken together have an average of about 37% necessity entrepreneurs. The developed countries on the other hand cluster round the lower end of the necessity entrepreneurship ladder with some European countries at or below 0.5% necessity entrepreneurship level.

Foxcroft *et al.* (2002) in the attempt to link entrepreneurship to development noted that countries with low per capita income (hence low level of development) have high rates of necessity entrepreneurship. The prevalence of necessity entrepreneurs hence informal businesses in South Africa is quite alarming when one considers some aspects of the report, which notes the following about the informal SMME sector in South Africa:

- Entrepreneurs in the informal sector account for 88% of businesses in the disadvantaged communities.
- Informal entrepreneurs employ on the average 0.8 people.

The implications of the above are grave. Most of the unemployment according the South African research data is in disadvantaged areas. Thus job creation is most needed in these communities. Yet the 0.8% job creation attributed to the entrepreneurs found in these areas is grossly inadequate.

In as much as job creation is important, it is equally important to place realistic expectations on necessity entrepreneurs. Government should look for ways of improving the positive impact of necessity entrepreneurs. These businesses can increase their impact if they change their strategy from being job creators to socially responsible businesses. The point being made here is that it is not only through job creation that small businesses can have positive impact on society. They can also do so by engaging in socially responsible activities that will benefit their businesses as well as society.

#### 4.5.2 OPPORTUNITY ENTREPRENEUR(SHIP)

There are individuals or group of individuals who are not driven by the need to earn a living but who may still establish small business. They may do so because they see a potential market for a particular product(s) or service(s). In other words small businesses may be formed through the perception of opportunity.

Bolton and Thompson (2001:95) assert, “Entrepreneurship is about opportunity” and argue that “successful entrepreneurs spot opportunities, often where others

fail to see the same idea at the same time, although the same information was available to them". Murray Low in Bolton and Thompson (2001:95) lends support to this assertion in defining entrepreneurship as: "Identifying, valuing and capturing opportunity".

This means that entrepreneurs are able to recognise an opportunity long before any one else. They may do so on their own or by getting the initial idea from some one else and irrespective of the source of the idea, they quickly exploit it through the creation of a business enterprises that usually start on a micro or small scale. The important point in the above discussion so far has been that unlike their counterpart *necessity* entrepreneurs, *opportunity* driven entrepreneurs start a business because they see **clear market opportunities** that can be **exploited**.

This alone stands the opportunity entrepreneurs in a good stead to contribute more meaningfully to socio economic development than the necessity entrepreneurs because their chances of success are by far higher. According to Bolton and Thompson (2001:95) opportunity entrepreneurship involves: *niche marketing*, opening up *new markets*, *new opportunities* based on existing ideas, and *teamwork*.

#### *Niche marketing*

Dictionary.com defines 'niche' as either: "A situation or activity specially suited to a person's interests, abilities, or nature" or as "A special area of demand for a product or service". Thus niche marketing refers to choosing a market segment on which to concentrate and become proficient in so that you become differentiated from competition. Accordingly, the goal of niche marketing might be stated as to 'win-over' a new category of customers. The key here would be to identify a new, unfulfilled, partially fulfilled, or poorly fulfilled market where one can dominate before competition arrive. This makes Niche marketing so important to the entrepreneur hence SMMEs because they lack resources and the muscle to try to penetrate existing businesses. Niche marketing therefore allows SMMEs the opportunity to break new grounds and establish themselves before competition arrives.

*Opening up new markets*

According to Bolton and Thompson (2001:99), a new, innovative idea may originate from a competitor that may open new markets or this idea may serve as a springboard for a new competitor to break in and “steal” market share from existing players.

*New opportunities based on existing ideas*

Bolton and Thompson (2001:101) argue that sometimes entrepreneurs can spot opportunities in existing ideas. They illustrate this point using three cases. In each of these the businesses were found on long existing ideas. For example **Kwik Fit**, a tyre fitment business in the UK was founded on an idea that had long been a common business in the USA. However, this opportunity was not recognised in the UK until Sir Tom Farmer did.

*Teamwork*

Bolton and Thompson (2001:101) also argue that opportunity entrepreneurs also like to work in teams where they find good, appropriate partners with complementary strengths. This allows them to focus on their own strengths rather than wasting time on their weaknesses. Thus they aptly describe the opportunity entrepreneur as: “a value maker who is driven by the opportunity he perceives, thinks big in the pursuit of establishing an enterprise relying heavily on teamwork. Such a person is never satisfied with the status quo but would often move from one business to another if he perceives another opportunity”.

#### **4.6 WHY ENTREPRENEURSHIP IS IMPORTANT IN SOUTH AFRICA**

All over the world, entrepreneurship is increasingly being hailed as the best vehicle through which both social and economic transformation for the better can be achieved. The developing countries have been quick and eager to embrace this trend. This changing attitude especially on the part of developing countries may seem somewhat paradoxical. This is because the same institution

(entrepreneurship) has been intensely criticised in the past for being a luxury and inefficient and only used by the west to decentralise decision-making (Audretsch, 2002) thus unsuitable for developing countries.

Brock and Evans (1989) in Audretsch (2002) hypothesised six reasons for the re-emergence of entrepreneurship as a vital factor. These are:

- That technological change had reduced the extent of scale economies in manufacturing.
- Increased globalization had rendered markets more volatile because of competition from a greater number of foreign rivals.
- The changing composition of the labour force, towards a greater participation of female, immigrants, and young and old workers may be more conducive to smaller rather than larger enterprises, due to the greater premium placed on work flexibility.
- A proliferation of consumer tastes away from standardised mass produced goods towards stylised and personalised products facilitates niche small producers.
- Deregulation and privatisation facilitate the entry of new and small firms into markets that were previously protected and inaccessible.
- The increased importance of innovation in high-wage countries has reduced the relative importance of large-scale production and instead fostered the importance of entrepreneurial activity.

Besides the above, other reasons have been given for this growing importance of entrepreneurship. Some of these reasons are: the now undisputed ability of entrepreneurship to churn out new ventures, its capacity for creating employment, and the belief that it leads to economic growth.

Not surprisingly governments in most countries including South Africa are not sparing any effort in the attempt to promote entrepreneurship. As a result huge sums of money and other resources are continually spent on encouraging citizens to form their own new businesses. In South Africa, institutions such as Kula and Ntsika have been tasked with providing support to emerging and existing entrepreneurs.

Exploration of the entrepreneurship literature points to the following specific benefits from entrepreneurial activities:

- Entrepreneurial firms create more jobs than any other business.
- Entrepreneurship helps create jobs hence helps in the fight against poverty and inequality.
- Entrepreneurship leads to increase in household incomes of owners and employees hence raise the social status of these people.
- Entrepreneurial firms are labour intensive hence they help absorb excess labour from job losses in the larger firms.
- Entrepreneurial firms act as a bridge between innovation and the market place.
- Entrepreneurship leads to innovation, economic growth and economic revitalisation of economically depressed areas.
- Entrepreneurship leads to self-actualisation.
- It offers the individual independence.
- It offers the individual the opportunity to realise profit.
- It offers the individual the opportunity to contribute to society.

In South Africa, in addition to these generic benefits, entrepreneurship is seen as the best vehicle through which BEE can be achieved. This reasoning may be due to the fact that the resources needed to start entrepreneurial firms (that are usually small in nature) are far less than getting a piece of the cake in the corporate world.

As such it is suitable for resource strapped blacks that are desirous of entering entrepreneurship.

The Department of Trade and Industry's (DTI) (2003:32) assessment of entrepreneurship in South Africa notes that although there is still a strong preference for paid employment among the youth, the general trend among all population groups is shifting towards self-employment.

It observes that:

- Previously disadvantaged groups now see self employment as the only means of generating an income in the face of job losses in big businesses thus entrepreneurship helps previously disadvantaged people to find employment.
- Whites view self-employment as an escape from affirmative action in the corporate sector thus entrepreneurship helps the country prevent potential social strife that may result from affirmative action.

These in themselves can help bring about social stability in a country that is already seriously divided on social/ethnic grounds due to past political practices.

Ntsika (1998:15) reported that the SMME sector (a sector created by entrepreneurial activity) accounted for about 50% of total employment and about 41% of the country's GNP. Yet these figures did not include the informal sector, which has micro enterprises. In 2000, Ntsika (2000:10) reported that the same source contributed about 34% of the country's GDP.

It is these contributions of SMMEs that have led the government and policy makers to adopt measures to encourage the culture of entrepreneurship in the country especially among the previously disadvantaged communities but not to the exclusion of others. The next section examines how this is being done and the achievements so far.

#### 4.7 PROMOTING ENTREPRENEURSHIP IN SOUTH AFRICA

Given its importance mentioned above it is imperative that entrepreneurship be vigorously promoted and nurtured in this country. The DTI (2003:32) notes that the need to foster entrepreneurship has been accepted for sometime now in South Africa. Hence schools, colleges, technikons and Universities are initiating appropriate programmes. Because entrepreneurship and the SMME sector is so inextricably related reference to the two will be interchangeable in this section.

The South African government has been trying hard to play its part in promoting entrepreneurship. According to the DTI (2003:32) the Government has a ten-year integrated strategy aimed at SMME/entrepreneurship development starting from 2004. There are three core thrusts to this strategy namely:

- Promoting entrepreneurship.
- Unlocking potential through better business environment.
- Promoting more competitive SMME environment.

The following elements in the strategy are aimed at promoting entrepreneurship:

- **National entrepreneurship promotion campaign** – In brief this involves Government designing a national entrepreneurship promotion campaign whose primary objective is to whip up public awareness to the benefits entrepreneurs offer the country, and the possibilities and opportunities for engaging in entrepreneurship. According to DTI (2003:33) the Government hopes to achieve this through Multimedia campaigns, awards programmes for role models, special events to promote the scheme, small business weeks, production of resource materials, and local government level competitions.
- **Creation of entrepreneurship inter-ministerial committee** – The task of this committee would be to oversee the preparation and implementation of entrepreneurship programme. This will include the departments of labour,

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education and trade and industry. They will work in conjunction with provincial and local authorities as well as private agencies to support sustainable entrepreneurship promotion programmes. Key elements of this programme include:

1. Articulating the educational, vocational and business relevance of entrepreneurship.
2. Promoting entrepreneurship as a rewarding career option.
3. Analysis of various factors pertinent to entrepreneurship development.
4. Marketing existing programmes.
5. Promoting entrepreneurship in local communities etc.

This is a great idea especially the involvement of the education sector. In the past, most of the initiatives have come from the DTI and its surrogates Ntsika and Kula. However with worldwide recognition of the positive role the education sector can play in the development of entrepreneurship, this move is in the right direction. Many Universities and technikons have now introduced innovative entrepreneurship courses into their curriculum such as the MPhil and PhD programmes of the University of Pretoria. Taping into this wealth of expertise is definitely a move in the right direction.

- **Expanding franchise opportunities** – Franchising can be a highly successful tool in spreading established enterprises across emerging or developing areas. This is because franchising places emphasis on training, mentoring, and systems building which leads to the acceleration of the diversification and geographic spread of entrepreneurship (DTI, 2003:34). This may be the reason behind government intention to introduce legislation to regulate franchising, the channelling of public funds to franchise-support programmes, and financing of franchise agreements via regular financial institutions.

There is no doubting the importance of franchising as an option to enter the entrepreneurial world. However given its high overhead costs it is doubtful whether this will be a suitable option for rural areas. Naturally, the market needs to be large enough to pay back investment in franchises that are notoriously high. However, the markets in rural areas are not that big. Therefore, the researcher is of the opinion that this option may only be viable for urban entrepreneurship.

- **Better access to information and advice** – Crucial to increasing access to franchising opportunities, government intends to establish Franchise Advice Desks (FAD) aimed at improving access to advice and information to prospective entrants. Other initiatives to improve access to quality information includes establishment of a nation-wide database of franchise opportunities, launching of a national Education and Promotional Campaign to increase awareness and information on franchising etc.

Information is no doubt essential for business success especially in today's fast and ever changing business environment. Hopefully this effort should translate into reality and allow every one irrespective of geographic location and circumstances to have access to quality information.

These efforts cannot be undertaken without knowledge of existing levels of entrepreneurship. In fact in order to introduce appropriate programmes it is also important to know the current levels of entrepreneurship. The next section examines this aspect using the various GEM reports as basis for such analysis.

#### **4.8 LEVEL OF ENTREPRENEURSHIP IN SOUTH AFRICA**

The various GEM reports dating back to 2001 when South Africa participated for the first time in this research project provide enough statistics to examine the level of entrepreneurship in South Africa. In other words it provides reliable data to answer the question how entrepreneurial is South Africa compared to the rest of the world?

GEM uses the Total Entrepreneurship Activity (TEA) index as the main measure of entrepreneurship levels. The TEA measures the proportions of adults who are involved in a start-up or a new firm in which they have an ownership (Driver, Wood, Segal & Herrington: 2001). This measure raises at least one concern. That is, the apparent exclusion of older enterprises. Thus the data may not reflect the true picture of countries whose entrepreneurial businesses are dominated by older firms.

This aside, the picture for South Africa is very discouraging. According to Orford, Wood, Fischer, Herrinton and Segal (2003), the position of South Africa on the TEA has been dismal. In 2001 South Africa ranked 14<sup>th</sup> out of 29 countries that participated with an index of 6.5% compared to the average TEA for participating countries being 8.4%. In 2002 it ranked 19<sup>th</sup> out of 37 countries with a TEA of 6.5% compared to average TEA for participating countries being 8%.

Compared to other participating developing countries, GEM 2003 notes that South Africa reported significantly lower levels of entrepreneurial activities. Table 4.1 illustrates this point.

The GEM study also involves entrepreneurial activity by type that may mean start-ups, new firms, established firms, gender, age, and motivation (necessity and opportunity entrepreneurship). In almost all cases Orford *et al.* (2003:9) reported that the South African TEA index is well below the average especially for developing countries. As Orford *et al.* (2003:13) rightly observe this means that South African entrepreneurs are contributing much less to employment creation and economic welfare than in other developing countries. Given this performance it may reasonably be concluded that programmes aimed at improving entrepreneurship in the country is not delivering or are failing.

Table 4.1 TEA (in %) Table for some participating developing countries

	Argentina	Brazil	India	Mexico	RSA	All Developing countries	All GEM countries
2001	10.5	12.4	11.1	19.7	6.5	12.0	8.4
2002	14.2	13.5	17.9	12.4	6.5	14.2	8.0
Average	12.3	13.0	14.5	16.1	6.5	13.1	8.2

(Source: Orford *et al.* 2003:8)

Throughout the study, reference has been made to entrepreneurial ventures and SMMEs (small businesses). The next section discusses the SMME/entrepreneurship interface.

#### **4.9 ENTREPRENEURIAL VERSUS SMALL BUSINESS**

Anderson (2002) acknowledges that together with micro enterprises, small enterprises form the bulk of entrepreneurial businesses. He like Wickham (2001) however argues that small businesses are not necessarily entrepreneurial enterprises. Wickham (2001) however concedes that the distinction between a small business and an entrepreneurial venture is not that clear. All the same there is consensus that there are definitely differences between the two. One of the celebrated distinctions is that of Wickham which uses the difference in the types of objectives small businesses set as the criteria for distinguishing between small and entrepreneurial ventures. According to this view, every business has one form of objective or the other. Small businesses have objectives that are normally short term or at best medium term in nature for example sales targets. On the other hand entrepreneurial ventures would normally have strategic objectives that relate to such things as:

- Growth targets;
- Market development;
- Market share; and
- Market positioning.

Using the above as the basis, Wickham (2001) argues that the entrepreneurial venture is distinguished from the small business by virtue of being based on significant innovation, having the potential for growth, and having clear strategic objectives. It is this key character of the entrepreneurial venture that Wickham (2001) says enables a business to make significant changes to the world. This differentiation is illustrated in Figure 4.1.

Hodgetts and Kuratko (1998:7) also support this distinction between small businesses and entrepreneurial ventures by noting that although situations may sometimes encompass both terms hence justify the interchangeable use of the terms, they are different.

According to them, small businesses:

- Are independently owned and operated.
- Are not dominant in their in their field.
- Usually do not engage in many new or innovative practices.
- May never grow large.
- Owners are less aggressive in their approach to running the business.
- Owners prefer more stable business environment that ensures stable sales, profits, and growth.

On the other hand, Hodgetts and Kuratko (1998:7) characterise entrepreneurial businesses by:

- Innovative strategic practices.
- Continued rapid growth and immediate profit.

The argument here is that small businesses differ from entrepreneurial ventures because the entrepreneurs who create the entrepreneurial ventures have a different perspective from small business owners in the actual development of the firm.

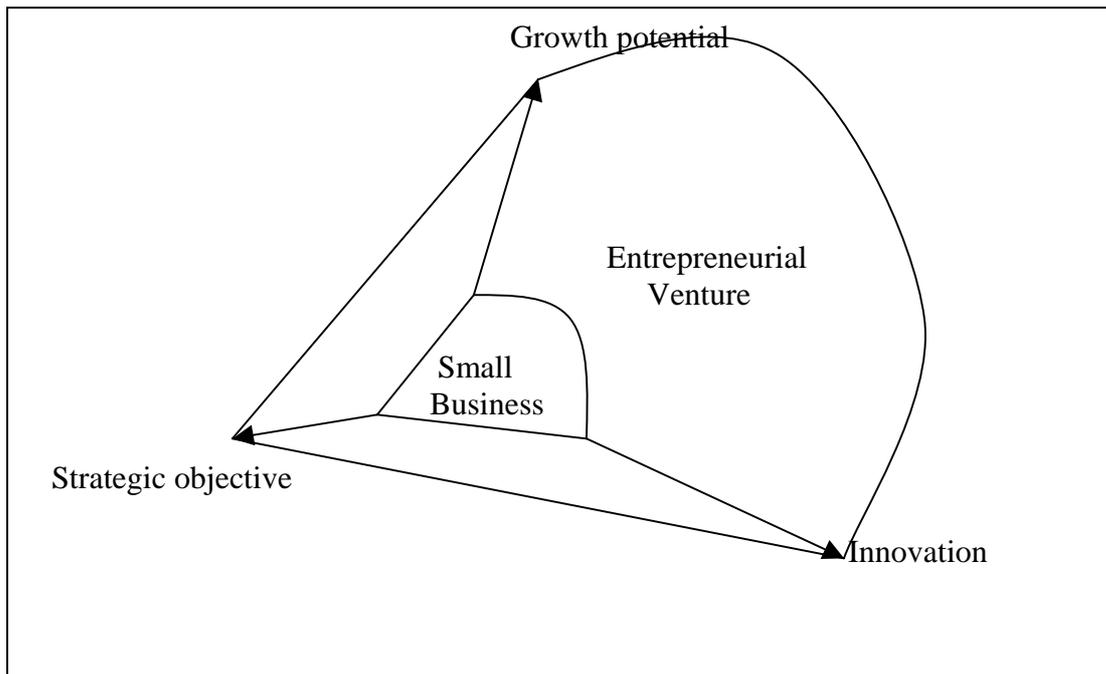


Figure 4.1 The difference between small and entrepreneurial venture  
Source: (Wickham, 2001:26).

Both frameworks are essentially the same and mainly centre around the degree of growth potential, strategic objective, and degree of innovation that one finds in the business. But as pointed out by both Hodgetts and Kuratko (1998) and Wickham (2001:25), it is sometimes difficult to distinguish between the two because not all entrepreneurial ventures will necessarily show an obvious innovation, clear growth potential or formally articulated strategic objectives. In fact, some small businesses may demonstrate only a few of these characteristics (Wickham, 2001:25). For the purpose of this study, and based on Wickham's (2001) distinction, small businesses and entrepreneurial ventures are distinguished as follows:

**Entrepreneurial ventures** are those businesses that are characterised by:

- Growth potential
- Innovation and
- Strategic objectives.

**Small businesses** are those that are small in size and characterised by:

- Little (insignificant) or no growth potential

- Little (insignificant) or no innovation and
- Only short term (or at best medium term) objectives.

Whatever the difference, the importance of both types of small businesses can never be over estimated because each one fills important gaps in our economic system. For example, small businesses by their sheer numbers alone account for quite a significant proportion of the business sector while the entrepreneurial ventures are regarded as the main engines of economic growth and job creation. The problem therefore is how to improve the productivity of both types of ventures so that they can in turn assist in the improvement of the social and economic condition of the millions of people in disadvantaged communities.

#### **4.10 ENTREPRENEURSHIP, DEVELOPMENT AND BSR**

Having discussed development, BSR, SMMEs, and entrepreneurship/small business in detail, the interconnection between development, entrepreneurship and BSR should now become obvious.

Much has been said in this study about the role of SMMEs/entrepreneurship in development. The most important development role expected from SMMEs/entrepreneurship is job creation. Unfortunately this expectation is not being fully realised in South Africa. Only a few of the numerous SMMEs are contributing significantly to job creation. Identification of these significant contributors may not be possible without the segmentation and critical examination of the various types of SMMEs. This was achieved in this chapter by examining SMMEs according to their entrepreneurial posture. The argument here is that small businesses differ from entrepreneurial ventures due to a number of reasons. For example the entrepreneurs who create the entrepreneurial ventures have a different perspective from small business owners in the actual development of the firm; they are founded for different reasons; and their resource capabilities differ etc.

These arguments have certain implications for BSR in SMMEs. Firstly, if the above arguments are accepted then one logical extension would be to say that even with

BSR the entrepreneurial ventures would have a different perspective from small businesses thus their focus may differ. Secondly because of their limited resources, the necessity entrepreneurial ventures may not be expected to engage in the same BSR activities as the opportunity driven ones. This means that in the promotion, expectation and measurement of BSR in SMMEs these differences will have to be taken into consideration without being punitive.

This makes the exploration of the entrepreneurship/small business management an important part of the BSR study.

#### **4.11 CONCLUSION**

This chapter has provided an insight into entrepreneurship. It explored the concept of entrepreneurship and examined the typing of entrepreneurs into two groups namely opportunity driven and necessity entrepreneurs. It also explored the differences between small and entrepreneurial ventures. The picture that emerges is that entrepreneurship is still evolving and is a dynamic concept with a precise universally accepted definition still elusive. Nevertheless, the field is now gaining acceptance in mainstream business and economics in both developed and developing countries.

It is often argued that we are living in the time of entrepreneurship yet as observed earlier the meaning of this concept remains murky. This perception is confirmed by a review of the relevant literature concerning the meaning of the word entrepreneurship that reveals unanimity of opinion that despite its importance and central role in market economies, a single universally accepted definition remains elusive.

There is no doubt that entrepreneurship inspires individuals or groups of people to seek opportunities at some risk with the reward of large profit. That is the “pull” of a large profit opportunity motivates some people to become entrepreneurs. Such entrepreneurs are therefore appropriately called opportunity entrepreneurs because it is generally accepted that their main motive for establishing businesses

is because they perceive opportunities at a time and at a place where others do not.

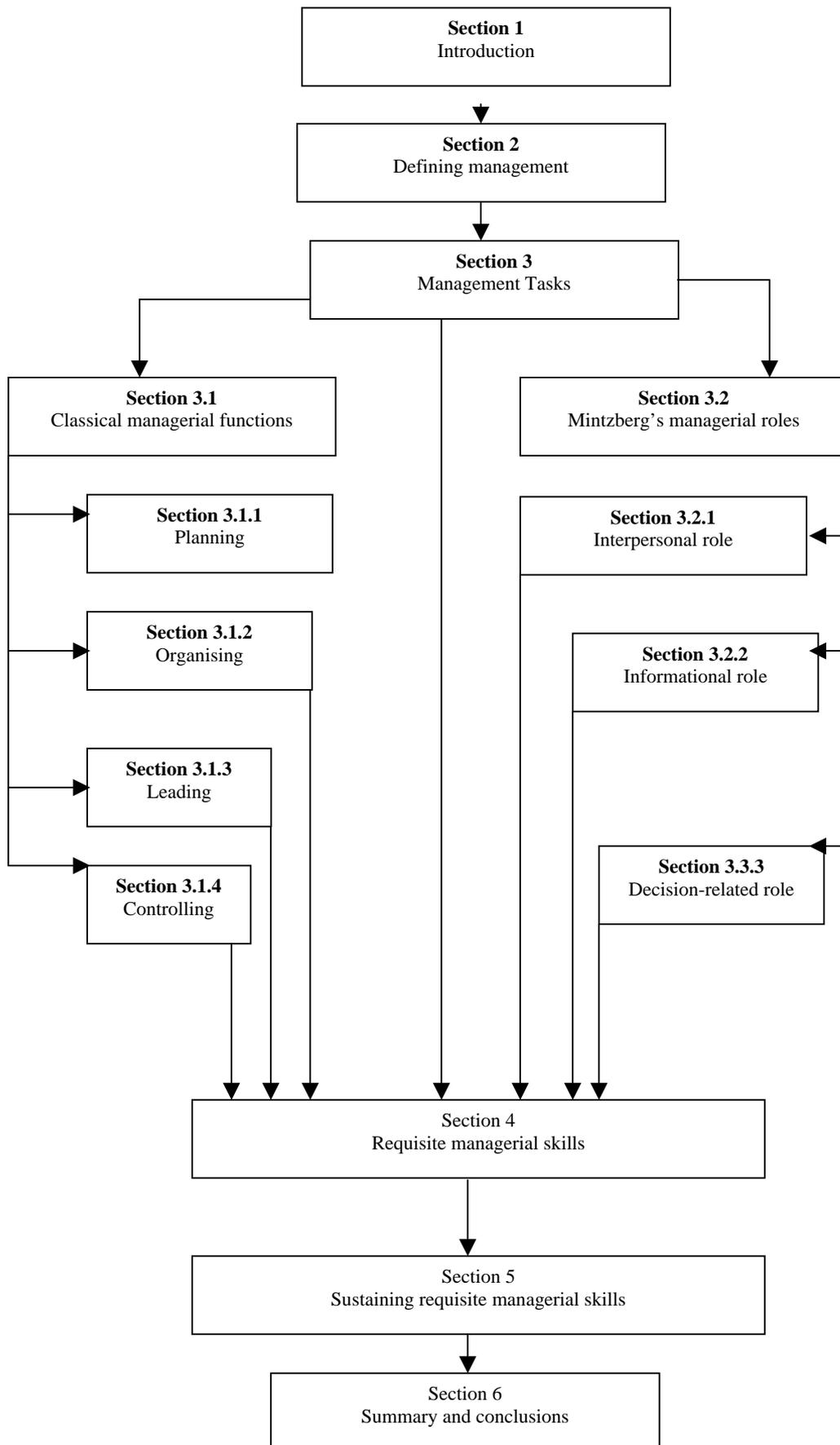
On the other hand some entrepreneurs establish their businesses primarily by “push” factors such as losing their jobs and the lack of employment alternatives. These people are referred to as necessity entrepreneurs because it is the only way to take care of their daily needs.

Whilst most developed nations cluster around the higher end of opportunity entrepreneurship index hence fewer necessity entrepreneurs, the GEM 2002 report indicates that most third world countries are dominated by necessity entrepreneurs hence they cluster around the lower end of the opportunity entrepreneurship index.

The problem here for developing countries is that as opposed to opportunity entrepreneurs, the ability of necessity entrepreneurs to generate employment is highly restricted. The challenge therefore is how they can increase the proportion of opportunity entrepreneurs especially in disadvantaged rural areas where the unemployment is highest and job creation is therefore most needed.

Despite their limited contribution to job creation, the chapter argued that the necessity driven small businesses (also the opportunity driven businesses) may increase their impact on socio economic development if they adopt good BSR practices. But for them to do so will require better management in order to prosper hence have the necessary funds to commit to these BSR activities.

## CHAPTER 5 OUTLINE



## CHAPTER 5: MANAGING SMMES

*“There is a need for entrepreneurs to acquire the necessary management know-how... Businesses whose owners and managers have inadequate management knowledge and skills cannot possibly operate effectively and efficiently enough to yield any better than marginal results; if anything, such businesses are doomed to fail”.*

(Kyambalesa, 1994:185).

### 5.1 INTRODUCTION

The previous chapters discussed the concepts of development, BSR, SMMEs, and entrepreneurship/small business and the interconnectedness of development, entrepreneurship/SMMEs and BSR. So far the following picture has emerged:

- SMMEs are crucial to development.
- SMMEs can enhance their impact on development if they engage in BSR.
- SMME BSR focus is generally on community and employee issues.
- Because of the difference in their nature the different types of SMMEs engage in different BSR programmes and even where they engage in the same activities, they differ in the extent to which they carry them out.
- This calls for examination of the different types of SMMEs to categorise them for assigning realistic BSR expectations from them.
- A convenient way of doing this is to differentiate between entrepreneurial and small ventures.
- In order for SMMEs whether entrepreneurial or small to carry out their expected BSR activities they need to grow and prosper. This requires that among other things, these businesses must be managed properly.

The implication of the above is that if the underdeveloped communities are to climb out of their present deplorable situations their best means would be through SMMEs. However this segment of the world economy may not be able to fulfil its role if it cannot grow rapidly and compete in the face of globalization. Among others, rapid growth and ability to compete would require that the management

skills of those who found and manage these SMMEs be improved from the current dismal state to a more efficient level.

Schlemm (1999:3) wrote, "...While entrepreneurial capacity is not disputed, the existence of managerial competence is critical for continuity and sustainability of enterprise". Before then, Schollhammer and Kuriloff (1979:179) noted that the success of any business depends upon the capabilities and ingenuity of its management.

As noted by Kyambalesa (1994:174), in SMMEs just like their counterpart, large undertakings, certain tasks need to be performed by owner/managers if desired outcomes are to be achieved. The extent to which managers perform these tasks is perceived to differ in SMMEs versus big business. Many research findings have indicated the lack of managerial competence in SMMEs resulting in business failures. Although the literature suggests that SMME failures may be due to a wide range of reasons (Murphy, 1996:14) all of which are important, owner/managers too need to carry some if not the largest portion of the blame. This is because empirical evidence (see Cronje, du Toit, and Motlatla (2003:98)) indicates that owner managers do not really pay much attention to the various managerial tasks especially when it comes to formal planning. Thus, a major challenge for SMMEs seems to be developing the managerial skills of the owner/managers and them devoting enough time for managerial functions as much as possible.

The above statements underscore the importance of proper management practices in any business small or large. In fact, these statements are pointers to the fact that entrepreneurs need more than creative minds. They have to have managerial competencies/skills in order to succeed in their business adventures. For SMMEs the quality of management is even more important given their exceptionally high failure rate that has often been attributed to poor quality of management.

Cronje, *et al.* (2003:98) confirm: "One of the commonest causes of failures in a business, especially a small one is poor management". Longenecker *et al.*

(2000:385) argue that SMMEs are more vulnerable to managerial weakness because of the lack of professional staff due to financial constraints. Buame (2001:121) attributes the managerial inadequacies in SMMEs to low levels of formal education among most owners.

While, external factors such as those listed above are issues that owner/manager has little or no control over and therefore cannot change, 'management' being an internal factor is one which the owner/manager has control over and therefore can change/influence. In a country such as South Africa where SMMEs play a key role in the economy (see Chapter 2), the success of these SMMEs becomes critical hence the need for their proper management.

Given the importance of the quality of management to the success of SMMEs hence their ability to engage in BSR activities, it becomes imperative that SMME owner/managers acquire the necessary competencies through programmes such as training in business management skills if they are expected to succeed and therefore contribute to socio economic development of this country. But providing the necessary management skills for SMMEs requires a clear understanding of what management skills are necessary for the smooth and profitable running of small businesses, what management skills currently exist and which ones are missing.

## **5.2 DEFINING MANAGEMENT**

According to Drucker (1982:14), the word 'management' is centuries old, and denotes both a function and the people who discharge it. He argues that as a function, management involves setting objectives, organising, motivating and communicating, measurement and developing people.

Kyambalesa (1994:159) argues that depending on the context, management may mean:

- The group of persons who are responsible for managing the affairs of any given organisation.

- The discipline concerned with understanding and improving the knowledge and skills in managing a business or any other organisation. Or
- The process of co-ordinating and integrating the various resources of an organisation.

This study deals with the management process (that focuses on the functional approach) within SMMEs. The idea of management as a process according to Rue and Byars (1995) was first intimated by Henry Fayol (1916) but made popular by the works of Oliver Sheldon (1923), and Ralph Davis (1935). An examination of some definitions of management falling under the process approach is now undertaken with the view of identifying the essential managerial functions that may be applicable to SMMEs.

Cronje and Smit (1992:6); Cronje *et al.* (2003:100); Schermerhorn (1996:4); Marx, Van Rooyen, Bosch, and Reynders, (1998: 349) all regard 'management' as a process or series of activities that involves the harnessing of an enterprise's resources in order to achieve stated objectives as productively as possible. They all identify planning, organising, leading, and controlling as the four main activities that management engages in, in the pursuit of organisational goals. These activities are popularly referred to in the management literature as the classical managerial functions.

Kreitner (1986:6), defines management as:

*The process of working with and through others to achieve organisational objectives in a changing environment. Central to this process is the effective and efficient use of limited resources.*

This definition Hodgetts and Kuratko (1998:295) argues, presents the small business owner with a major problem namely, relying on others to do the work.

Hodgetts and Kuratko (1998:295) reasons that many owner/managers have gotten where they are by learning that the individuals they have to rely on are 'themselves'. Relying on others therefore would among others require sound people management skills.

The above indicate:

- That as a process, management consists of certain activities.
- That although differences may exist as to what the exact management activities are or should be, planning, organising, leading and controlling, appear to be the most common and fundamental management tasks.
- That performing these set of activities would enable the attainment of organisational goals.
- The employment of both human and material resources for this purpose.

Therefore for the purpose of this study management is defined as:

***The set of activities that comprise planning, organising, leading and controlling through which, the human, financial, physical informational and other resources of an organisation irrespective of size are employed for the attainment of the objectives of that organisation.***

Consequently, this chapter focuses on the classical managerial tasks of planning, organising, leading and controlling with specific reference to SMMEs. This does not mean that the classical approach is the only process approach. In fact, Henry Mintzberg (1980) in his work "The nature of Managerial Work" proposed a functional 'role' approach to the study of managerial process that is equally popular. Although the chapter focuses on the classical approach a cursory look will be taken at Mintzberg's work in order to highlight its main features.

According to Cronje and Smit (1992:6), exposition of the fundamental management activities should help elucidate the nature of the managerial process.

This task is necessary because many people according to Kreitner (1986:6) do not really understand what the management process is.

### 5.3 CLASSICAL MANAGERIAL FUNCTIONS

Kreitner (1986:6) in calling for the subdivision of the Management process into various tasks or functions argues that the key to learning about management lies in dividing it into readily understood sub-processes.

According to the classical management theory (Drucker, 1982; Kyambalesa, 1994; Longenecker, *et al.* 2000; Nieman & Bennett, 2002; Cronje *et al.* 2003), the management process consists of four basic activities namely:

- Planning
- Organising
- Leading
- Controlling.

Cronje *et al.* (2003:102) believe the management process starts with planning. Through planning, the owner/manager decides what should be done. Here, management decides mission and goals and the ways in which these goals are to be attained, the resources required, and the procedures to be followed.

The second step involves organising where both human and other resources are allocated. It also involves the determination of the organisational structure that will be suitable for carrying out activities.

The third stage is leading that according to Cronje *et al.* (1994:75), connotes giving orders to the human resources and motivating them in such a way as to direct their actions in conformity with the plans and goals. This task requires good communication between the owner/manager and the employees.

The final stage, control, involves constant check to ascertain whether activities are going according to predetermined goals. If there are deviations, corrective

measures must be taken. Not only will deviations be corrected but it may also require that goals and plans be reconsidered.

Although authors like Marx *et al.* (1998) and Kreitner (1986) see the management functions/tasks as more than four. To them, planning, organising, leading, and controlling are the *primary* general management tasks while motivation, communication, coordination, and directing are *secondary* and without which the four primary tasks may not successfully take place. A detailed exposition of these primary tasks now follows.

### 5.3.1 PLANNING WITHIN SMMES

Of the four primary *functional tasks*, planning seems to attract the most attention. Interests in the study of planning in small firms according to Cassar and Gibson (2002) emerged for two reasons. First, it is the belief that because planning is so prevalent in large firms, it must be a good management practice. Second, a growing number of researches have found some association between planning activity in small business and performance.

Table 5.1 provides a list of planning tasks/activities relevant to both large and small businesses identified by management experts.

Table 5.1 Management tasks (own compilation)

Study	Management task
Nieman and Bennett (2002)	Selecting vision, Selecting mission, Selecting overall goals
Kyambalesa (1994)	Charting mission. Formulating short-term, medium term and long term goals. Determining policies and procedures. Developing operational plans
Burstiner (1979)	Clarifying business purpose. Formulating long-term goals. Deciding medium term objectives. Specification of specific departmental tasks. Deciding policies for departments. Formulating strategies to accomplish objectives
Kuratko and Hodgetts (1998)	Setting objectives. Forecasting the environment. Determining, evaluating and selecting course of action. Budgeting for plans.
Schermehorn (1996)	Defining objectives. Forecasting the future. Identifying ways to accomplish objectives. Implementing plans and evaluating results

From Table 5.1, goal setting (including vision and mission), developing specific action plans, and implementation of action plans seem to be most common management task. Based on this observation, planning is defined in this study as:

***The processes whereby objectives are formulated and action plans are set in motion to reach these objectives.***

The picture that emerges from examination of the tasks identified in Table 5.1, and the above definition is that, whatever the size of the organisation, planning tasks remain almost the same and mainly involve selecting vision, mission, and specific objectives and outlining strategies to accomplish these goals.

#### 5.3.1.1 Importance of planning in SMMEs

An obvious question that emerges is why is planning so important? Alternatively why should managers of businesses spend so much time planning when there are other business activities that need urgent attention?

Perry (2002) provided an answer to this question after comparing failed and non-failed SMMEs in the USA. He concluded that planning might affect the success or failure of SMMEs. The above leads one to conclude that planning or the lack of it may affect the performance of any business including SMMEs. One therefore agrees with those who believe that:

- Planning is the starting point of the management process and whether strategic, tactical or operational, does not always take place in well-defined steps.
- Planning is a vital management process that involves goal setting, determination of vision and mission, setting short, medium, and long-term objectives and the implementation of plans through the remaining management processes.

- The ability to plan is dependent on the mental capacity of the planner, which in the case of SMMEs is usually the owner/manager.

Therefore, just as in large businesses, SMME owner/managers need to have experience, intelligence, vision, and good judgement (some of the most important mental tools) to be able to plan properly.

#### 5.3.1.2 The extent of planning within SMMEs

A growing body of research findings have shown some association between formal planning and success within small businesses (Cassar & Gibson, 2002). Further more planning is widely regarded as the 'key' component of the management process in any business without which the other management tasks cannot take place properly, yet, this vital aspect is lacking in most SMMEs.

Pery (2001) in a study that examined both failed and non-failed SMMEs in the USA found that little planning takes place in the US SMMEs. The same studies showed that what little planning there was, actually took place mostly in the non-failed SMMEs and that the extent of planning was related to business performance. The same author in another study, Perry (2002) concluded that the smaller the size of the SMME the lesser the amount of planning that took place.

Cassar and Gibson (2002) surveyed 3,554 Australian SMMEs, and found that only 35% of these SMMEs engaged in some form of planning and as much as. They also found that only about half of the planners were consistent planners. The remaining half often changed their planning behaviours. This led them to conclude that firms use planning for specific purposes. For example they might use business plans to legitimise request for financing.

Mckiernan and Morris (1993), in Martin and Staines (1994) lend support to the above findings in arguing that unlike big businesses, SMMEs are more likely to engage in informal planning than sophisticated formal planning and that where it exists in SMMEs planning usually involves short time horizons and are informal,

irregular, and incomprehensive. Further more where formality was found to exist may have been related to survival.

Schollhammer and Kuriloff (1979:181) attribute the dearth of planning in SMMEs to resource constraints. They argue that because SMMEs lack financial and other resources all the management tasks of planning, organising, leading, and controlling have to be done by one person (usually the owner/manager). This puts enormous pressure on the owner/manager to the extent that more often than not they are caught up in day to day operational activities hence have little time to do formal planning.

The above findings and arguments justify the conclusion that compared to large organisations; planning is often overlooked. At best, only very little formal planning takes place in SMMEs. Moreover, when it does happen at all, it is often done haphazardly.

#### 5.3.1.3 Formalising planning in SMMEs

Given the importance of systematic planning in organisational success, it becomes imperative that every effort be done to encourage SMMEs to institute formal planning systems. The following guidelines according to Schollhammer and Kuriloff (1979:207) can help SMMEs to develop effective planning:

- SMME planning barriers need to be understood first.
- Formalised planning should start simple and progressively expanded as the firm's planning experience increases.
- The Owner/manager as the Chief Executive Officer (CEO) must show a strong commitment formal planning and should instil a high degree of planning consciousness among subordinates.
- Noticeable benefits of formal planning must not be expected immediately.
- Formal planning should only be introduced after reappraisal current managerial practices.
- During the planning process attention should be paid to organisational structure.

- Planning should be considered a learning process consequently the approach to planning should be changed with a company's planning experience.

#### 5.3.1.4 Planning for BSR

Like any essential business activity BSR has to be planned for. This means vision and mission statements that explicitly articulate business/society relationship philosophy. In other words BSR should be an integral part of business philosophy and not just add-on that can be treated anyhow.

Planning for BSR also means that BSR activities also have to be budgeted for. In this regard both financial and non-financial resources have to be allocated towards BSR.

BSR performance targets (goals) need to be set. This will enable management to allocate appropriate resources, to formulate strategies for their attainment, and to evaluate performance.

Thus planning is critical to the effectiveness of BSR programmes in any business.

#### 5.3.2 ORGANISING WITHIN SMMES

Planning was described as involving the setting of objectives and developing action plans (strategies) to achieve these objectives as productively as possible. It has also been stated earlier that planning is only one component of the management process. Equally important is the need for a structure that management can use to put these plans into action to achieve desired goals. The development of such a structure is termed 'organising'.

The above observation is consistent with existing definitions of the term. Marx *et al.* (1998:370) define organising as:

*The process in which the activities and resources which are required to execute a plan and reach an objective are identified; similar activities are grouped together and are allocated to people and sections and resources are put at the disposal of these people and sections; in this way the working relationships and the use of resources between individuals, sections and groups are regulated.*

According to Kyambalesa (1994:175), organising involves:

- Developing a formal structure for the organisation.
- Grouping activities into departments or sections.
- Specifying relationships between and among work units with respect to lines of authority, responsibility and accountability.
- Delegating the necessary authority and responsibility to those expected to perform specified tasks.

Hodgetts and Kuratko (1998:300) maintain that owner/managers of SMMEs must be concerned about the following factors as they go about organising:

- Job definition
- Departmentalisation
- Span of control
- Delegation of authority.

### **Job definition**

According to Hodgetts and Kuratko (1998:300), Job definitions are descriptions of people's jobs. Job definitions in SMMEs are informal and never clearly defined. Formality in job definition takes the form of job specialisation in which each worker handles one or two primary tasks.

## **Departmentalisation**

According to Hodgetts and Kuratko (1998:301), departmentalisation is the process of arranging personnel into various groups based on the activities and functions they must perform. There are two ways to do this. These are functional departmentalisation and product departmentalisation. In functional departmentalisation, workers are placed in departments based on the activity they perform. In product departmentalisation, people are placed according to product line. The most common way to organise a small business according to Hodgetts and Kuratko (1998:301) is by function. That is everyone is placed in a department based on the activity the person performs. However as business grows it becomes useful to change from functional to product departmentalisation.

## **Span of control**

Span of control refers to the number of people who report to a superior and in the case of SMMEs especially the small and micro businesses, the owner/manager is usually the only superior hence the owner manager has a wide span of control (Hodgetts & Kuratko, 1998: 302).

## **Delegation**

Through delegation of authority, a manager grant to subordinates the right to act or make decisions. Turning over less important functions to subordinates frees the supervisor (the owner/manager in the case of SMMEs) to perform more important tasks. Although failure to delegate can be found in any organisation, it is more prevalent in small firms (Longenecker *et al.* 2000: 395).

Emerging from the foregoing definitions, *organising* in any type of business large or small may mean that management must do the following:

- Develop mechanisms to put plans into effect.
- Determine activities to be carried out.
- Determine the resources to be employed.

- Decide who will perform specified activities.

#### 5.3.2.1 Importance of organising

One reason why organising is so important is that it helps the organisation to operate more efficiently by determining what everyone is going to do to in reaching predetermined goals (Hodgetts & Kuratko, 1998: 300). Further more, it may also help eliminate or at least minimise the incidence of overlap and duplication since every one' duties are clearly demarcated.

Another reason is that organising helps define the relationship among the firm's activities and individuals on the firm's pay roll (Longenecker *et al.* 2000: 392) without which confusion will reign. For example by determining the optimal span of control, supervisors are able to supervise effectively; and by delegating less important issues to subordinates, over stretched owner/managers of small businesses are able to focus their limited time and energy on more important issues (Longenecker *et al.* 2000:395).

#### 5.3.2.2 Symptoms of poor organising

Given the importance of proper organising to the successful running of any businesses it becomes imperative that owner mangers of Small businesses look out for signs of poor organising and to take corrective measures.

According to Bekker and Staude (1992:144), **poor use of time, slow decision-making**, and high rate of **customer complaints** are indications of poor organising and which owner/managers of SMMEs must always be on the look out for:

#### **Poor use of time**

As far back as the late seventies, Baumback and Lawler (1979:261) highlighted poor time management as a major problem facing owner/managers of SMMEs. Although a manager's job is to manage, Bekker and Staude (1992:144) note that most managers particularly those in SMMEs spend more time on operational

matters than on managerial tasks. In their view, this may be due to several reasons one of which is that the manager is simply doing what that manager likes best instead of what will benefit the business. Thus some important items might be overlooked or deferred due to this personal preference. They therefore recommend that making a job analysis of each task, preparing a job specification, and assigning responsibilities to each job, will help the manager see more clearly which tasks have been completed and what needs still to be done.

### **Slow decision-making**

Marx *et al.* (2002) highlighted the importance of decision-making in observing that decision-making forms the cement, which holds together the whole management process.

Management is often confronted with making both strategic and day to day decisions that sometimes require not only sound but equally and perhaps more importantly instant judgment. An effective manager would make correct and instant decision. Failure to make a decision quickly enough could have for example negative influence on customers.

According to Bekker and Staude (1992:144) slow decision making often happen because all decisions are made by owner/managers. A solution to this problem they argue is to give employees authority when they are assigned responsibility.

### **High rate of customer complaints**

Most often one comes across the expression 'the customer is the king' boldly displayed in business premises. This would imply among others that delivery performance would be excellent and customer complaints handling would be prompt. However, Bekker and Staude (1992:145), note that the contrary is often the case and attribute the problem to over-committing existing capacity. They therefore suggest a twelve-point checklist that managers can use to improve delivery performance. The point here is that poor delivery performance that results in high rate of customer complaint is definitely not the way to build customer

loyalty. Therefore managers need to pay closer attention to the amount of customer complaints they receive.

#### 5.3.2.3 Extent of organising within SMMEs

Not much empirical evidence exists as to the existence or non-existence of organising in SMMEs. However normative assertions seem to indicate the following:

- Unlike big businesses, in SMMEs, organisational structure tends to evolve with little conscious planning. Certain people begin performing certain functions when the company is formed and retain those functions even as the company matures (Longenecker *et al.* 2000: 392).
- Unlike big business, in SMMEs, for a host of reasons, the owner/manager's span of control is usually large.
- Unlike big business, in SMMEs, the most common way of departmentalisation is by function. However as the business grows into medium enterprise, many owner/mangers find it useful to change from functional to product departmentalisation (Hodgetts & Kuratko, 1998: 301).
- In contrast to big business, in small firms, a climate of informality and flexibility makes it easy to short-circuit the chain of command (Longenecker *et al.* 2000: 393). The practical problem here is that whilst strict adherence to chain of command may be impossible, frequent and flagrant disregard for the chain of command may undermine the bypassed manager (Longenecker *et al.* 2000: 392).
- Longenecker *et al.* (2000) and Hodgetts and Kuratko (1998) both agree that owner/managers of small businesses are more reluctant to delegate authority than managers in large businesses due to a variety of reasons

that range from the smallness of their size, to unwillingness to relinquish control.

The above indicate that organising in SMMEs is less structured than in big business. Further, the need for organising arises mostly when the business starts to grow hence in the SMME sector it is more likely to find the incidence of formal organising in medium enterprises than in the micro and small firms.

#### 5.3.2.4 Organising for BSR

BSR activities need to be properly organised. In other words there is the need for a structure that management can use to put BSR plans into action so as to achieve desired goals.

The following were earlier identified in section 5.3.2 as the prime organising activities in any business:

- Developing mechanisms to put plans into effect.
- Determining activities to be carried out.
- Determining the resources to be employed.
- Deciding who will perform specified activities.

These are also applicable to the implementation of BSR in SMMEs. For example in larger SMMEs, there may be the need to assign a department to oversee BSR activities. In rural SMMEs this role is likely to be performed by an individual because most of the businesses are not departmentalised due to their smallness. Once this role has been assigned, job definitions have to be provided to those whom individual BSR tasks are assigned.

According to Bekker and Staude (1992:144), poor organising can lead to any or all of poor use of time, slow decision-making, and high rate of customer complaints. This means that if BSR is not properly organised company time allocated for BSR may be wasted, decisions regarding implementation of BSR may be delayed and

customer complaints may rise. This means that BSR as a business activity needs to be properly organised.

### 5.3.3 LEADING

Having drawn the *plans* and put the necessary structures in place through *organising*, the next logical step involves making sure that the plans are carried out by people. This forms the task of 'leading'. *Leading*, *directing*, and *guiding* are often used interchangeably in the management literature to describe the same management task. Whichever term is used, it is widely acknowledged that leading people is perhaps the most difficult part of the management tasks due to the complex nature of human beings.

After discussing the nature of leadership and agreeing that the concept is complex, elusive, and difficult to define, Cronje and Smit (1992; 333) finally define leadership as:

*Influencing and directing the behaviour of individuals and groups in such a way that they work willingly to pursue the objectives and goals of the organisation.*

In a small business, the owner/manager must direct the behaviour of employees to be as efficient as possible so that the enterprise will be profitable, workers will get to keep their jobs, and everyone earns enough money.

Leadership as defined here emphasises eliciting some voluntary participation from employees towards achieving organisational goal. But voluntary response can only be achieved in an atmosphere of cooperation and teamwork among all employees. Fortunately for SMMEs, the potential for good teamwork among employees is enhanced in some ways due to the smallness of the enterprise (Longenecker *et al.* 2000:390).

Given the vastness of the literature on the concept leadership, this study does not attempt to cover every aspect of the subject. Instead, for the purpose of this study, the following sub-sections deal with the components of leadership; types/styles of leadership i.e. authoritarian, democratic/participative, as well as laissez-fair; the importance of leading; and finally leading in SMMEs.

#### 5.3.3.1 Types of leaders

The above definitions of leading suggest the notion of motivating or arousing enthusiasm among workers for them to willingly work towards achieving organisational goals.

Given the diversity in human behaviour, it should be expected that leadership behaviour among individuals should differ (at least this is the view of social psychologists who suggest that the process of leadership involves certain types of interpersonal behaviour). Thus it should be possible to categorise leaders into distinct groups based on the way people behave in their leadership roles. This categorisation should then make it possible to determine which style will best be able to elicit enthusiasm among workers, and which types will be suitable to drive SMMEs to success given the fact that the demands of leading in SMMEs are different from those of large corporations given their different natures.

The following constitute some of the most popular ways of classifying leadership styles:

- To classify leaders as *task* oriented or *people* oriented.

In this respect, the task-oriented leader's action is seen as skewed towards completion of assigned work. On the other hand the people oriented leader's behaviour shows consideration for and support of workers (Burstiner, 1979:150).

- To classify leadership styles as being either *autocratic*, *democratic*, *laissez faire*, or *participative*.

*Autocratic style*

The leader makes all the decisions alone and with little consideration of the needs of subordinates. This style is inappropriate because it has the potential to make employees rebellious (Kyambalesa, 1994:165).

*Democratic style*

The majority decision will hold. This is identical to the participative style of Marx *et al.* 1998:387. According to Kyambalesa (1994:165) this style is appropriate for SMMEs.

*Laissez faire style*

The leader allows activities to run their own course. For SMME owner/managers, this style may not be appropriate as it could lead to wastage, misuse of meagre resources that could lead to eventual business failure (Kyambalesa, 1994:165).

*Participative style*

The leader attempts to gain the full cooperation of subordinates in important decisions and considers the needs of everyone as far as possible. This is identical to Kyambalesa's democratic style (Marx *et al.* 1998:387).

Although the above provide a basis for classifying leadership styles, it is not easy to determine which is the best style to adopt neither is it easy to state which style is best for SMMEs. However, as noted by Marx *et al.* (1998:380), a leader *leads* and gives *direction* to others so that the internal activities of the business can progress and tasks can be undertaken timeously. For that reason alone, leadership whether in SMMEs or big corporations should be task oriented.

At the same time, it needs to be realised that SMMEs by their small size, very close and significant interaction between employees and leader is typical (Longenecker *et al.* 2000:390). And as pointed out earlier, if the employee-leader

relationship is good, this will elicit strong feeling of personal loyalty that can contribute positively to business success. This alone too is a sufficient suggestion that an SMME leader should be people oriented.

The same arguments could be advanced for democratic, autocratic, laissez faire, and participative styles. Thus it becomes apparent that the situational approach, which suggests that leadership style should be varied depending on the situation, would seem more appropriate for SMMEs given the dynamic environment in which they operate.

#### 5.3.3.2 Importance of Leading

The performance of any enterprise, large or small, is directly related to the quality of leadership and although not the only ingredient of success, it certainly is an important one (Cronje *et al.* 2003:147). The same source argues that the success of a business can be attributed to a particular leaders' excellent leadership. In this regard, it cites the examples of Dr Anton Rupert who built the Rembrandt group into an international business empire; Raymond Ackerman who in less than twenty five years established Pick 'n Pay as the largest retail business in South Africa; and Cyril Ramaphosa of JCI, as people whose excellent leadership abilities contributed to the success of the businesses they head.

In SMMEs, the personal involvement of the owner/manager hence his or her leadership skill is even more important. This view is supported by Longenecker *et al.* (2000:390), who point out that unlike big corporations, in most SMMEs, the owner/manager is not a faceless unknown but an individual whom employees see and relate to in the course of their normal schedules on daily basis.

Therefore, if the manager-employee relation is good (which among others is dependent on his leadership style), employees in SMMEs develop strong feelings of personal loyalty to their employer (Longenecker *et al.* 2000:390). This loyalty will translate into motivated workers whose performance should lead to the realisation of company goals.

### 5.3.3.3 Leading SMMEs

Hodgetts and Kuratko (1998:310) note the following:

- The owner/managers in small manufacturing firms find work to be so structured that they often find work-oriented (task-oriented) style to be the most effective leadership style.
- The typical retail owner/manager often needs to have a high concern for both people and work because the job requires interest in both dimensions due to the constant interaction with customers and employees.
- A typical sales group does not need to be told, “go out and sell”. Therefore, the concern here for the leader would be maintaining friendly environment (people-oriented).
- The owner/manager of an R&D laboratory might have a highly motivated scientist who relies on the manager simply to take care of office procedures and see that they have the equipment they need. As a result, the leader (owner/manager) in this case is very successful showing a low concern for both people and work.

(Hodgetts & Kuratko, 1998:310).

The conclusions that can be drawn from the above regarding the management function of leading within SMMEs are that:

- Leading involves constant interaction between leader and employees.
- When a leader is able to gain loyalty of employees through his personal relationships with workers this tends to have positive outcomes for the business.

- However, sometimes, the nature of the business would require the leader to be more task-oriented.
- Given the different kinds of small businesses, a leader needs to adopt the type of management style that suites the type of business operation.
- Therefore typing a universal style of leadership for all types of SMMEs may not be possible.

#### 5.3.3.4 Leading the BSR process

Leading was earlier described as making sure that people carry out plans. This may be done in a democratic manner, autocratic manner, or by using a laissez faire style.

It is obvious that a laissez fair style would be chaotic and ineffective since people would do as they wish. This will lead to uncoordinated BSR activities that have the potential of not achieving desired results.

The very essence of BSR is fairness, which implies democracy. This means that using authoritarian style would be counter to BSR principles.

The obvious choice then is BSR programme that is based on participative or democratic style where the leader attempts to gain full cooperation of subordinates and considers the needs of everyone as far as possible. That includes employees and the community being involved in deciding on which BSR programmes to engage in.

But above all, owner/managers of SMMEs need to play a leading role in their companies' BSR activities in order to motivate their followers to buy in.

### 5.3.4 CONTROLLING IN SMMES

#### 5.3.4.1 Defining Control

Controlling is regarded as the final stage in the management process and is defined variously as follows:

*The process of establishing standards, comparing performance with these standards, and correcting deviations.*

(Hodgetts and Kuratko, 1998:311).

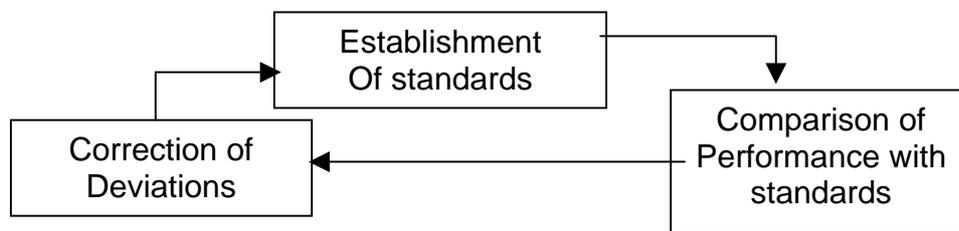


Figure 5.1 The control process

Source: Hodgetts and Kuratko (1998:311).

According to this model the control process consists of three basic steps that start with establishment of performance standards, followed by comparison of actual performance with predetermined standards, and finally taking action to correct deviations. This model appears very simplified and to the SMME owner/manger this may lead to practical problems. For example it does not indicate when and how actual performance is measured. Neither does it make room for adjusting standards should they prove unrealistic.

*The process of evaluating the nature of activities taking place in an organisational setting and fine-tuning the operation of the organisation to achieve superior results (Kyambalesa, 1994:176).*

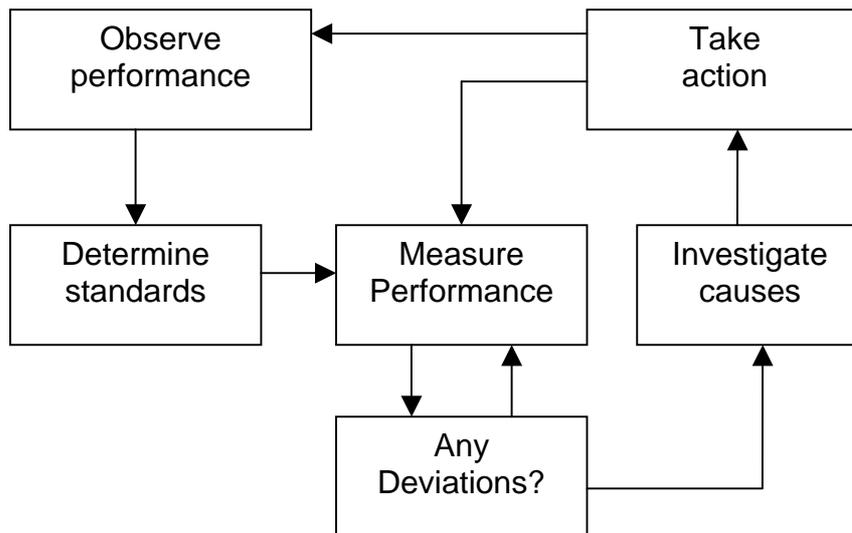


Figure 5.2 Controlling process.

Source: Kyambalesa (1994:177).

Kyambalesa's (1994:176) control process can be divided into six steps:

- Observation of employee performance.
- Determination of performance standards.
- Measurement of actual performance.
- Determination of deviations of actual performance from standards.
- Investigation of causes of slack performance.
- Taking the necessary corrective measures when there are deviations

The differences between figures 5.1 and 5.2 are self-evident. Clearly, Kyambalesa's (1994:176) model is essentially a more detailed version of the model provided by Hodgetts and Kuratko (1998:311). This model is therefore an improvement over that provided Hodgetts and Kuratko in the sense that it plugs the loopholes in the Hodgetts and Kuratko model. For SMME owner/managers the Kyambalesa model would be more useful in helping them understand what is involved in the control process. It also specifies what to do at various stages.

Emerging from the above definitions and models, it appears that as noted by Cronje *et al.* (1994), four main steps are essential for a good control process namely:

- Establishing standards.
- Observation of actual performance.
- Evaluating any deviations.
- Taking corrective actions.

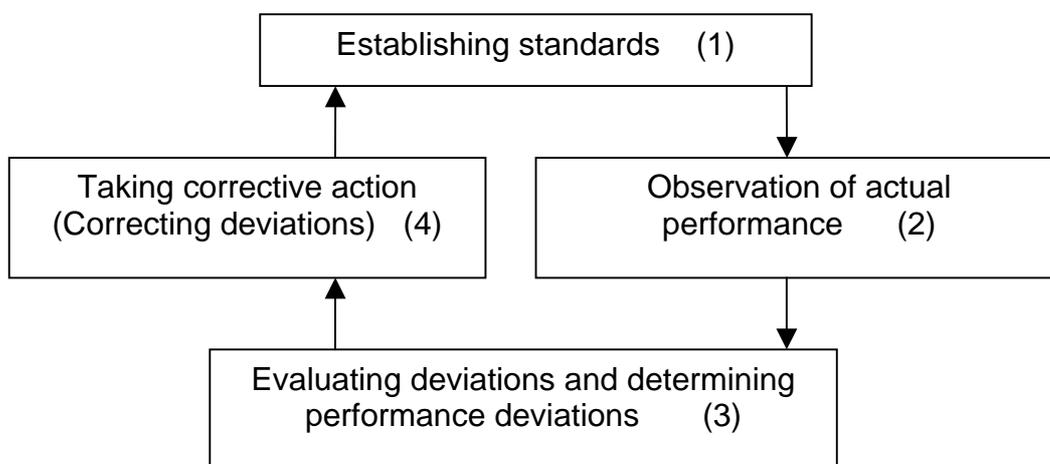


Figure 5.3 The control process

Source: Cronje *et al.* (1994:127)

### *Establishing standards*

It is often argued that because control begins at the planning stage it is pertinent to say that **management starts and ends with control**. Cronje *et al.* (1994:127) suggests that the first step in any control system should be the establishment of *performance strategic points* at the planning stage. This shows how interlinked control and planning are. In a sense therefore, control may be regarded as a kind of *revised planning*. In the view of Cronje *et al.* (1994:127) profit standards, market share standards, productivity standards, and staff development standards should be key performance standards that should be part of any control system.

### *Observation of actual performance*

This is a continuous activity involving the collection of information on actual performance. A typical requirement for a good control system is that the variables measured must of necessity be quantifiable so as to enable easy and valid comparison. In addition, the reports generated by the control system must be reliable and accurate otherwise control will be ineffective. In this respect Cronje *et al.* (1994:128) notes: “reliability and accuracy is not a major problem in SMMEs because SMME owner/managers are often fully informed of activities due the small size of SMMEs and their personal involvement in the daily operations”.

### *Evaluating deviations*

This stage involves comparing actual performance with set standards, analysis of any deviations so as to determine why standards have been matched, is better than standards, or did not match set standards. This may help highlight the possibility of standards being too high or too low. In certain cases however causes may not be that obvious. If there are variations, then the variables responsible for such variations need to be identified so that corrective action can be done.

### *Taking corrective action*

After the evaluation process and determination of variables responsible for any deviations, steps need to be taken to improve performance or to ensure that deviations do not recur. In the event that performance falls short of expectation, Cronje *et al.* (1994:129) suggest a choice among the following three possible actions for owner/managers:

- Improve actual performance to reach set standards.
- Revise strategies so as to reach set standards.
- Lower or raise standards to make them more realistic in view of the prevailing conditions.

#### 5.3.4.2 Importance of control

Given the complexities surrounding control the question of why small business owner/managers should spend so much of their valuable time and limited resources on setting up control measures instead of simply letting activities taking care of themselves need to be investigated.

From a systems perspective of management process where control is intimately linked to the other management tasks, control becomes a vital cog, without which an important element is missing.

Cronje *et al.* (1994:130) add that business environment is a dynamic one in which changes often affect performance of individuals. In line with this observation SMMEs need to monitor performance through control mechanisms.

Another reason for the importance of control that is relevant to SMMEs relate to the fact that SMMEs normally start as micro enterprises and in due course grow in size as they move to small, medium, and eventually large organisations. As the business grows Cronje *et al.* (1994:130) argue, more staff are employed, in the case of manufacturing firms new products are developed, new machines are added, and with time therefore, the small firm becomes a network of activities that include production, finance, administration, staff and marketing. The owner/manager alone cannot perform these tasks and would therefore have to delegate to subordinates who are capable of making poor decisions. Even managers are capable of making poor decisions. Without an effective control system the owner/manager might never know when a faulty decision has been made.

Finally, it is well known that irrespective of firm size delegation of duties occur and at the end of the day, the owner/manager needs to ascertain whether assigned duties have been performed or not; If not why not? And if performed, whether it is to the required standards or not. Without an adequate control system this important managerial activity cannot be performed.

In summary therefore, like Cronje *et al.* (1994: 131) control can be described as:

***The narrowing of the gap between the objectives and actual performance.***

5.3.4.3 Controlling the BSR process

Controlling has been described as the narrowing of the gap between objectives and actual performance. In other words the purpose of control is to ensure that little or no deviations occur between actual performance and stated objectives and where they do, corrective measures are taken.

For BSR process, there is need for a system that will monitor performance against an SMME's stated BSR targets.

Cronje *et al.* (1994)'s four-step control process mentioned above is applicable here:

1. Taking all factors into consideration, BSR standards need to be set. It is imperative that these standards are realistic yet take into account the views of all stakeholders.
2. BSR performance needs to be measured. Although record keeping is a nemesis of SMMEs it is important that every thing concerning BSR is recorded.
3. At year-end actual performance is compared to predetermined standards. It may be that performance might fall short of target. These deviations need to be investigated for possible causes of deviations.
4. Finally corrective measures are taken if need be.

Like all other business activities, a good control system is necessary for BSR. This is because other people besides the owner/manager will perform most of the BSR activities. The owner/manager needs to ascertain whether assigned BSR duties

have been performed or not; If not why not? And if performed, whether it is to the required standards or not.

### 5.3.5 MINTZBERG'S MANAGERIAL ROLES

Although the traditional (classical) functional view has dominated the management literature, an equally important perspective emerged in the seventies that became known as the Mintzberg's managerial roles.

According to this perspective, a manager plays or must play a specific role. Not only must managers do certain things for the business, as is the view of the classical approach, but they must also satisfy specific needs while accepting certain responsibilities (Cronje & Smit, 1992).

The origin of this approach has been traced to Henry Mintzberg (1980) who according to Kreitner (1986:14), criticised the traditional functional approach as unrealistic, and concluding that functions tell us little about what managers do and that at best they indicate some vague objectives managers have when they work. Mintzberg (1980:59) identified ten specific roles (see figure 5.4) managers (that links to their formal authority and status) play namely: **interpersonal**, **informational** and **decision-making** roles. Managers according to this view (Nieman & Bennett, 2002:101) perform several of these roles simultaneously, and have to assume each of these roles in order to influence the behaviour of individuals or groups, both inside and outside the organisation. Nieman and Bennett (2002:101) therefore recommend that management skills be continuously developed for owner/managers in order for them to perform these roles.

#### 5.3.5.1 Interpersonal Roles

Kreitner (1986:15) argues that as a result of their formal authority and superior status, managers engage in a good deal of interpersonal contact. This interpersonal contact is even greater in SMMEs given their small size. The three interpersonal roles are figurehead, leader, and relations/liaison.

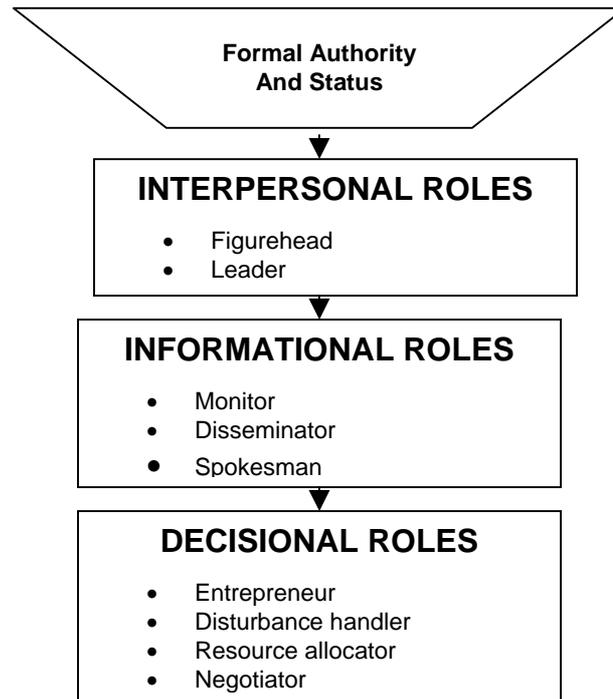


Figure 5.4 The Manager's Roles

Source: Mintzberg (1980:59)

#### 5.3.5.2 Informational roles

Kreitner (1986:15) thinks information roles are important because it is the lifeblood of an organisation. In SMMEs, this role becomes even more important because, as owner/managers hence information gatekeepers, their ability to obtain, control, and selectively disseminate information will determine the effective use of relevant information for business success. According Mintzberg (1980:59) typical informational roles of a manger are, acting as a monitor, disseminator, and a spokesperson.

#### 5.3.5.3 Decision-related Roles

The argument here is that in their decision roles, managers balance competing interests and make choices; and strategies are formulated and put into action. Four decision roles played by managers are those of entrepreneur, disturbance handler, resource allocator, and negotiator (Mintzberg, 1980:59).

#### 5.3.5.4 SMME Managers' BSR roles

A great deal of interpersonal role-playing takes place when an SMME engages in BSR. This is because very often than not, the BSR focus of SMMEs are employee, customer, and community (all people) related.

SMME BSR also requires information relating to community, customer, and employee needs. The owner/manager has to obtain and disseminate information on BSR to key role players. For example the owner/manager needs to communicate to employees the need for high corporate integrity.

### 5.4 REQUISITE MANAGERIAL SKILLS

According to Ntsika (2002:15) there are three crucial pillars for supporting SMME development in the country: *unblocking opportunities* for market access; *entrepreneurship*; and *enhancing the capacity of finance, skills, quality, productivity, etc of SMMEs*. Ntsika believes that:

- Unblocking business opportunities is crucial to market development.
- Entrepreneurship is very important for building an entrepreneurial culture in the country.
- Enhancing capacity of small business is critical in ensuring that SMMEs have the **requisite managerial skills** and resources.

Similar to the above, Nieman and Bennett (2002:101) suggest that for owner/managers to play their managerial roles effectively, they need to continuously develop their **management skills**. This indicates that there are certain identifiable skills that are prerequisites for managerial success. If this assertion is accepted then a pertinent question is what are the skills necessary for managerial success? Successfully identifying these skills the researcher believes will enable managers devote time, energy and resources for their development.

Nieman and Bennett (2002:101) group skills they regard as essential managerial skills into three broad categories namely:

- **Conceptual** (including decision-making and problem solving).

- **Technical** (including administrative).
- **Human** (including communication).

Meanwhile, Kyambalesa (1994:159) identified the following ten specific skills he considers necessary for managers at any level and in any size of business:

- Decision-making skills
- Leadership skills
- Conceptual skills
- Innovation skills
- Time management skills
- Delegation skills
- Human relations skills
- Technical aptitude
- Aptitude in using computers.

Kyambalesa's grouping although detailed, in essence can, be incorporated into the broad categories provided by Nieman and Bennett. Therefore, for the purpose of this study and for brevity the Nieman and Bennett (2002:101) categorisation is adopted and examined.

### *Conceptual skills*

In any business, managers spend most of their time making decisions. Meanwhile one of the steps in decision-making is deciding on alternative courses of action that requires conceptual skills.

Kyambalesa (1994:166) views the following as essential managerial conceptual skills relevant to decision-making:

- Seeing the business organisation as a whole.

- Understanding the organisation's external environment.
- Understanding the interrelationship between the various units and functions of the organisation.
- Ability to diagnose and assess different types of business problems.

### *Technical skills*

Technical skills as used in this context by the researcher refer to the manager's ability to use methods, techniques, and procedures in specific fields of work. Hellriegel and Slocum in Kyambalesa (1994:172) argue that technical skills are essential for increasing the efficiency and effectiveness of production operations. Therefore, for example, engineering supervisors must possess the technical skills of the people they manage in order to enable them perform their management jobs efficiently. The researcher believes the implication for the SMME owner/manager is quite obvious and enormous. Owner/managers of SMMEs need to possess several technical skills since they sometimes are the sole supervisors in their business.

### *Human skills*

Effective human skills allow managers to motivate their employees (Nieman and Bennett, 2002:100). In any business setting, most tasks are accomplished through people. Accomplishment of these tasks are deeply rooted in co-operation and understanding between and among people (Kyambalesa, 1994:171). Thus business owner/managers need to develop their human relations skills to foster co-operation among employees.

These are by no means the only skills needed by managers. In addition skills such as computer skills, innovation skills, delegation skills, and time management skills are all important for the modern manager. These skills are also crucial managers to properly manage the BSR process.

## **5.5 SUSTAINING MANAGERIAL SKILLS**

Like any skill, management skills too are never permanent. Besides, today's ever-changing business environment, technology and methods easily make skills and knowledge obsolete in no time. In addition, memory decay may make managers less knowledgeable if they do not engage in constant study (Kyambalesa, 1994:173).

There is therefore need for owner/managers to continuously update their skills and knowledge through a variety of ways that range from formal education and training to private readings and attending workshops.

## **5.6 SUMMARY AND CONCLUSION**

This chapter discussed general management within SMMEs. An exploration of various definitions of management was executed resulting in a working definition for management as: "The set of activities that comprise planning, organising, leading and controlling through which, the human, financial, physical informational and other resources of an organisation irrespective of size are employed for the attainment of the objectives of that organisation".

Based on this definition, management was regarded as consisting of a series of decisions that deal with planning, organising, leading and controlling. Further, it was observed that although these basic functions are essentially the same in both large and small businesses, the scope and complexity of these two types of businesses differ. Consequently SMME owner/managers need to give special considerations when they attempt to import these functional activities into their smaller undertakings.

The point was also made that in order to be effective hence achieve their organisational goals, managers of both large and small enterprises need to do proper planning, organising, leading and controlling. But for SMME owner/managers to successfully execute all management tasks that they do not

have the luxury of delegating because of resource constraints, they need to possess the necessary managerial skills.

**Planning** was identified as the starting point of the management process. Through planning, the owner/manager decides what should be done. Here, management decides mission and goals and the ways in which these goals are to be attained, the resources required, and the procedures to be followed. The study found that there is little or no formal planning in SMMEs and whatever planning took place was on adhoc basis. In fact planning seems to be the proverbial 'Achilles heel' of most SMME owner/managers. It also found that planning is crucial for successful implementation of a company's BSR programmes.

**Organising**, the second of the management tasks, involves the following activities:

- Developing mechanisms to put plans into effect.
- Determining activities to be executed.
- Determining the resources to be employed.
- Deciding on who will perform specified activities.

Because the application of BSR in SMMEs is still in its infancy and many people may not yet know what is exactly expected of them, BSR activities need to be properly organised so that people will properly perform assigned BSR duties and enough resources will be allocated.

Modern management stresses the importance of **leadership** in organisational success. Thus SMME owner/managers like their counterparts in large companies rely on their leadership qualities to motivate workers towards attainment of enterprise success. Of the three leadership styles, democratic leadership appears to be the one most appropriate for SMMEs. Owner/managers will need to use their leadership skills to motivate employees to buy into the company's BSR programmes.

The final management task of **controlling** is also sometimes referred to as the beginning and end of the management process. The four main steps in the control process are:

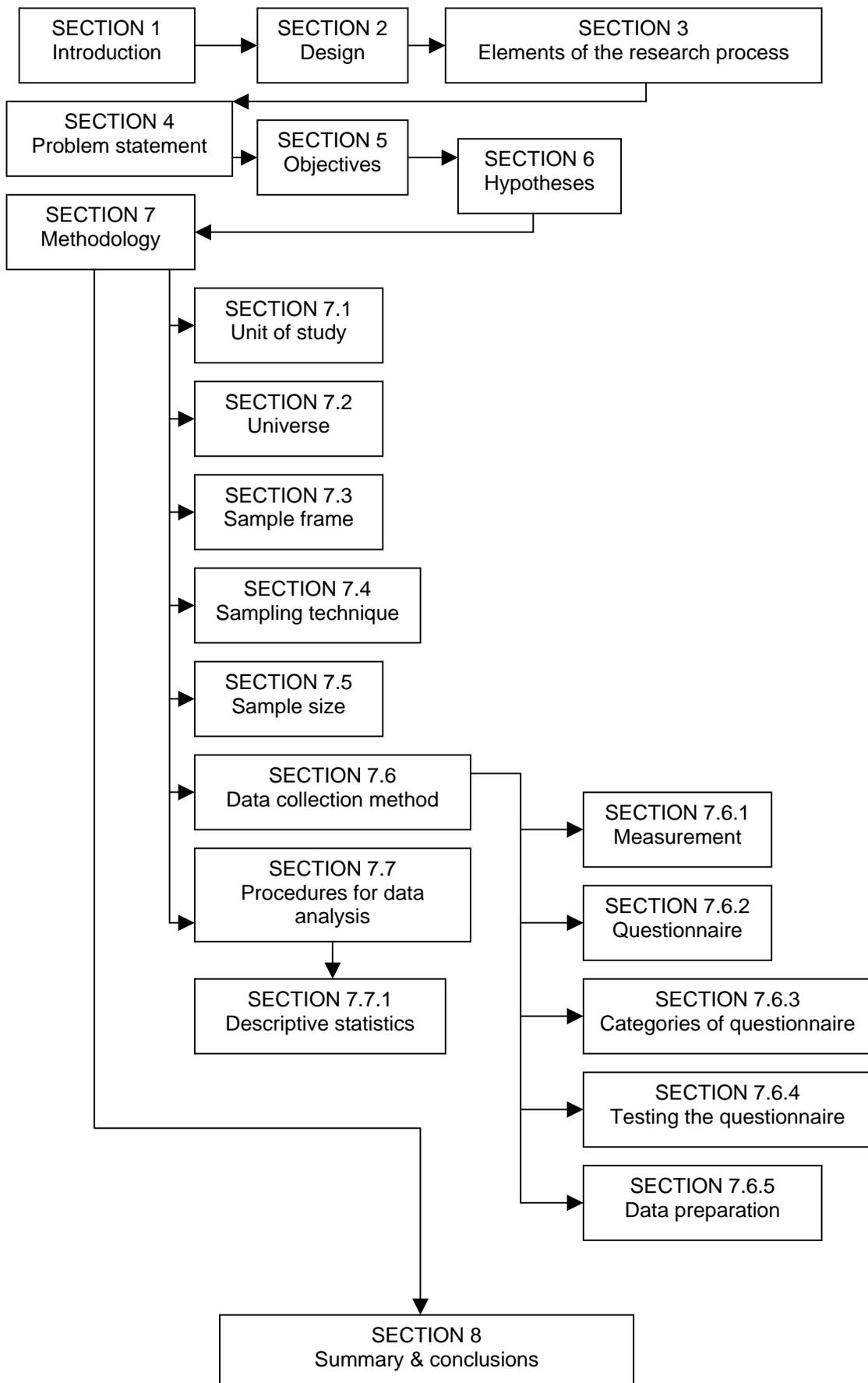
- Establishing standards.
- Observation of actual performance.
- Evaluating any deviations.
- Taking corrective actions.

There is need for an effective control system to monitor BSR activities.

Finally, examination of the literature reveals that there is empirical evidence to suggest lack of formal planning in SMMEs. Also, the evidence from the above literature review suggests that the degree of organising, leading and controlling within SMMEs appear inadequate.

Having concluded the review of related literature the next chapter (6) discusses the methodology applied to the empirical part of this study.

### CHAPTER 6 OUTLINE



## CHAPTER 6: RESEARCH METHODOLOGY

*“Through the use of methods and techniques that are scientifically defensible, we may come to conclusions that have a high probability of being justifiable in a court of law if so needed”*

(Welman & Kruger, 2001)

### 6.1 INTRODUCTION

This chapter presents the methodology applied to the study. This is a cross-sectional formal study to investigate small business social responsibility in a typical rural setting of a developing country such as South Africa. A literature search did not reveal any prior study of this nature in South Africa. The study is aimed at leading to the development of a framework for studying and understanding small business social responsibility in South Africa that will also be applicable to other developing countries.

### 6.2 ELEMENTS OF THE RESEARCH PROCESS

The research process followed in this study is illustrated in Figure 6.1 and explained in the steps detailed below.

#### Stage 1

The research problem to be investigated was formulated. This followed an introductory part that examined the background to the problem.

#### Stage 2

A detailed review of the literature was undertaken on previous research on BSR in general and in SMMEs in particular, the role of SMMEs in development, status of management within SMMEs, and the differences and similarities between Small businesses and entrepreneurial ventures. The literature review was done to identify among others, elements and valid measures of BSR as it affects SMMEs.

### Stage 3

Based on the problem statement and the review of the related literature, the hypotheses to be tested were formulated. The hypotheses test SMMEs' awareness, and performance of BSR.

### Stage 4

The sample of 300 SMMEs were selected from the list of SMMEs in the GTLM

### Stage 5

A measuring instrument was developed. A questionnaire that consists of structured questions was compiled and tested on the sample of 350 SMMEs. This was done with face-to-face interviews.

### Stage 6

A final questionnaire was developed and administered to 350 respondents on face-to-face basis.

### Stage 7

Quantitative statistical analysis of the responses gathered from the returned questionnaire was done and the findings reported in Chapter 7.

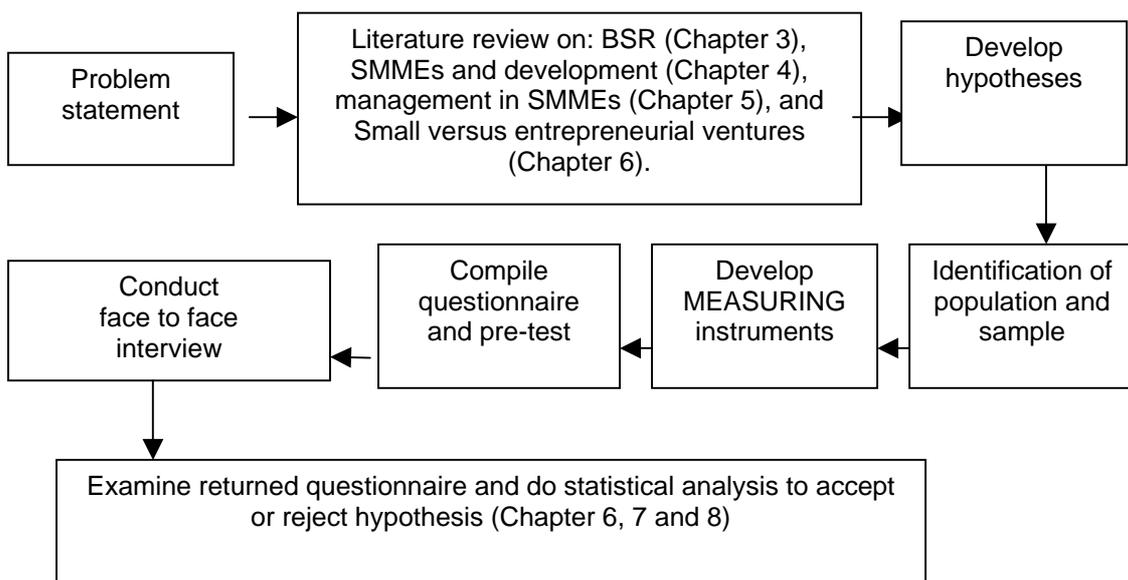


Figure 6.1 The elements of the research process for this study

### 6.3 PROBLEM STATEMENT

The GTLM can be described as a typical underdeveloped rural area because of the prevailing socio economic conditions mentioned in the Metro Town Planners (2001) report as stated in section 1.1 of Chapter 1. In particular, it was stated that the employment figure is only about 13%, most households earn below the minimum wage, as much as 23% earn no wage at all, and that the area is dominated by small and micro businesses. In the same Chapter 1, recognition was given to the role played by SMMEs in improving the socio economic conditions of places that were in similar situation. In Chapters 1 and 2, attention was further drawn to the growing importance of BSR and how this concept is expected to assist in improving socio economic conditions at community, regional, and national levels. The point was also made in the Chapter 3 that businesses irrespective of size can indeed behave in a socially responsible manner and still meet their financial objectives hence there is every incentive for businesses to adopt and implement good BSR practices. In fact it was emphasised that businesses that fail to engage in BSR stand to suffer in the end.

Therefore, given the poor state of development in the GTLM as enumerated in chapter one and the above paragraph, the fact that SMMEs are the main if not the only source of economic activity in the area, and the growing global recognition of BSR as a business imperative irrespective of firm size, the following **research questions** are posed:

- *Are SMMEs in the GTLM aware of the concept BSR and its elements?*
- *Do the GTLM SMMEs engage in activities that can be termed BSR?*
- *Do SMMEs in the GTLM regard BSR as beneficial to their businesses?*
- *Are there differences in the levels of BSR awareness and performance among SMMEs along racial/cultural lines in the GTLM?*
- *Are there any observable positive outcomes for those SMMEs that practice BSR?*

## 6.4 OBJECTIVES

Based on the literature discussed in the previous chapters (Chapters 2 – 5) and especially on the premise that businesses irrespective of size stand to gain when they engage in BSR activities as well as the research questions posed above, the **primary objective** for this study can be stated as:

**To determine the extent to which the notion of BSR has permeated the SMME owner/manager mindset in a typical rural setting such as the GTLM.**

The **secondary objectives** are:

- To contribute to the body of knowledge on BSR especially as it relates to SMMEs.
- To create BSR awareness among the SMMEs in the GTLM.
- To develop a framework for understanding and promoting positive social impact of SMMEs.
- To assist SMMEs in building and protecting their reputation by being recognised as world-class socially responsible enterprises.
- To create awareness among the owner/managers of SMMEs in the GTLM, of the business benefits of engaging in BSR activities.
- To create awareness among the SMME owners of the potential pitfalls of not engaging in BSR programmes.
- To help generate strategies for the socio-economic development of the GTLM and other similar rural communities especially in developing countries.

## 6.5 HYPOTHESES GUIDING THE RESEARCH PROCESS

In section 6.2, five research questions were posed. Tredoux and Durrheim (2002:128), suggest that in order to answer research questions, they must first be translated into **hypotheses** (*null* and the *alternative*). According to Terre Blanche and Durrheim (2002:117); Cooper and Schindler (2001:47); and Sekaran (1992:72), **hypotheses** are educated guesses about a problem's solution or expectations about groups in a population expressed in empirically testable form.

The **null hypothesis**, which is usually represented by  $H_0$ , is a statement that maintains that there are either no differences between groups or no relationships between measured variables. In contrast the **alternate hypothesis** represented by the symbol  $H_a$  maintains that there is a difference or relationship between measured variables. Therefore, the alternate hypothesis makes a conjecture that is diametrically opposed to the null hypothesis. Thus depending upon the hypothesis either of the two will apply.

Contrary to the widely held view that SMMEs hardly engage in BSR activities for various reasons, a recent and related study by the Centre for Social Markets (CSM) (2003) in the UK found that within South Asian SMME's in the UK most of the firms not only saw BSR as an important business issue but a large majority of them actually engage in BSR activities. These and other findings of the above study greatly shaped the hypotheses presented in this study. The following hypotheses guide the research process:

H<sub>10</sub> SMMEs in the GTLM are not aware of the concept BSR and its elements.

H<sub>1a</sub> SMMEs in the GTLM are aware of the concept BSR and its elements.

The instrument included questions/statements for respondents to indicate whether or not they are aware of the concept BSR and its elements. The widespread recognition and evidence of BSR practice reported in the UK study is an implicit indication of high level of awareness among the SMMEs mentioned above. It will

therefore be interesting to determine how the South African SMMEs fare in their level of awareness of BSR.

H<sub>20</sub> SMMEs in the GTLM do not perform activities that can be termed BSR.

H<sub>2a</sub> SMMEs in the GTLM perform activities that can be termed BSR.

Respondents are required to indicate whether or not their businesses respond to certain employee, customer, and community issues.

H<sub>30</sub> SMMEs in the GTLM do not perceive BSR as beneficial to their business.

H<sub>3a</sub> SMMEs in the GTLM perceive BSR as beneficial to their business.

According to the CSM (2003) study mentioned in the second hypothesis, while there was acceptance that good BSR practice could lead to benefits for the organisation, this was not a significant factor that made the organisations engage in it. The questionnaire for this study requires respondents to indicate the degree to which they agree or disagree with certain business benefits of engaging in BSR.

H<sub>40</sub> The level of BSR awareness does not differ between SMMEs along racial lines.

H<sub>4a</sub> The levels of BSR awareness differ between SMMEs along racial lines.

It is expected that there would be a significant difference in awareness of BSR among the GTLM SMMEs along racial lines. This is based on the widely accepted view that like in all human endeavour, owner/managers personal values and beliefs will determine the values of their businesses. At the same time values are also believed to be a cultural (hence ethnic) phenomenon. If these assumptions and beliefs were accepted then one would expect reported differences in levels of awareness of BSR along racial lines.

H<sub>5o</sub> The level of BSR performance does not differ between SMMEs along racial lines.

H<sub>5a</sub> The level of BSR performance differs between SMMEs along racial lines.

The same arguments for awareness hold relevance for performance. More over if awareness translates to relevance then performance should also differ along racial lines.

H<sub>6o</sub> There are no observable benefits for SMMEs that engage in BSR activities.

H<sub>6a</sub> There are observable benefits for SMMEs that engage in BSR activities.

The discussion in Chapter 3 revealed that if done properly BSR in any organisation could produce improved financial performance. This improved financial performance was attributed to high employee moral, lower employee turnover, increased employee productivity, customer loyalty, etc. Respondents were asked to indicate the extent to which sales and profit have grown over the last three or more years.

## **6.6 METHODOLOGY TO TEST HYPOTHESES (DESIGN)**

In all, six hypotheses were tested with the aim of verifying the extent to which the notion of BSR has permeated the SMME community in the GTLM.

### **6.6.1 UNIT OF STUDY**

According to Cooper and Schindler (2001:163), a unit of analysis (study) is a population element. In this study, the unit of analysis (study) is the individual SMME in the GTLM.

This study was conducted at municipality (community) level. The choice of municipality rather than region or country level was influenced by the fact that the literature acknowledges that social issues facing communities differ. As such a

firm's choice of BSR activities to a large extent could be influenced by local needs. This is even more relevant for small size firms that often limit their operations to their localities. If this study were on national level (making the findings more generalizable), the number of social issues to be considered might have to be widened. This would have cost and other implications that the researcher might not be able to cope with given the time and financial constraints. Considering the fact that the GTLM is to a large extent a homogeneous society, the issues affecting the daily lives of the residents are assumed to be largely identical thus, enabling the study to focus on a few but very important socio economic issues.

#### 6.6.2 THE POPULATION (UNIVERSE)

The population under investigation in this study is all the SMMEs in the GTLM. SMMEs have been defined in Chapter 3. Based on this working definition, the study covered only micro and small businesses that employ at least one full-time worker in addition to the owner/manager as none of the businesses qualify to be classified as a medium enterprise. Therefore the population boundary is all SMMEs in the GTLM with at least one worker in addition to the owner manager. The population size was difficult to determine because of the informal nature of most of the businesses and the fact that no reliable database exist.

#### 6.6.3 THE SAMPLE FRAME

Cooper and Schindler (2001:170) describe a sample frame as “a list of elements in the population from which the sample is actually drawn”.

Entrepreneurship students at the Vuselela Technical Training College, Taung Campus were trained as enumerators and sent into the major towns and villages to compile a list of all SMMEs that served as the sampling frame.

According to Sekaran (1992:226) a source of concern when using a sample frame to provide a listing of each element in the population relates to the fact that it may not always be a current, updated document. Hence although the sample frame

may be available as in the case of the listing of SMMEs in the GTLM database, there is no guarantee that the list is comprehensive.

In such cases the researcher has to make a choice between trying to obtain an updated sample frame, use the sample frame as it is, or discard the frame and use a different frame. Sekaran (1992:226) argues that trying to obtain an updated or a new sample frame does not guarantee that the new frame will give an accurate listing of all the elements for reasons stated above.

Given the high birth and attrition rate in the South African SMME sector, it is possible that the list may not be complete hence biases could arise between the opinions of the sample frame and the population. Initially the sample frame for this study was to be obtained from the GTLM database on SMMEs operating in the area. However it was soon realised that this list was outdated and grossly incomplete, as most SMMEs in the area have not registered. This necessitated the compilation of a new list using the entrepreneurship students of Vuselela Technical Training College, Taung Campus.

#### 6.6.4 SAMPLING TECHNIQUE USED

Various techniques are available for selecting a sample to be analysed. These techniques are generally grouped into two main categories (each having different sampling strategies) namely **probability sampling** and **non-probability sampling**. The choice of method and strategy is normally influenced by the extent of generalisability desired, the availability of time and other resources, and the purpose for which the study is done (Sekaran, 1992:229).

In this study, the decision was made to employ simple random sampling because, of the four probability sampling techniques, the research literature agrees that although not the most efficient, simple random sampling remains the most relevant because it ensures that every member of the sampling frame has equal chance of being selected and has high external validity.

Each SMME in the sampling frame was assigned a unique number. These numbers were then written on pieces of paper that were folded and placed inside a container. One piece of paper was picked from the container at a time. Each time a paper was picked, the name of the SMME corresponding to the unique number on the piece of paper was recorded. The selected piece of paper was not returned to the container. This was to ensure that each SMME could only be picked once. This process was continued until the pre-determined sample size was reached.

#### 6.6.5 SAMPLE SIZE

Researchers seem to agree that the question of how large a sample should be is a difficult one. And according to Huysamen (1997:36), unless the sample size is decided in an entirely arbitrary way, considerations such as availability of subjects, economic consideration and population size usually dictate how large it should be. Whilst as a general rule, Huysamen (1991) in Kruger and Welman (2002:64) suggests that a sample of less than 15 units should never be used, Kruger and Welman (2002:64) suggest that if the population is 500, then the sample size should be 200 but must never be bigger than 500 no matter the size of the population if simple random sampling is used.

Sekaran (1992:250) argues that the sample size is governed by the extent of *precision* and *confidence* desired but concludes that the eventual choice is usually a trade-off between **confidence** and **precision**. This view-point is supported by Cooper and Schindler (2001:172) who recommend that since researchers can never be 100% certain that a sample reflects its population; they must decide how much precision they need and in making this decision, they must consider at least four factors:

1. How much precision is really needed.
2. How much confidence is really needed.
3. To what extent is there variability in the population on the characteristics investigated.
4. What is the cost?

Considering all the above (including cost, difficulty in determining population size, and the envisaged number of questions) the decision was made to have a sample size of 350 SMMEs.

#### 6.6.6 DATA COLLECTION METHOD USED

According to Cooper and Schindler (2001:295) there are really only two alternatives used to gather primary data. One method involves *observing* conditions, behaviour, events, people, or processes while the other method has to do with *communicating* with people. The choice of the method however depends on the purpose and nature of the study.

This study employed the communication approach where the instrument comprised of structured questions that were completed by the respondent or the field worker according to the respondent's choice and circumstance. To overcome language problems the questionnaire was translated into Setswana for those who were not able to handle the English version.

##### 6.6.6.1 Measuring BSR

Nunnally (1978), in Durrheim and Terre Blanch (2002:73); Stevens (1951), in Huysamen (1994:110), as quoted by De Vos, Strydom, Fouche, and Delport (2002:166), all agree that measurement involves rules for assigning numbers to objects or individuals to represent quantities of attributes. By following a set of rules, consistency is maintained. Durrheim and Terre Blanche (2002:80); Sekaran (1992:152); Tredoux and Durrheim (2002:202), all agree that operationalisation of variables is necessary for any meaningful measurement to take place. To this end the variables measured in this study were first operationally defined.

#### ***Operationalisation of variables***

Durrheim and Terre Blanche (2002:80) argue that the linguistic meaning of a concept needs to be operationalized into observable indicators of the concept in order to be measurable. This means that even if the meaning of BSR was not as

complex as it is, it would still need to be **operationally defined** for it to be measurable.

Whilst several methods exist for doing so, Sekaran (1992:152) suggests a simple yet very useful framework for operationally defining a concept so that the entire domain is covered. The framework requires looking at the behavioural dimensions, facets or properties denoted by the concept and then categorising these into observable and measurable elements. This framework if applied to the current study yields Figure 6.2 below. Elements E1, E2, E3, and E4 in Figure 6.2 were used to compile the investigative questions that appear on the questionnaire.

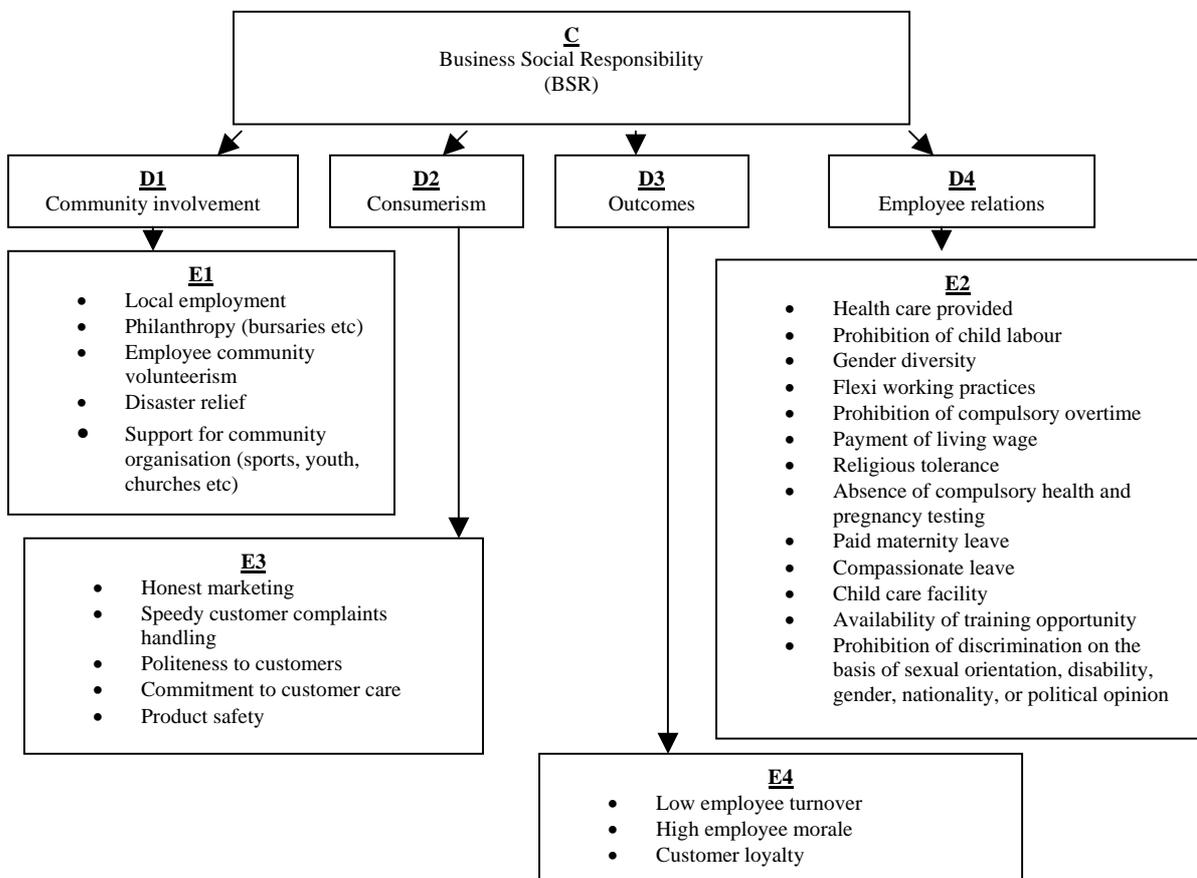


Figure 6.2 Dimensions (D) and Elements (E) of the concept (C) BSR (Own compilation).

### ***Ensuring credibility of the research***

Underpinning all research endeavours is the question of credibility. In other words a researcher has to ensure that the evidence and conclusions from a research

endeavour can stand up to scrutiny. This depends on how scientifically sound the measuring instrument is. In other words the instrument must comply with the so-called “Goodness test”. According to Cooper and Schindler (2001:210), **validity**, and **reliability**, are two important characteristics of a sound measurement instrument. The “goodness” of a measurement instrument can be achieved when the researcher ensures that the instrument is both **valid** and **reliable**. To enhance the credibility of the findings and conclusions of this study, steps were taken to ensure both reliability and validity of the instrument. These are reported below.

### ***Ensuring measurement validity***

Validity when used in research may mean the ability of a scale or measuring instrument to measure what it is intended to measure (Zikmund, 2003:302). The literature on research methodology (design) identifies three major and common ways of ensuring validity namely: *content validity*; *construct validity*; and *criterion-related validity*. Of the three, steps were taken to ensure content validity and construct validity.

#### *Ensuring content validity*

The *content validity (or face validity)* of a measuring instrument is the extent to which the instrument provides adequate coverage of the concept. According to Cooper and Schindler (2001:211), if the instrument contains a representative sample of the universe of the subject of interest then content validity is good.

This means that goodness of content validity for this study can be assured if the investigative questions adequately cover the concept BSR and its elements (community involvement, employee relations, consumer relations as well as positive outcomes). In other words the items describing community involvement, employee relations, consumer relations, and positive outcomes really describe them.

The research literature agrees that content validation is a judgmental process that can be done in many ways. According to Cooper and Schindler (2001:212), the

researcher may choose to do it alone or may use a panel of experts to judge how well the instrument meets standards. In this study, the decision was made to rely on own judgement. In this respect, the BSR literature (see Chapter 3) was consulted in order to identify elements relevant to SMME BSR and then applying the Sekaran (1992:152) framework for operationally defining a concept so that it becomes measurable (see Figure 6.2).

#### *Criterion-related validity*

According to Durrheim and Terre Blanche (2002:83), criterion-related validity is the degree to which a measure is related to some other standard or criterion that is known to indicate the construct accurately. As reported earlier, no dedicated instrument exists for measuring SMME BSR. Therefore, criterion related validity was not pursued. Suffice to indicate however that two types of criterion-related validity exist namely predictive and concurrent validity.

#### *Ensuring construct validity*

According to Sekaran (1992:173), construct validity testifies to how well the results obtained from the use of the measures fits the theories around which the test is designed. According to Cooper and Schindler (2001:214), factor analysis can help determine the construct adequacy of a measuring instrument. A high Cronbach Alpha usually above 0.700 is regarded as indicating construct validity. A factor analysis performed during the analysis (see Chapter 7) confirmed that the factors actually measured the concept BSR. The high Cronbach alphas (see Tables 7.11 and 7.13) indicate that the instrument actually measured the concept BSR.

#### ***Ensuring reliability of measuring instrument***

Simply put, reliability refers to the degree to which measures are free from error and therefore yield consistent results (Zikmund, 2003:300).

Robson (1993) in Saunders, Philip and Thornhill (2000:101), asserts that the following errors pose serious threat to reliability of data:

- *Subject error*
- *Subject bias*
- *Observer error*
- *Observer bias.*

Thus eliminating or reducing these sources of error could help ensure reliability. However like all human endeavour, it appears that a measuring instrument can never be 100% reliable because it may not be possible to completely eliminate threats to reliability. According to Cooper and Schindler (2001:218), the researcher can improve reliability by minimizing the above sources of error. A major objective in this study therefore was to minimize threats to reliability as much as possible.

#### *Minimizing subject error in this study*

Subject error could occur when subjects for investigation are not representative of the population under study. This study measured owner/manager perspective of BSR performance in SMMEs. It is possible that some respondents may not be owners or managers because some owner/managers may delegate their subordinates to fill in the forms. To overcome this type of error, face-to-face interviews were conducted with owner/managers only.

#### *Minimizing subject (interviewee) response bias in this study*

There was the likelihood that respondents might perceive the interview as intrusive hence although they might be willing to participate, subjects might be unwilling to reveal what they considered sensitive information. With this in mind, the questions were structured and did not touch the so called 'no go' areas. That is, information on financial details was kept to the barest minimum.

*Minimizing observer (interviewer) error in this study*

This could occur when more than one person conducts the interviews. In such cases there is the potential for different approaches to elicit responses. According to Saunders *et al.* (2000:101), if more than one interviewer is involved, introducing a high degree of structure to the interview schedule will lessen this threat. In this study structured questions were used hence reducing interviewer error.

*Minimizing observer (interviewer) bias in this study*

Similar to the observer error, replies could be interpreted differently. Given the fact that the measurement instrument is structured this threat again was reduced.

***Practicality of the measuring instrument***

According to Cooper and Schindler (2001:218), the scientific requirements of a sound measurement instrument are validity and reliability but operational requirements often dictate practicality. By practicality is meant *economy, convenience, and interpretability.*

*Economic considerations*

Because of financial and time constraints the instrument for this study could not contain more measurement questions. This has led to the limited number of measurement questions.

*Ensuring convenience of the measuring instrument*

A measuring device passes the convenience test if it is easy to administer (Cooper & Schindler, 2001:218), this means that it must have detailed yet clear instructions and a good design layout. The questionnaire for this study was prepared with all this in mind. The Likert scale used in this study is noted for its ease of completion.

Very clear instructions were provided for both observer and respondent. A Setswana version was available for those who could not handle the English version.

### *Interpretability*

This according to Cooper and Schindler (2001:218) is only relevant when someone other than the test designer must interpret the results.

#### 6.6.6.2 Style of the questionnaire

The face-to-face interview method was chosen where as indicated above, in most cases respondents were asked to indicate on a standard five-point Likert-scale (also known as a summated rating scale) according order of importance or the degree to which they agree or disagree with an issue. The Likert-scale is noted for its ease of completion. Nominal scale was used to obtain information on demographic data. For example male respondents were classified as (1) and female respondents as (2).

The Likert Scale is especially useful in measuring people's attitudes and opinions (Tredoux & Durrheim, 2002:204) that this study is about.

#### 6.6.6.3 Items included in the questionnaire

From the literature in Chapter 3 it became clear that BSR has many dimensions that include economic, social, environmental, international etc. Even within these aspects there are various issues. For example within the social dimension, community involvement, community volunteerism, customer relations, and employee relations were identified as major BSR issues that SMMEs are most likely to participate in. This study investigated the social dimension of BSR. For this reason the questionnaire (Annexure A) covered the following elements:

- **Biographic data.**
- **Community involvement**

- **Customer relations**
- **Employee relations**
- **Perceived BSR benefits**
- **Realised BSR Outcomes/benefits**
- **BSR awareness**

**Biographic data** (See questions 32-41 of Annexure A)

The items here included information on type of business, gender of respondent, age of respondent, educational level of respondent, number of years business has been in operation, ethnicity of owner/manager as measured by first language, sales growth, gross profit growth, number of employees, and amount contributed towards BSR activities measured as a percentage of pre-tax profit. This category enabled awareness and performance of BSR to be measured along racial lines in order to test the hypothesis that the level of BSR awareness and performance would differ among SMMEs owned/managed by the different racial groups namely whites, blacks, Indians and Chinese.

**Community involvement** (See questions 15, 16 and 17 of Annexure A)

This forms the most important part of the questionnaire. This assessment is primarily because businesses depend on the health, stability, and prosperity of the communities in which they operate. For example they get their staff and customers from the local communities. Consequently, developing a positive relationship with the local community becomes an issue SMMEs can hardly afford to ignore.

However as mentioned in Chapter 3, SMMEs due to their severe resource limitations can only engage in limited community activities. Therefore, questions on community involvement were limited to a few issues that SMMEs are considered capable of contributing to. The questionnaire, required respondents to indicate whether or not they contributed to certain community causes, and to

indicate the amount of money (expressed as a % of pre-tax profit) spent on social causes

**Customer relations** (See questions 7-14 and 18 of Annexure A)

It is an undeniable fact that the small business environment is a highly competitive one given their large number that is usually found in any locality. In addition they also have to compete against larger organisations. The small businesses therefore have to compete for every thing but most importantly customers.

To win and retain a loyal customer base is therefore key to success for these SMMEs. However, long-term business relations or customer loyalty requires among others provision of safe products, respect for customers, truthful marketing, commitment to customer satisfaction etc. Based on these standpoints, respondents were required to answer questions relating to how promptly they respond to customer complaints, how politely they deal with customers, how honest they are in their marketing, and most importantly how committed they are to customer satisfaction.

**Employee relations** (See questions 1-6 of Annexure A)

In the wake of democratisation in most countries including the third world, there is a strong emergence of emphasis on human rights at the work place that has led to increased legislation on workers rights, and increased workers awareness of their rights. It has therefore become essential for owner/managers of all types and sizes of businesses to take the issue of employee relations more seriously now than before.

To ascertain the extent to which SMMEs in the GTLM relate to their employees, respondents were required to provide information on certain key labour issues. These include health care provided, absence of child labour, employee benefits, and freedom to choose amount of overtime.

**BSR Outcomes/benefits** (See questions 22-31 of Annexure A)

As mentioned earlier, if done properly BSR in any organisation could produce improved financial performance as a result of high employee moral, lower employee turnover, increased employee productivity, and customer loyalty. This section is devoted to assessing expected/perceived as well as observed improvements or otherwise in these areas.

**BSR awareness** (See questions 19-21 of Annexure A)

The questions here were intended to determine whether or not respondents are aware of the concept BSR and its elements.

6.6.6.4 Testing the questionnaire

As indicated earlier, the research process involved designing a questionnaire for pre-testing. These questions originated from the initial research question, objectives, and the literature survey. The purpose of the pre-testing was to remove any ambiguities in the questionnaire. The preliminary questions were administered to 226 respondents from the Taung SMME community. The most important problem encountered was with the language. The language of the questionnaire appeared too technical. A language editor was therefore employed to simplify the language. It was also found that some respondents feared their responses could be used to determine their tax status hence were unwilling to give answers to financial matters. In order to overcome this questions on financial matters were kept to the barest minimum in the final instrument. The final improved 41-item questionnaire emerged from the returned pre-tested questionnaire that was subjected to factor analysis and then modified where necessary. This is included as Annexure A.

6.6.6.5 Data preparation

Once the questionnaires have been returned they were prepared for analysis. This involved **editing/cleaning**, handling blank responses, **coding**, and **processing**.

### ***Editing/cleaning the data***

Editing or cleaning refers to the checking of data and correcting any errors like respondents inadvertently not answering questions in which case respondents are traced and corrections made. A few such cases occurred but respondents were traced and corrections made. Some provided some inconsistent answers but in each case respondents were traced. Although time consuming, it was deemed important to do this early instead of having to discover errors after analysis had been done.

### ***Data coding***

According to Terre Blanche and Durrheim (2002:98), coding involves applying a set of rules to the data to transform information from one form to another. This involves converting the questionnaire into numeric form in order to allow for quantitative analysis. The Likert scale already took care of this aspect as the scales were in numeric form. Once the questionnaires were returned and edited responses were transferred into the column titled “for office use only”. However during the analysis it became necessary to re-code some variables as some categories had to be combined to seek meaningful differences and overcoming categories with small numbers.

### ***Data processing***

The Department of statistics (research support unit) of the University of Pretoria did the data capturing the questionnaire. The data was analysed (see details in Chapter 7) using the statistical software SAS (that has the capability to do the necessary statistical calculations (see section 6.6.6 and Chapter 7)) provided by the Department of statistics (research support unit) of the University of Pretoria.

## 6.6.7 STATISTICAL PROCEDURES AND TREATMENT FOR ANALYSIS

The primary purpose of collecting data in research is to answer research questions. But for research questions to be answered data collected has to be interpreted. In other words it has to be explained and given meaning. However, before this can be done the data has to be analysed.

In quantitative research, data analysis is normally used to refer to the process of breaking down of collected data into constituent parts in order to obtain answers to research questions. In other words, data analysis involves the process of reducing data into intelligible and interpretable form so that the relations of research problems can be studied, tested, and conclusions drawn (De Vos *et al.* 2002:223).

Therefore data analysis basically involves summarising data. There are two types of presenting data: **descriptive statistics** and **inferential statistics**.

### 6.6.7.1 Descriptive statistics

Descriptive statistics is used to describe characteristics of a population or a sample. Thus it is logical to say that descriptive analysis is the first stage in data analysis and aims at describing data by investigating the distribution of scores on each variable. In other words, descriptive analysis allows the researcher to represent data in a manner that is easily interpretable (see Tables 7.1 - 7.10).

### 6.6.7.2 Inferential (confirmatory) statistics

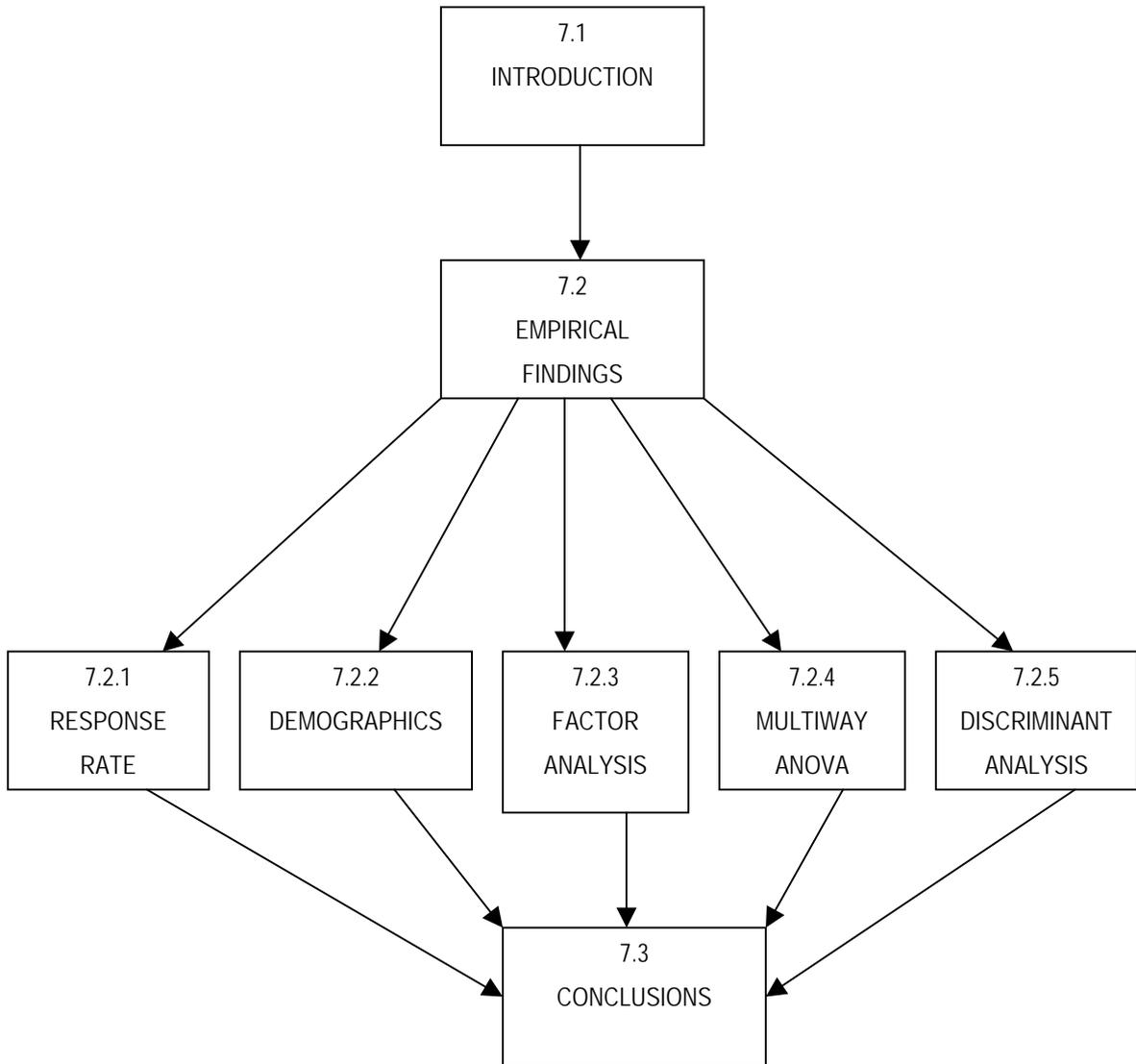
However useful descriptive analysis may be, the researcher's primary interest goes beyond mere description of their samples. They are also interested in drawing conclusions about the population itself. In other words descriptive analysis allows the researcher to generalise from the sample to the population. Terre Blanche and Durrheim (2002:117) and Collis and Hussey (2003:196) confirm this by pointing out that inferential analysis allows the researcher to draw conclusions about the population based on data obtained from samples.

Based on the distribution of the descriptive statistics obtained for this study that showed normal distribution, parametric analytic techniques were used to perform the inferential analysis. These included factor analysis, item analysis, Multiway ANOVA, and discriminant analysis (see Chapter 7 for details). The results are reported in Chapter 7.

## **6.7 SUMMARY AND CONCLUSION**

This chapter provided a description of the methodology applied to this study. It began by providing an overview of the research process by indicating the various stages. Firstly, the research questions were posed followed by the formulation of the hypotheses to be tested. This was followed by a description of the sampling process, which included defining the population, deciding the appropriate sampling design, and deciding on the required sample size. The measuring instrument used was also clearly specified and finally the type of data analysis was also clearly specified. The next chapter (Chapter 7) reports the findings of the empirical investigation.

**CHAPTER 7 OUTLINE**



**CHAPTER 7: FINDINGS****7.1 INTRODUCTION**

The findings of the literature survey enabled the development of a measuring instrument suitable for investigating the research questions. The findings of the investigation of the research questions are reported below.

**7.2 EMPIRICAL FINDINGS**

In this section the results of the empirical study are reported under five headings namely: response rate, demographics, factor analysis, variance analysis, and discriminant analysis.

**7.2.1 RESPONSE RATE**

Of the targeted sample of 350 SMMEs 314 availed themselves for the face-to-face interview thus yielding a response rate of 89.7%. Due to time constraints it was decided to treat incorrect entries as missing items (see each Table for number of missing items) and consequently ignore them in any calculations.

**7.2.2 DEMOGRAPHICS**

The demographic results are presented in the tables below:

Table 7.1 Gender of owner/manager

<b>Gender</b>	<b>Frequency (n)</b>	<b>Percentage (%)</b>
Male	169	55.05%
Female	138	44.95%
Total	307	100%

Missing = 7

With a ratio of 55:45 (Table 7.1) the gender distributions of owner/managers appear evenly distributed. This should be good news for policy makers who have been trying to bring women into mainstream economic activity.

Table 7.2 Business by type

Type of business	Frequency (n)	Percentage (%)
Hospitality	42	13.38%
Transport	22	7.00%
Retail	230	73.25%
Other (mining, health, commercial farming)	20	6.37%
Total	314	100%

With an average of over 73%, retail trade appears to be the dominant SMME sector in the GTLM. This is not surprising given that retail trade appears to be the easiest form of self-employment.

Table 7.3 Owner/manager's age

Age	Frequency (n)	Percentage (%)
19 – 30 years	77	25.00%
31 – 45 years	146	47.40%
46 years and over	85	27.60
Total	308	100%

Missing = 6

About 50% of the owner managers belong to the age group 31-45 years while 46 and over, and the 19-30 years group evenly share the remaining 50%.

Table 7.4 Owner/manager's level of education

Type of education	Frequency (n)	Percentage (%)
No formal education	13	4.14%
Primary (up to grade 6)	50	15.92%
Secondary (up to grade 9)	29	9.24%
Matric (up to grade 12)	85	27.07%
Post matric (diploma, degree, certificate etc)	90	28.66%
Post graduate	47	14.97%
Total	314	100%

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Table 7.4 above indicates that over 70% of the owner/managers have at least matric. This should be good omen for training providers who may not have too much difficulty in providing further training to owner/managers given their existing educational levels.

Table 7.5 Age of business

Age	Frequency (n)	Percentage (%)
5 years or less	76	24.20%
6 – 10 years	108	34.40%
11 – 20 years	81	25.79%
21 years or more	49	15.61%
Total	314	100%

Table 7.6 Race/ethnicity of owner/manager

Race/ethnicity	Frequency (n)	Percentage (%)
Afrikaner	67	21.34%
English	56	17.83%
Black	147	46.81%
Other (Chinese, Indian, Portuguese, other Asian)	44	14.02%
Total	314	100%

The data in Table 7.6 indicates that the specific SMME environment is dominated by Blacks who occupy about 47% (almost half) of the SMME environment in the GTLM. Given the fact that this is a largely black community, the result is not surprising. This may be an indication that many of the black inhabitants are taking to self-employment.

Table 7.7 Sales growth reported for past 3 – 5 years

Sales growth	Frequency (n)	Percentage (%)
Decreasing	27	8.60%
No change (0%)	55	17.52%
Increasing (1-10%)	73	23.25%
Increasing (11-20%)	91	28.98%
Increasing (21% and over)	68	21.65%
Total	314	100%

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The majority (over 70%) of the SMMEs reported increasing sales growth. This indicates a thriving business environment in the GTLM that should encourage others to take to self-employment as a career option.

Table 7.8 Gross profit growth reported for past 3 – 5 years

Gross profit growth	Frequency (n)	Percentage (%)
Decreasing	25	7.96%
No change (0%)	63	20.07%
Increasing (1-10%)	70	22.29%
Increasing (11-20%)	95	30.25%
Increasing (21% and over)	61	19.43%
Total	314	100%

The majority (about 70%) reported gross profit growth similar to growth in sale reported above.

Table 7.9 Number of employees besides owner/manager

Number of employees	Frequency (n)	Percentage (%)
1-5	157	50.00%
6-10	108	34.39%
11-26	49	15.61%
Total	314	100%

The data in Table 7.9 indicates that the SMME environment in the GTLM is made up of micro, very small and small enterprise and absence of medium sized enterprises (see Table 2.1 for South African definition of SMMEs).

Table 7.10 Annual BSR expenditure reported

Expenditure as % of pre-tax profit	Frequency (n)	Percentage (%)
1-2%	68	21.66%
3-4%	108	34.39%
5-6%	71	22.61%
7-10%	67	21.34%
Total	314	100%

In general respondents BSR expenditure shows normal distribution most businesses contributing about 3 – 4 % of their annual gross profit towards BSR related activities.

### 7.2.3 FACTOR ANALYSIS

Factor analysis has two main purposes. First it is used for data reduction and secondly for detection of structure (underlying dimensions) in a set of variables. Zikmund (2003:586) and Cooper and Schindler (2001:591) both confirm this.

The measuring instrument was designed to measure BSR awareness, BSR performance, expected/perceived BSR benefits, and realised BSR benefits of SMMEs in the GTLM. For this purpose an **initial 80-item questionnaire** was designed and administered on **226 respondents** (out of a possible 350). Factor analysis of the 226 responses allowed for content validity using Cronbach alpha and also resulted in a reduction of the eighty-item questionnaire to a final 41-item questionnaire.

A confirmatory factor analysis was performed on the final 314 (out of a possible 350) returned questionnaires to test the homogeneity of underlying constructs. This resulted in the identification of five major factors (see Table 7.11) namely:

- Factor 1: Expected/perceived benefits
- Factor 2: Community/customer practices
- Factor 3: Realised benefits
- Factor 4: BSR awareness/attitude
- Factor 5: Employee practices

Content validity was tested during the analysis using factor analysis. The high Cronbach alphas (see Tables 7.11 and 7.13) indicate that the instrument actually measured concept BSR.

The correlation between the five factors was investigated. This is reported in Table 7.12 below. The result reveals a relatively strong correlation between Realised benefits and Expected/perceived benefits (factors 3&1), realised benefits and BSR Awareness/attitude (factors 3&4), Realised benefits and Employee practices (factors 3&5) and BSR Awareness/attitude and Employee practices (factors 4&5) and surprisingly virtually no correlation between Realised benefits and Community/customer practices (factors 3&2).

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Table 7.11 Rotated factor loadings and Cronbach alpha  
(Factor loadings less than 0.250 reported as 0.000)

Question	Cronbach Alpha	FACTORS				
		1	2	3	4	5
24. Greater worker productivity	0.8710	0.884	0.000	0.000	0.000	0.000
25. Keeps operating costs down	0.8716	0.843	0.000	0.000	0.000	0.000
26. Increased level of customer loyalty	0.8699	0.751	0.000	0.000	0.000	0.000
23. Increased sales	0.8693	0.674	0.000	0.000	0.336	0.000
22. Enhanced company image	0.8684	0.579	0.000	0.000	0.410	0.000
21. Business irrespective of size stands to benefit from contributing towards social causes	0.8732	0.558	0.000	0.336	0.000	0.000
12. The company cannot be concerned with vulnerable groups such as children because it is not a priority customer	0.8801	0.000	0.757	0.000	0.000	0.000
11. The company is committed to fair trading practices	0.8790	0.000	0.599	0.000	0.000	0.000
13. The company always and clearly explains to the way the customer the product works	0.8806	0.000	0.524	0.000	0.284	0.000
8. The company provides paid maternity leave	0.8758	0.000	0.520		0.000	0.000
29. Sales has been growing	0.8745	0.000	0.000	0.969	0.000	0.000
28. Employee attendance has improved	0.8742	0.000	0.000	0.834	0.000	0.000
30. Overall financial performance has been improving	0.8722	0.312	0.000	0.627	0.000	0.000
20. Businesses irrespective of size indeed have a responsibility to contribute to the above named social causes in	0.8697	0.000	0.000	0.000	0.799	0.000
19. The concept of BSR is well known to me	0.8717	0.000	0.000	0.000	0.773	0.000
10. Customer satisfaction is more important than finance and human resource issues	0.8773	0.000	0.000	0.000	0.503	0.000
2. The company provides its workers with regular training	0.8772	0.000	0.000	0.000	0.000	0.880
4. The company provides paid family sickness and bereavement leave to its employees	0.8758	0.000	0.000	0.000	0.000	0.838
3. The company provides paid maternity leave	0.8758	0.000	0.000	0.000	0.000	0.798
1. The company tolerates all religions, races and orientations of its employees	0.8707	0.268	0.000	0.000	0.000	0.487
27. Increased level of customer loyalty	0.8728	0.260	0.000	0.455	0.000	0.000
5. Employees are free to decide overtime they want to do	0.8852	0.000	-0.439	0.000	0.000	0.000
15. Community issues (bursaries, Sports & youth organisations, etc) are very important to my company	0.8729	0.000	0.321	0.000	0.480	0.000
18. The company responds promptly to customer complaints	0.8802	0.000	0.479	0.000	0.000	0.000
14. The company sells only products that are clearly labelled	0.8792	0.000	-0.406	0.000	0.000	0.000
16. My company gives first preference to local employment	0.8826	0.000	0.000	0.000	0.427	0.000
6. My company prohibits child labour	0.8774	0.000	0.000	0.000	0.454	0.000
9. I sometimes loose my patience with customers whose complaints I consider wrong	0.8842	0.000	0.000	0.000	0.000	0.000
17. Workers can use company time for community issues	0.8867	0.000	-0.478	0.000	0.000	0.000
7. My company views customer complaints as opportunity to improve rather than a problem that takes valuable time	0.8756	0.000	0.442	0.307	0.000	0.000

Table 7.12 Correlation between factors

	Factor 1 Expected/perceived Benefits	Factor 2 Community /customer practices	Factor 3 Realised Benefits	Factor 4 BSR awareness/ Attitude	Factor 5 Employee Practices
Factor 1 Expected/ perceived Benefits	1.000				
Factor 2 Community/customer practices	-0.036	1.000			
Factor 3 Realised Benefits	0.347	0.008	1.000		
Factor 4 BSR awareness/ Attitude	0.152	0.081	0.250	1.000	
Factor 5 Employee Practices	0.156	0.142	0.279	0.281	1.000

An item analysis was also performed to investigate the means, standard deviations and other statistics of the identified factors. This is reported in table 7.13 above.

Table 7.13 Item analysis

	Factor 1 Expected benefits	Factor 2 Community benefits	Factor 3 Realised benefits	Factor 4 BSR awareness / attitude	Factor 5 Employee practices
Number of items	6	9	4	6	4
VP	7.4400 (24.8%)	3.5883 (11.96%)	1.6988 (5.66%)	1.5542 (5.18%)	1.8763 (6.26%)
Mean	3.8312	3.7880	3.6903	3.9753	4.4443
Variance	0.67074	0.12213	0.43393	0.59104	0.41502
Standard deviation	0.81899	0.34947	0.65873	0.76875	0.64422
Cronbach alpha	0.9600	0.6969	0.8741	0.7506	0.8680
Eigenvalue	8.40832	3.92554	2.47653	2.03830	1.68441
Squared multiple correlation	0.966	0.823	0.925	0.904	0.894
Canonical correlation	0.9918	0.9631	0.9480	0.9184	0.8824
<b>Significance of the mean's deviation from midpoint value of 3</b>					
F	17.62	5.64	18.63	18.40	9.79
P	<0.0001*	<0.0001*	<0.0001*	<0.0001*	<0.0001*

\* = Significant at 1% level of significant.

The P values in Table 7.13 indicate that the scale mean for all five factors differ significantly from the midpoint value of 3 at 1% level of significance.

The scale mean for **Expected/perceived benefits (factor 1)** was 3.8312 indicating that majority of the owner/managers regard BSR to be beneficial to their companies. This might also be interpreted as meaning that respondents would perform BSR because they expected their firms to benefit from it. The scale mean for **Community/customer practice (factor 2)** was 3.7780 indicating that majority of the SMMEs engage in community/customer related BSR activities. The scale mean for **Realised benefits (factor 3)** was 3.6903 indicating that majority of the SMMEs that engaged in BSR activities actually reported positive benefits. The scale mean for **BSR Awareness / attitude (factor 4)** was 3.9753 indicating that majority of the respondents are aware of BSR and its elements. The scale mean for **Employee practices (factor 5)** was 4.4443 indicating that majority of the SMMEs engage in employee related BSR activities.

Based on the high Cronbach alpha, the instrument seemed to have tested the intended constructs well.

7.2.4 MULTIWAY ANALYSIS OF VARIANCE

Multway analysis of variance was performed to access the relationship between the various factors and the independent variables. The results are shown below.

Table 7.14 Multiway ANOVA for Expected/perceived benefits (factor 1)

Independent variables	Factor 1: Expected/perceived benefits				
	DF	Sum of squares	Mean squares	F	P>F
Type of business	3	1.71803811	0.57267937	2.28	0.0796
Gender of owner/manager	1	0.12257227	0.12257227	0.49	0.4854
Age of owner/manager	2	5.33979932	2.66989966	10.63	<. 0001
Educational level of owner/manager	5	6.60242435	1.32048487	5.26	0.0001
Business Age	3	1.20332579	0.40110860	1.60	0.1903
Ethnicity of owner/manager	3	9.78245886	3.26081962	12.99	<. 0001
Sales growth	4	0.35593192	0.08898298	0.35	0.8409
Gross profit growth	4	3.07872192	0.76968048	3.07	0.0171
Number of employees	2	3.94725899	1.97362949	7.86	0.0005
Annual BSR expenditure	3	2.19632609	0.73210870	2.92	0.0347
Total	30	34.34685762	-----	-----	-----

Tale 7.14 above indicates that on Expected benefits (factor 1) differed significantly in terms of age of owner/manager, educational levels, ethnicity of owner/manager, and the size of business at 1% significance level. In other words owner/manager's perception of any business benefits of BSR seems to be influenced by the owner/managers age, level of education, ethnicity, and size of business.

Table 7.15 Multiway ANOVA for Community/customer practices (factor 2)

Independent variables	Factor 2: Community/customer practices				
	DF	Sum of squares	Mean squares	F	P
Type of business (v33)	3	0.40742164	0.13580721	1.94	0.1240
Gender of owner/manager (v34)	1	0.37440126	0.37440126	5.34	0.0216
Age of owner/manager (v35)	2	0.07693533	0.03846767	0.55	0.5785
Educational level of owner/manager (v36)	5	0.44526576	0.08905315	1.27	0.2773
Business Age (v37)	3	0.22510958	0.07503653	1.07	0.3624
Ethnicity of owner/manager (v38)	3	2.78521481	0.92840494	13.24	<. 0001
Sales growth (v39)	4	0.25862242	0.06465561	0.92	0.4517
Gross profit growth (40)	4	0.20723584	0.05180896	0.74	0.5664
Number of employees (41)	2	0.33636486	0.16818243	2.40	0.0929
Annual BSR expenditure (42)	3	0.43551746	0.14517249	2.07	0.1046
Total	30	5.55208896	-----	-----	-----

Table 7.15 indicates that a firm's community involvement/customer practice differed significantly along ethnic lines at 1% significance level. This is an indication that a firm's decision to focus on community or customer related BSR activities are likely to be influenced by the ethnicity of the owner/manager.

Table 7.16 Multiway ANOVA for “Realised benefits (factor 3)

Independent variables	Factor 3: Realised benefits				
	DF	Sum of squares	Mean squares	F	P
Type of business (v33)	3	0.28176503	0.09392168	0.63	0.5983
Gender of owner/manager (v34)	1	0.14564767	0.14564767	0.97	0.3251
Age of owner/manager (v35)	2	1.28041579	0.64020789	4.27	0.0149
Educational level of owner/manager (v36)	5	2.83929377	0.56785875	3.79	0.0025
Business Age (v37)	3	0.79403044	0.26467681	1.77	0.1539
Ethnicity of owner/manager (v38)	3	6.77193609	2.25731203	15.06	<.0001
Sales growth (v39)	4	1.15905373	0.28976343	1.93	0.1051
Gross profit growth (40)	4	2.44521578	0.61130395	4.08	0.0032
Number of employees (41)	2	0.49944434	0.24972217	1.67	0.1909
Annual BSR expenditure (42)	3	1.65491956	0.55163985	3.68	0.0126
Total	30	17.8717222	-----	-----	-----

Table 7.16 indicates that Realised benefits (factor 3) differ significantly along educational level and ethnicity of owner/manager as well as on the basis of gross profit growth at 1% significance level. In other words an owner/managers educational level, ethnicity, and gross profit growth may determine a firm’s actual BSR benefits.

Table 7.17 Multiway ANOVA for “BSR awareness/performance” (factor 4)

Independent variables	Factor4: BSR awareness/performance				
	DF	Sum of squares	Mean Squares	F	P
Type of business (v33)	3	0.60271680	0.20090560	0.91	0.4359
Gender of owner/manager (v34)	1	0.03256643	0.03256643	0.15	0.7010
Age of owner/manager (v35)	2	0.90429676	0.45214838	2.05	0.1306
Educational level of owner/manager (v36)	5	6.45107705	1.29021541	5.85	<.0001
Business Age (v37)	3	1.21769298	0.40589766	1.84	0.1399
Ethnicity of owner/manager (v38)	3	25.03988938	8.34662979	37.87	<.0001
Sales growth (v39)	4	1.09650952	0.27412738	1.24	0.2927
Gross profit growth (40)	4	1.40300197	0.85075049	3.86	0.0046
Number of employees (41)	2	1.72477770	0.86238885	3.91	0.0211
Annual BSR expenditure (42)	3	4.40649332	1.46876444	6.66	0.0002
Total	30	42.87902191	-----	-----	-----

Table 7.17 indicates that BSR Awareness/performance (factor 4) differed significantly according to educational level of owner/manager, the ethnicity of owner/manager, reported gross profit growth, and annual BSR expenditure at 1% significance level.

Table 7.18 Multiway ANOVA for Employee practices” (factor 5)

Independent variables	Factor 5: Employee practices				
	DF	Sum of squares	Mean squares	F	P
Type of business (v33)	3	2.09635270	0.69878423	3.13	0.0261
Gender of owner/manager (v34)	1	0.48060542	0.48060542	2.15	0.1434
Age of owner/manager (v35)	2	2.05364981	1.02682490	4.60	0.0108
Educational level of owner/manager (v36)	5	3.58007114	0.71601423	3.21	0.0079
Business Age (v37)	3	0.05513814	0.01837938	0.08	0.9696
Ethnicity of owner/manager (v38)	3	20.25277247	6.75092416	30.25	<.0001
Sales growth (v39)	4	2.72380093	0.68095023	3.05	0.0175
Gross profit growth (40)	4	2.95654433	0.73913608	3.31	0.0114
Number of employees (41)	2	0.20848215	0.10424107	0.47	0.6273
Annual BSR expenditure (42)	3	0.28494451	0.09498150	0.43	0.7348
Total	30	34.6923616	-----	-----	-----

Table 2.18 indicates that factor 5 (employee practices) differed significantly according to the educational level and ethnicity of owner/manager at 1% significance level. This is an indication that the owner/manager’s ethnicity and educational levels might influence a firm’s employee practices.

Significantly different factors (independent variables) identified in the Multiway ANOVAs were investigated further. These are reported in the Tables below

Table 7.19 Comparison of means for ethnicity to show strength of difference

		Afrikaner	English	Black	Other
<b>FACTOR 1</b> Expected/perceived benefits	Mean	3.99 b	4.13 b	3.89 b	3.00 a
	SD	0.71	0.45	0.72	1.09
<b>FACTOR 2</b> Community/customer practices	Mean	3.62 b	3.82 a	3.92 a	3.54 b
	SD	0.30	0.37	0.28	0.36
<b>FACTOR 3</b> Realised benefits	Mean	3.84 a	3.89 a	3.76 a	2.99 b
	SD	0.59	0.40	0.59	0.79
<b>FACTOR 4</b> BSR awareness/attitude	Mean	3.57 c	4.00 b	4.46 a	2.94 d
	SD	0.62	0.53	0.39	0.82
<b>FACTOR 5</b> Employee practices	Mean	4.71 a	4.71 a	4.48 a	3.60 b
	SD	0.38	0.46	0.55	0.76

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

Table 7.19 shows that, BSR Awareness/attitude differs significantly among all racial groups. With a mean of 4.48 blacks reported the highest level of awareness. In other words awareness and attitude towards BSR seems to be influenced by a respondent’s ethnicity. Realised benefits, Expected/perceived benefits, and employee practices differed significantly between South Africans of all races on the one hand and non- South Africans on the other hand. This is an indication that nationality may influence a respondent’s treatment of employees. Within the South African racial groups, Table 7.19 indicates that Community/customer practices

differed significantly between Afrikaners on the one hand and Blacks and English on the other hand.

Table 7.20 Comparison of means for type of business to show strength of difference

		Hospitality	Other	Retail	Transport
FACTOR 1 Expected/perceived benefits	Mean	3.94 b	4.55 a	3.75 b	3.81 b
	SD	0.50	0.31	0.88	0.68
FACTOR 2 Community/customer practices	Mean	3.75 b	4.07 a	3.76 b	3.87 b
	SD	0.26	0.50	0.33	0.45
FACTOR 3 Realised benefits	Mean	3.79 b	4.10 a	3.64 b	3.68 b
	SD	0.30	0.57	0.71	0.51
FACTOR 4 BSR awareness/attitude	Mean	3.83 b	4.42 a	3.94 a	4.25 a
	SD	0.66	0.41	0.81	0.46
FACTOR 5 Employee practices	Mean	4.55 b	5.00 a	4.37 b	4.52 b
	SD	0.51	0.00	0.67	0.57

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

Table 2.20 shows significant differences between other businesses on the one hand and hospitality, retail, and transport businesses on the other hand for Expected/perceived benefits, Community/customer practices, Realised benefits, and employee practices. Awareness/attitude differed significantly between hospitality businesses on the one hand and all other types of businesses on the other hand.

Table 7.21 Comparison of means for Gender to show strength of difference

		Male	Female	
FACTOR 1 Expected/perceived benefits	Mean	3.72 b	3.93 a	} Not significant
	SD	0.91	0.68	
FACTOR 2 Community/customer practices	Mean	3.75 b	3.85 a	
	SD	0.40	0.23	
FACTOR 3 Realised benefits	Mean	3.58 b	3.86 a	
	SD	0.67	0.60	
FACTOR 4 BSR awareness/attitude	Mean	3.96	4.00	
	SD	0.86	0.65	
FACTOR 5 Employee practices	Mean	4.38	4.50	
	SD	0.71	0.55	

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

Table 7.21 indicates significant difference between female and male owner/managers with respect to expected benefits, community/customer practices, and realised benefits but not employee practices and BSR Awareness/attitude.

Table 7.22 Comparison of means for Owner/manager's age to show strength of difference

		30 years or below	31-45 years	46 years or more	
FACTOR 1 Expected/perceived benefits	Mean	3.68 b	4.01 a	3.67 b	
	SD	0.90	0.71	0.86	
FACTOR 2 Community/customer practices	Mean	3.77 b	3.85 a	3.71 b	
	SD	0.29	0.36	0.36	
FACTOR 3 Realised benefits	Mean	3.59 b	3.82 a	3.57 b	
	SD	0.71	0.61	0.65	
FACTOR 4 BSR awareness/attitude	Mean	4.02 a	4.07 a	3.77 b	
	SD	0.66	0.71	0.92	
FACTOR 5 Employee practices	Mean	4.35	4.53	4.39	Not significant
	SD	0.74	0.57	0.65	

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

The means for the age group 31-45 years differ significantly from those of the age groups 30 years or below and 46 years or greater for Expected/perceived benefits, Community/customer practices, and Realised benefits. For BSR Awareness/performance the Mean for the age group 46 years or more differed significantly from the other age groups. However, there was no significant difference between the various age groups for the factor Employee practices.

Table 7.23 Comparison of means for Owner/manager's educational level to show strength of difference

		None	Primary	Secondary	Matric	Post matric	Post grad.
FACTOR 1 Expected/perceived benefits	Mean	3.36 b	3.27 b	3.45 b	3.83 b	4.05 a	4.36 a
	SD	0.59	0.38	0.89	0.86	0.86	0.42
FACTOR 2 Community/customer practices	Mean	3.76 b	3.81 b	3.71 b	3.74 b	3.72 b	4.02 a
	SD	0.17	0.35	0.37	0.37	0.30	0.34
FACTOR 3 Realised benefits	Mean	3.06 b	3.36 b	3.33 b	3.73 cb	3.86 a	4.04 a
	SD	0.41	0.38	0.71	0.79	0.49	0.58
FACTOR 4 BSR awareness/attitude	Mean	4.44 a	4.42 a	3.87 b	3.61 db	3.94 cb	4.18 a
	SD	0.45	0.49	0.99	0.89	0.67	0.47
FACTOR 5 Employee practices	Mean	4.65 b	4.63 db	4.19 b	4.24 cb	4.43 b	4.74 a
	SD	0.43	0.45	0.67	0.78	0.59	0.47

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

Table 7.23 indicates significant difference on all factors according to level of education. This calls for research to investigate the owner/manager education and BSR interface.

Table 7.24 Comparison of means for Business Age to show strength of difference

		Up to 5years	6-10 years	11-20 years	21 years +	Not Significant
<b>FACTOR 1</b> Expected/perceived benefits	Mean	4.11	4.17	3.75	3.83	
	SD	0.84	0.00	1.06	0.82	
<b>FACTOR 2</b> Community/customer practices	Mean	3.96	3.77	3.67	3.78	
	SD	0.06	0.00	0.63	0.35	
<b>FACTOR 3</b> Realised benefits	Mean	3.92	3.75	3.13	3.69	
	SD	0.14	0.00	1.24	0.66	
<b>FACTOR 4</b> BSR awareness/attitude	Mean	4.50	4.25	3.75	3.97	
	SD	0.43	0.00	1.77	0.77	
<b>FACTOR 5</b> Employee practices	Mean	4.33	4.00	4.13	4.45	
	SD	0.57	0.00	1.24	0.64	

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

Table 7.25 Comparison of means for Sales growth to show strength of difference

		Decreasing	No change	Increasing 1-10%	Increasing 11-20%	Increasing 21%+
<b>FACTOR 1</b> Expected/perceived benefits	Mean	3.01 c	3.17 c	3.61 a	4.26 b	4.35 b
	SD	1.07	0.41	0.67	0.70	0.44
<b>FACTOR 2</b> Community/customer practices	Mean	3.66 b	3.75 b	3.74 b	3.78 b	3.92 a
	SD	0.35	0.30	0.34	0.30	0.43
<b>FACTOR 3</b> Realised benefits	Mean	2.72 b	3.06 b	3.71 c	4.01 a	4.12 a
	SD	0.63	0.26	0.54	0.43	0.47
<b>FACTOR 4</b> BSR awareness/attitude	Mean	3.26 c	4.16 a	3.70 b	4.05 a	4.31 a
	SD	0.92	0.86	0.68	0.70	0.49
<b>FACTOR 5</b> Employee practices	Mean	3.84 b	4.40 a	4.51 a	4.59 a	4.45 a
	SD	0.93	0.75	0.60	0.44	0.58

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

The most interesting finding here is that respondents who reported the highest mean for the factor community/customer practices (3.92) also reported the highest sales growth (21%+).

Table 7.26 Comparison of means for Gross Profit growth to show strength of difference

		Decreasing	No change	Increasing 1-10%	Increasing 11-20%	Increasing 21%+
<b>FACTOR 1</b> Expected/perceived benefits	Mean	2.83 c	3.18 c	3.65 b	4.31 a	4.39 a
	SD	0.91	0.40	0.65	0.66	0.49
<b>FACTOR 2</b> Community/customer practices	Mean	3.68 b	3.78 b	3.73 b	3.74 b	3.99 a
	SD	0.33	0.29	0.33	0.36	0.34
<b>FACTOR 3</b> Realised benefits	Mean	2.71 d	3.11 c	3.76 b	3.99 a	4.14 a
	SD	0.57	0.29	0.53	0.49	0.48
<b>FACTOR 4</b> BSR awareness/attitude	Mean	3.26 c	4.19 a	3.73 b	4.02 a	4.25 a
	SD	0.95	0.81	0.71	0.70	0.52
<b>FACTOR 5</b> Employee practices	Mean	3.72 b	4.46 a	4.47 a	4.57 a	4.50 a
	SD	0.87	0.72	0.61	0.47	0.55

All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .

As with sales growth, the most interesting finding here is that respondents who reported the highest mean for the factor community/customer practices (3.99) also reported the highest sales growth (21%+).

Table 7.27 Comparison of means for Number of employees to show strength of difference

		1-5 employees	6-10 employees	11 employees +	
FACTOR 1 Expected/perceived benefits	Mean	3.75 b	3.75 b	4.25 a	
	SD	0.82	0.84	0.61	
FACTOR 2 Community/customer practices	Mean	3.77	3.79	3.83	Not significant
	SD	0.34	0.35	0.39	
FACTOR 3 Realised benefits	Mean	3.57 a	3.77 b	3.88 b	
	SD	0.61	0.71	0.62	
FACTOR 4 BSR awareness/attitude	Mean	4.18 a	3.70 b	3.91 b	
	SD	0.70	0.83	0.64	
FACTOR 5 Employee practices	Mean	4.39	4.49	4.54	Not significant
	SD	0.67	0.64	0.56	

*All means (horizontal) with different alphabetic indicators comply with a Tukey at  $p < 0.01$ .*

Table 7.27 indicated significant difference between small businesses on the one hand and the micro and very small businesses on the other hand on their perception of the business benefits of BSR. On Awareness/attitude and Realised benefits there is a significant difference between very small and small businesses on the one hand and micro businesses on the other hand.

### 7.2.5 DISCRIMINANT ANALYSIS

Discriminant analysis was performed to determine how well the determined factors could predict a business as belonging to low sales growth or high sales growth and high gross profit or low gross profit. With the following proviso:

- Low growth = 10% growth or below (both sales and gross profit)
- High growth = more that 10% growth (both sales and gross profit).

The factors that loaded as predictor variables were expected benefits, realised benefits, and employee practices.

The results are shown in Tables 7.28 and 7.28.

Table 7.28 Classification matrix for sales growth

Actual		Predicted		
	Number of cases	Low sales growth	High sales growth	Total
Low sales growth	155	113	42	155
		72.9%	27.1%	100%
High sales growth	159	22	137	159
		23.8%	86.2%	100%
Total	314	135	179	314

Table 7.28 indicates that the model predicted 73% of the low sales growth correctly and 82% of the high sales growth correctly. These figures are important and will be discussed in detail in Chapter 8.

Table 7.29 Classification matrix for Gross Profit growth

Actual		Predicted		
	Number of cases	Low gross profit growth	High gross profit growth	Total
Low gross profit growth	158	116	42	158
		73.4%	26.6%	100%
High gross profit growth	156	14	142	156
		9%	91%	100%
Total	314	130	184	314

Table 7.29 indicates that the model predicted 73% of the low gross profit growth correctly and 91% of the high profit growth correctly.

The two tables indicate that expected benefits, realised benefits, and employee practices are good predictors of high and low sales and gross profit growth among SMMEs.

### 7.3 SUMMARY

This chapter presented the main findings of the empirical study that are:

The descriptive statistics for the demographic data showed normal distribution. Based on the demographic data the GTLM SMME environment appears to be made up of micro, very small, and small businesses with no evidence of medium enterprises participating in the survey. The data also shows that

ownership/management of the GTLM SMMEs is evenly distributed between both sexes. It also shows that over 70% of the owner/managers have at least matric. The descriptive statistics also shows that Black South Africans dominate the GTLM SMME environment with close to 50% of the market share. A large majority of the SMMEs in the GTLM reported reasonable growth in both sales and gross profit.

The factor analysis confirmed five dimensions of SMME BSR namely: Expected benefits, Community/customer practices, Realised benefits, BSR Awareness / attitude, and Employee practices. The factor analysis indicated high construct validity of the measuring instrument as evidenced by the high Cronbach alphas.

Item analysis showed scale mean scores that were higher than the midpoints for all factors indicating that: SMME owner/managers in the GTLM perceive BSR as beneficial to their businesses, SMMEs in the GTLM engage in community, customer and employee related BSR activities, SMMEs are aware of the concept BSR and its elements, and that SMMEs in the GTLM reported positive outcomes that can be attributed to BSR.

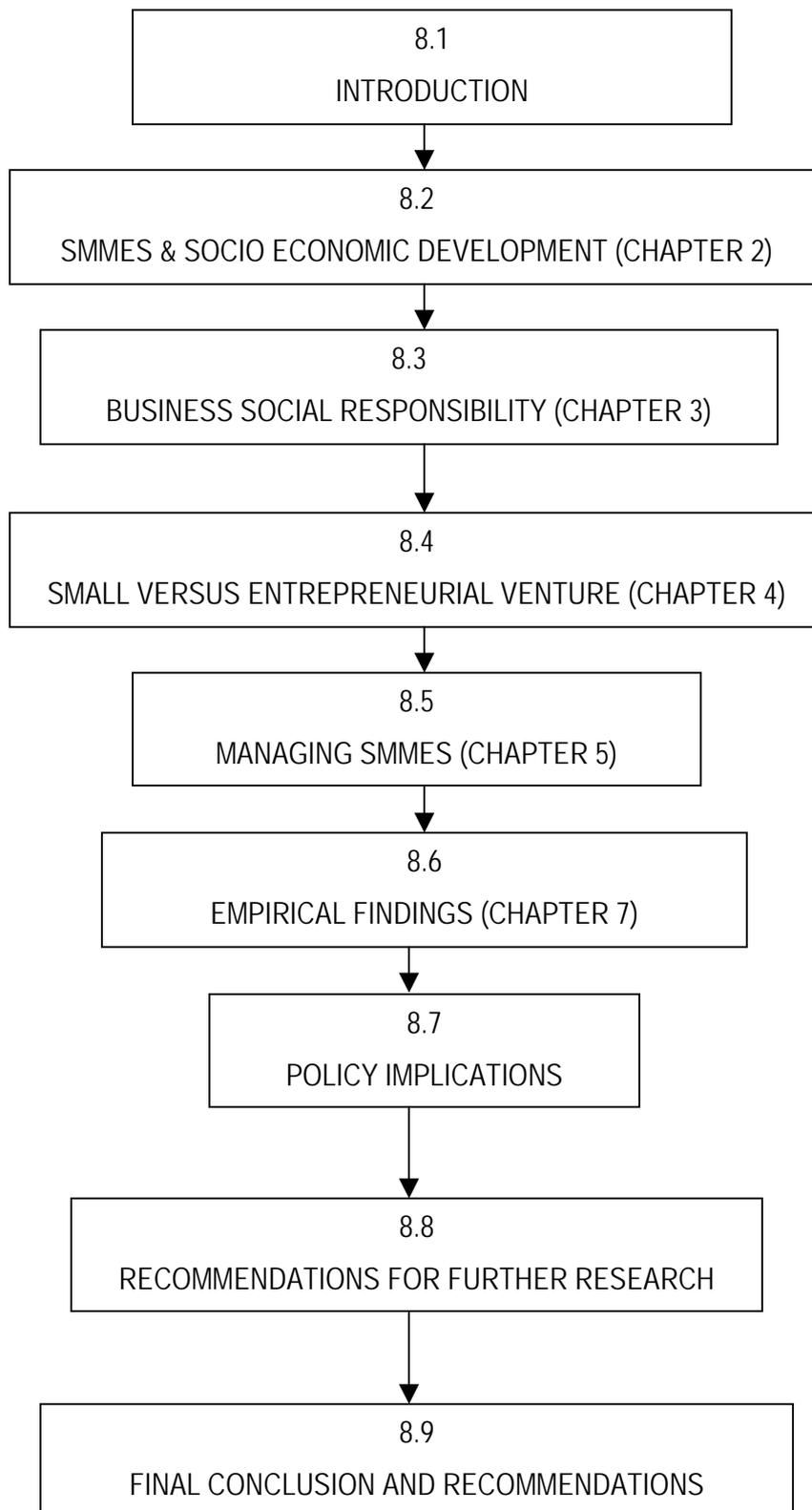
Multiway ANOVAs for the five factors show some significant differences among groups. For Expected **benefits** there were significant differences for age, educational level, and ethnicity of owner manager, and for size of business. For **Community/customer practices** the only significant difference was for ethnicity of owner/manager. For Realised **benefits** there were significant differences for level of education and ethnicity of owner/manager and in terms of gross profit growth. For **BSR Awareness** there were significant differences for annual BSR expenditure, gross profit growth, ethnicity and educational level. For **Employee practices** there were significant differences for ethnicity and level of education.

Significantly different factors identified in the Multiway ANOVAs were investigated further by comparing scale means for demographic variables. This showed varying degrees of significant differences some of which call for further investigation through separate research.

Finally, the discriminant analysis performed on the five factors showed three factors namely **Expected/perceived benefits**, **Realised benefits** and **Employee practices** as good predictors of **gross profit growth** and **sales growth**.

Chapter 8 discusses the findings, makes final conclusions, provides recommendations for policy makers and makes suggestions on areas for further research.

**CHAPTER 8 OUTLINE**



## CHAPTER 8: DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

### 8.1 INTRODUCTION

The research questions investigated in this study were:

- *Are SMMEs in the GTLM aware of the concept BSR and its elements?*
- *Do the GTLM SMMEs engage in activities that can be termed BSR?*
- *Do SMMEs in the GTLM see BSR as beneficial to their businesses?*
- *Are there differences in the level of BSR awareness and performance among SMMEs along racial/cultural lines in the GTLM?*
- *Are there any observable positive outcomes for those SMMEs that practice BSR?*

In order to answer these questions it was necessary to first perform a review of related literature (Chapters 2 – 5). In Chapter 2 the role of SMMEs in socio economic development was examined. In Chapter 3 the concept of BSR and its measurement were explored. Chapter 4 examined the concepts entrepreneurship and small business. In Chapter 5 the status of management within SMMEs was explored. The research methodology was presented in chapter in Chapter 6 and the analysis of the results in Chapter 7.

This chapter discusses the findings of both literature and empirical study in order to answer the five research questions that were translated into the following six hypotheses namely:

H<sub>1o</sub> SMMEs in the GTLM are not aware of the concept BSR and it elements.

H<sub>1a</sub> SMMEs in the GTLM are aware of the concept BSR and its elements.

H<sub>2o</sub> SMMEs in the GTLM do not perform activities that can be termed BSR.

H<sub>2a</sub> SMMEs in the GTLM perform activities that can be termed BSR.

- H<sub>3</sub>0 SMMEs in the GTLM do not perceive BSR as beneficial to their business.
- H<sub>3</sub>a SMMEs in the GTLM perceive BSR as beneficial to their business.
- H<sub>4</sub>0 The level of BSR awareness does not differ among SMMEs along racial lines.
- H<sub>4</sub>a The level of BSR awareness differs among SMMEs along racial lines.
- H<sub>5</sub>0 The level of BSR performance does not differ among SMMEs along racial lines.
- H<sub>5</sub>a The level of BSR performance differs among SMMEs along racial lines.
- H<sub>6</sub>0 There are no observable benefits for SMMEs that engage in BSR activities.
- H<sub>6</sub>a There are observable benefits for SMMEs that engage in BSR activities.

## 8.2 SMMEs AND SOCIO ECONOMIC DEVELOPMENT (CHAPTER 2)

Development issues in rural communities remain one of the most pressing tasks of most third world countries. SMMEs are crucial to development. BSR is now coming to the forefront in improving people's livelihood. BSR is now seen as a potent way in which businesses of all sizes can directly contribute towards socio economic development in a sustainable way since it can also enhance business performance.

### CONCLUSION

The concept 'development' is multidimensional and includes both social and economic indicators. A vibrant SMME sector is crucial to socio economic development. The most pressing development issues facing rural South Africa are high levels of poverty and unemployment and wide inequality gap. Engaging in BSR is likely to enhance an SMME's contribution to socio economic development than not. There is therefore urgent need to promote the acceptance of this concept among South African SMMEs.

### **8.3 BUSINESS SOCIAL RESPONSIBILITY (CHAPTER 3)**

The identification of BSR as a sustainable way in which SMMEs can enhance their contribution to socio economic development lead to further examination of the BSR literature.

#### **CONCLUSION**

From exploration of the BSR literature the following conclusions were arrived at. Ethics and stakeholder theory are foundations upon which BSR is founded. The concept 'BSR' is now a global issue and like their counterpart large organisations, SMMEs are now becoming increasingly aware of the potential economic benefits of engaging in BSR. Empirical support exists for the assertion that SMMEs are capable of meeting their social and economic obligations simultaneously. SMME BSR issues are unique because of the nature of SMMEs. Although SMMEs are handicapped in their ability to engage in BSR activities evidence exists that they do engage in BSR activities even if unknowingly. SMMEs are more likely to focus on employees, customers and local community issues than other social issues.

The literature therefore supports the idea that employees appear to prefer to work for socially responsible companies; investors are more likely to invest in socially responsible businesses because they regard them as less risky to invest in; buyers these days show preference for companies that treat them fairly; and communities tend to support hence buy from businesses they perceive as caring for them.

### **8.4 SMALL VERSUS ENTREPRENEURIAL VENTURE (CHAPTER 4)**

Based on the finding in Chapter 3 that SMME BSR issues are unique because of their nature, it is fair to assume that even within SMMEs their BSR focus would differ because as the acronym and classification suggests, SMMEs themselves differ in many respects.

Besides the popular classification that is based on size, SMMEs are also often described as either small business or entrepreneurial ventures. The assumption is

made here that because the two are different in nature, it is likely for the BSR focus of entrepreneurial business to differ from that of the small business. Thus for realistic BSR expectations, these two forms of SMMEs were examined in order to identify their nature hence determine BSR activities that they can conveniently engage in.

## **CONCLUSION**

This literature reported leads to the following conclusions. Not all SMMEs make any meaningful impact on socio economic development. SMMEs are either necessity driven or opportunity driven. 'Small businesses' are often necessity driven and make little or no significant contribution to socio economic development consequently their BSR participation is also highly restricted. Entrepreneurial ventures on the other hand are opportunity driven and more successful than small businesses. Consequently their impact on socio economic development is more significant. In the same vein they are able to do more in terms of BSR than small businesses.

It is therefore necessary to create conditions necessary for the birth and growth of entrepreneurial ventures.

## **8.5 MANAGING SMMES (CHAPTER 5)**

Several criticisms have been levelled against the notion of BSR especially in SMMEs. One particular argument of those against any idea of BSR in SMMEs is where the money for BSR should come from given their severe resource limitations. The proponents of BSR argue that the problem of such critics is that they regard expenditure on BSR as add on expense, which should not be the case. Instead they call for integration of BSR into overall business strategy. In other words BSR should be tied to profitability.

One possible interpretation of this latter argument could be that a business has to be profitable in order to engage in BSR practices. In other words profitability is a precondition for BSR engagement in the mind of the small business owner. Given the acceptance of this interpretation, a major task would be to first improve the

profitability of South African SMMEs. A major cause of low profitability identified among SMMEs is the lack of proper management. Against this background it was decided to explore the extent of management within SMMEs in order to identify skills that exist and those that are lacking.

### **CONCLUSION**

Based on Chapter 5, the following conclusions were drawn. Little or no formal planning exists in SMMEs and whatever planning took place was on adhoc basis. In fact of all the managerial functions, planning seems to be the most ignored in SMMEs. To a lesser extent, the degree of organising, leading and controlling within SMMEs is reported as inadequate. This lack of proper management can only be attributed to the lack of managerial skills by the owner/managers.

Considering the amount of governments' financial support for SMMEs and it's effort in creating an enabling environment for SMMEs to thrive, it is quite worrying to notice such low levels of managerial competence.

## **8.6 EMPIRICAL RESULTS**

Considering the results for the confirmatory factor analysis it seems clear that five factors are associated with SMME BSR (see Table 7.11). These are:

- Factor 1: Expected/perceived benefits
- Factor 2: Community/customer practices
- Factor 3: Realised benefits
- Factor 4: BSR awareness/attitude
- Factor 5: Employee practices

### **CONCLUSION**

The empirical results support the suggestion that SMME BSR focus is likely to be community, customer or employee related since they form their most important trading partners. The factor analysis confirmed this. In addition it shows that SMMEs in the GTLM are more concerned with employee issues (mean score of 4.4) than customer and community issues (mean score of 3.8) (see Table 7.13).

Revisiting the hypotheses now leads to the following:

In view of UNIDO's (2002) suggestion that lack of technology, little understanding of BSR business case, and more pressing needs to upgrade the quality of management etc. may hinder SMMEs BSR attitude, it was hypothesised that SMMEs in the GTLM would not be aware of the concept BSR and its elements.

H<sub>10</sub> SMMEs in the GTLM are not aware of the concept BSR and its elements.

H<sub>1a</sub> SMMEs in the GTLM are aware of the concept BSR and its elements.

The scale mean of 3.9753 for BSR awareness (see Table 7.13) indicates that most of the SMMEs in the GTLM are aware of BSR and its elements and in view of the CSM (2003) finding in the UK, which showed a similar trend, that is most South Asian SMME's in the UK are aware of BSR and its elements, it can be said that BSR is no longer a preserved territory of big business.

While most of the SMMEs in the GTLM reported high levels of awareness of BSR and its elements, there were also significant differences (see Table 7.17) in the levels of awareness among SMMEs according to the level of **education** and the **ethnicity** of owner/manager, reported **gross profit growth**, and annual BSR expenditure.

The difference due to education does not show any real pattern. However, the pattern among the racial groups seems distinctive with each racial group different from the other. The fact that the black owned/managed businesses reported the highest mean on Awareness/attitude of 4.46 (see Table 7.19) may be an indication of the relevance of UBUNTU to BSR. As mentioned in the literature (see Chapter 3), UBUNTU is an African value system that means 'common good' or caring for one another. It was also suggested in Chapter 3 that UBUNTU could be a basis or a foundation for BSR. Thus it is possible that this high level of awareness among black owned/managed SMMEs may be due to UBUNTU. This pattern needs investigating to shed more light on reasons for the differences and whether black cultures in the form of say UBUNTU has anything to do with it.

A certain pattern seems discernible with regard to gross profit growth and Awareness/attitude. There seems to be some positive relationship between Awareness/attitude and reported gross profit growth with those reporting higher means for Awareness/attitude reporting higher gross profit growth (see Table 7.26). Whether this relationship is causative were not investigated.

#### **CONCLUSION**

The scale mean of 3.9753 for BSR awareness (see Table 7.13) indicates that most of the SMMEs in the GTLM are aware of BSR and its elements. Therefore, the null hypothesis  $H_{10}$  could be rejected. **The alternate hypothesis  $H_{1a}$ : SMMEs in the GTLM are aware of the concept BSR and its elements, is therefore accepted.**

However, being aware does not mean that the business performs BSR and therefore the second hypothesis needs confirmation.

$H_{20}$  SMMEs in the GTLM do not perform activities that can be termed BSR.

$H_{2a}$  SMMEs in the GTLM perform activities that can be termed BSR.

The scale mean for Community/customer practice is 3.7880 and that of employee practice is 4.4443 (see Table 7.13). These significant differences of the means compared to the midpoint value of 3 indicate that majority of the SMMEs in the GTLM perform BSR activities. This finding is consistent with the results obtained in the CSM (2003) study that found widespread BSR practices within the South Asian SMMEs. This strengthens the case for the earlier observation that BSR is no longer a preserve of large organisations.

That SMMEs showed higher performance in employee related activities than customer/community related activities may be explained by the fact that often most of the employees are close relatives of owner/managers hence they feel more obliged towards their well being.

On Community/customer practices, the only significant difference observed was along ethnicity lines (see Table 7.15). Black and English speaking South Africans

differed significantly from Afrikaners whilst no significant difference was noticeable between Blacks and English speaking South Africans. That Blacks again reported the highest mean for Community/customer practices is consistent with the highest mean reported for the same ethnic group with regard to Awareness/attitude. This may be a suggestion of some positive link between level of awareness and actual performance. This however requires a confirmatory study.

It is interesting, however, that the other BSR performance indicator Employee practice, seems to vary considerably on the basis of level of education and ethnicity of owner/manager (see Table 7.18). The differences were significant between other Race/ethnicity (non-South Africans who reported the least mean for employee practices) on the one hand and South Africans on the other hand. It appears that non-South Africans do not care about employees as much as their counterpart South African owner/managers because they have no close relationships with their employees. The high means and absence of any significant differences between the South African Race/ethnicity may be indicative of the success of our constitution in stressing the importance of human rights in the workplace.

#### **CONCLUSION**

The scale mean for community/customer practice is 3.7880 and that of employee practices is 4.4443. Compared to the midpoint value of 3, these significant differences indicate that majority of the SMMEs in the GTLM perform certain BSR activities. The null hypothesis  $H_0$  could therefore as before be rejected. **The alternate hypothesis  $H_{2a}$ : SMMEs in the GTLM perform activities that can be termed BSR is therefore accepted.**

The fact that the GTLM SMMEs reported means that are significantly higher than the midpoint values for Community/customer practices and employee relations is consistent with the views of Byrd *et al.* (1994); Peyton (2003); Longenecker *et al.* (2000); and Kyambalesa (1994) who all identified consumerism, community activities, and employee relations as the main BSR activities SMMEs are likely to engage in.

Being aware and engaging in BSR activities do not mean that there are benefits derived from these practices and led to the next hypothesis. Based on the UNIDO (2002) report that identified little or no understanding of the BSR business case as a major barrier to BSR in SMMEs, it was hypothesised that SMMEs in the GTLM would not perceive BSR as beneficial to their business.

H<sub>30</sub> SMMEs in the GTLM do not perceive BSR as beneficial to their business.

H<sub>3a</sub> SMMEs in the GTLM perceive BSR as beneficial to their business.

The scale mean of 3.8312 (significantly different from the mean) for Expected/perceived benefits indicates that most of the respondents regard their company's BSR activities as beneficial to their business. This is a very important finding in the South African context. It shows that the motivation already exists for SMMEs to engage in BSR activities. Thus convincing them to intensify their efforts should not be too difficult. This is consistent with the high BSR awareness reported earlier.

Interestingly, **Age, level of education, and ethnicity** of owner/manager as well as the size of business all seem to have some influence on a firm's expectations of benefits due to its BSR performance as significant differences were shown along these dimensions/facets (see Table 7.14).

While the entire South African races (ethnic groupings) namely English, Afrikaners, and Blacks reported means that were greater than the midpoint value of 3 indicating that they perceive BSR to be beneficial to their businesses, the non-South African owner/managers reported a mean of 3 indicating that they did not perceive BSR to be beneficial to their businesses. The interpretation of this is rather not possible given the available data. Perhaps further research to explore this finding may shed more light. This notwithstanding, it is quite encouraging that all the South African ethnic groupings regard BSR as beneficial. As noted elsewhere, this should be a strong basis for cascading the concept of BSR among the SMME sector.

Respondents with post matric education and postgraduate education perceive BSR to be more beneficial to their businesses than those with matric or below (see Table 7.23). This finding is not too surprising. It is assumed that most of these post matric qualifications are business related. If that were so then it should help account for this difference. It is also assumed that most of these post matric courses would contain topics on BSR as is becoming the norm these days. Consequently, post matric and postgraduate qualification holders should be more aware of BSR and its benefits than the others. This assumption requires further investigation. Even if this was not the case, by their high level of education, they should be quite conversant with an issue that is currently making waves especially in business circles where every one seems to be saying “ I know my social responsibility”.

The differences due to age are equally baffling to explain, as there is no discernible pattern (see Table 7.22). That the ‘very old’ (46 years or more) and the ‘very young’ (30 years or below) should significantly differ from the ‘middle age’ (31-45 years) is not easy to explain given the available data. There is therefore need for research into this phenomenon.

The question of differences between the various sizes of SMMEs with regard to business benefits is also difficult to explain. One plausible explanation seems to be that characteristically micro and very small businesses on the one hand as opposed to small businesses (see Table 2.1) are so constrained resource wise, that they could not see how they would be able to commit such scarce resources to anything else other than business cause.

#### **CONCLUSION**

The scale mean for expected/perceived benefits is 3.8312 indicating that most of the respondents regard their company’s BSR activities as beneficial to their business. The evidence is therefore sufficient to reject the null hypothesis of no perceived benefits and accept the alternative hypothesis. **The alternative hypothesis  $H_{30}$ : SMMEs in the GTLM perceive BSR as beneficial to their business is therefore accepted.**

This finding is very important for SMME BSR research in that it is consistent with the study by the Centre for Social Markets (CSM) (2003) in the UK that found that within South Asian SMME's in the UK most of the firms saw BSR as an important business issue.

Thus, the SMME's are aware of BSR, they implement BSR practices and realise benefits from it as seen from the first three hypotheses. The next two hypotheses were initially set to investigate racial differences for awareness, practices and benefits of BSR.

H<sub>40</sub> The level of BSR awareness does not differ between SMMEs along racial lines.

H<sub>4a</sub> The level of BSR awareness differs between SMMEs along racial lines.

However, it is interesting that the extent of Awareness/attitude seems to vary considerably among all the various ethnic groups under investigation (see Table 7.19). That the Black South Africans reported the highest means (4.46) for level of Awareness/attitude shows that they are more aware and show more positive attitude towards BSR than the other ethnic groups should not be surprising. This high level of awareness can be associated with 'UBUNTU' (the so called African form of BSR) that is reportedly so pervasive among black cultures. But why English-speaking South Africans should report a higher mean of (4.00) that is significantly different from that of the Afrikaans speakers (3.57) is not clear. Further research may therefore be needed to clarify the situation.

But disturbing is the finding that other ethnic groups (non-South Africans) reported less than the midpoint (2.94) indicating either negative attitude towards BSR or lack of awareness of it. This may be interpreted to mean that despite the hospitality of the host country for allowing them to trade in the country, they do not really care about the well being of its citizens. This may only exacerbate or justify the already high levels of xenophobia displayed in recent times. This situation seems mitigated by the above midpoint community/customer participation reported for this group (see Table 7.19). It may be that they only focus on community/customer related issues.

## **CONCLUSION**

Based on the above, the null hypothesis  $H_{4o}$ , which states that the level of BSR awareness does not differ among SMMEs along racial lines, does not seem to be supported. **Therefore the alternative hypothesis  $H_{4a}$ : the level of BSR awareness differs among SMMEs along racial lines is accepted.**

$H_{5o}$  The level of BSR performance does not differ between SMMEs along racial lines.

$H_{5a}$  The level of BSR performance differs between SMMEs along racial lines.

In contrast to the null hypothesis, Table 7.15 indicates significant differences for performance criteria/indicator Community/customer practice among the GTLM SMMEs along racial/ethnic lines and Table 7.18 indicates significant difference for performance criteria/indicator Employee practices among the GTLM SMMEs along ethnic lines. These show that BSR performance does differ along racial lines among the GTLM SMMEs.

This finding appears consistent with the views of Thompson and Hood (1993:198) who argued, “individual characteristics of Owner/managers may influence numerous aspects of the business including philanthropic activities”. In fact they found significant differences between the Corporate Social Performance of minority-owned and nonminority-owned businesses (two culturally distinct ethnic groups in the US).

Further examination of the two performance indicators (see Table 7.19) leads to some interesting observations with regard to differences in BSR performance along ethnic lines.

### **Community/customer practices**

Given the data in Table 7.19, one can make at least two major conclusions here. Firstly, it can be said that Black and English-speaking South Africans engage more in community/customer related activities than Afrikaners and others (non-South African immigrants from Asia, Europe and Africa). Secondly, that there are no

significant difference between others (non-South African immigrants from Asia, Europe and Africa) and Afrikaners although surprising could be accounted for. It is quite clear that others (non-South African immigrants from Asia, Europe and Africa) are a heterogeneous group formed merely for the convenience of grouping data for analysis. This lack of homogeneity may possibly account for it not displaying its true characteristics.

### **Employee practices**

The trend in performance of Employee related activities seem to differ from that of Community/customer related activities.

Firstly, all the South African ethnic groups Blacks, English, and Afrikaners owner/managers reported very high means (4.48, 4.71, and 4.71) respectively on Employee practices that are not significantly different from one another (see Table 7.19). This means that employee issues have the same levels of importance to all South African SMME owner/managers irrespective of ethnicity. It may also be an indication that SMMEs are committed to good employee practices because of close family ties.

Secondly, the apparently higher level of Employee related activity reported for South African Blacks, English and Afrikaners compared to the relatively lower levels for other (non-South African immigrants from Asia, Europe and Africa) may be due to the fact that the former are more committed to Employee related practices than the latter because the former have close relatives as employees while the latter do not.

### **CONCLUSION**

Based on the above there seem to be lack of support for the null hypothesis  $H_{50}$  that the level of BSR performance does not differ among SMMEs along racial lines. Therefore the null hypothesis is rejected. Consequently, **the alternate hypothesis  $H_{5a}$ : The level of BSR performance differs among SMMEs along racial lines is accepted.**

H<sub>6o</sub> There are no observable benefits for SMMEs that engage in BSR activities.

H<sub>6a</sub> There are observable benefits for SMMEs that engage in BSR activities

The scale mean of 3.6903 that is significantly higher than the midpoint value of 3 (see Table 7.13) for realised benefits shows that majority of the SMMEs reported improvements in their business performance. Whether these improved performances can be attributed to their BSR performance is however questionable.

The high levels of awareness and performance reported in Table 7.19 and the conclusion arrived at on Hypothesis 2 above however indicate a positive link (no matter how weak) between BSR performance and business performance. This link if true is consistent with the study of Besser *et al.* (1999) who found that there is a positive relationship between an entrepreneurs service to the community and business success.

However, the extent of Realised benefits appears to vary considerably and seem to be influenced by three demographic variables namely educational level and ethnicity of owner/manager and gross profit growth and need to be seen from context.

Firstly, the higher levels of gross profit reported by the South African Blacks, English-speakers and Afrikaners on the one hand compared to the relatively lower gross profit reported by the other (non-South African immigrants from Asia, Europe and Africa) ethnic groupings can be explained by the fact that the former also reported higher levels of Employee practices, Community/customer practices, and BSR awareness/attitude. This gives an impression that the higher levels of Employee practices, Community/customer practices, and BSR awareness/attitude may be responsible for or at least may be related to the higher gross profit reported for them. If this was to be the case then it has the potential of supporting the business case of BSR in SMMEs.

Secondly, the variations in gross profit growth according to educational level needs some exploring shows a certain discernible pattern. Three groups can be

identified here. The first group includes owner/managers with secondary education or below, the second group is made up of owner/managers with matric and the third group includes owner/managers with post matric or higher education. Table 7.23 shows that the SMMEs whose owner/managers have post matric or higher qualifications reported the highest realised benefits. This is followed by SMMEs whose owner/managers hold matric. In the third (last) position are SMMEs whose owner/managers have secondary education or below.

This may mean any of two things or both. Firstly it might be interpreted to mean that the higher levels of education may have some positive link with owner/managers acquiring managerial competences hence enhancing their ability to manage their businesses towards more profitability. It might also be interpreted to mean that higher levels of education may have exposed owner/managers to management courses that contained modules on BSR. Consequently such owner/managers have implemented BSR practices that eventually boosted their bottom line. It may also mean a combination of both. Whatever the case it is quite evident that BSR has some positive link with bottom line as shown in Table 7.26.

In view of the debate in the literature regarding the economic benefits for SMMEs that engage in BSR, and the observation of Cochran and Wood (1984) in Rieck and Hall (1998) that “If a positive relationship can be shown to exist, between financial performance and BSR actions then management might be encouraged to pursue such activities with increased vigour...” this may as well be the most important finding of this study. It in fact provides a further empirical support to normative assertions that SMMEs can indeed engage in BSR and still improve shareholder wealth.

#### **CONCLUSION**

Based on the above evidence, the null hypothesis  $H_0$ : there are no observable benefits for SMMEs that engage in BSR activities could not be supported. The null hypothesis is therefore rejected. **Consequently the alternative hypothesis  $H_a$ : there are observable benefits for SMMEs that engage in BSR activities is accepted.**

As said in sub-section 7.2.4 of chapter 7, discriminant analysis was performed to determine how well the determined factors could predict a business as belonging to low or high sales growth and low gross profit or high gross profit growth with the following proviso:

- Low growth (sales and gross profit) = 10% growth or below
- High growth (sales and gross profit) = more than 10% growth

The factors that loaded as predictor variables were expected benefits, realised benefits, and employee practices. This means that if one has information on businesses expected benefits, realised benefits, and employee practices, this information could be used to predict whether the company would record low or high gross profit or whether the company would record low or high sales.

The classification matrix for sales growth (see Table 7.28) shows that the percentage of correctly classified as low growth was 72.9% and those correctly classified as high growth was 86.2%. Overall the model correctly classified 79.6% of the businesses. Considering the fact that if entirely left to chance, there is a 50/50 chance of being correctly classified (only two possibilities exist i.e. low or high) that is the chance of being correctly classified is only 50%, the predictive power of the model using sales growth (79.6) appears to be good.

Similarly, the classification matrix for gross profit growth (see Table 7.29) shows that the percentage of correctly classified as low growth was 73.4% and those correctly classified, as high growth was 91%. Overall the model correctly classified 82.2% i.e. of the businesses. Again, if entirely left to chance, there is a 50/50 chance of being correctly classified. Therefore, the predictive power of the model using gross profit growth (82.2%) appears to be good.

#### **CONCLUSION**

Considering the above, the model predicts gross profit growth slightly better than sales growth but both can be used with acceptable accuracy.

## 8.7 POLICY IMPLICATIONS AND RECOMMENDATIONS

This study has unearthed a number of issues that affect SMMEs including their role in economic development and the SMME/BSR interface that have direct policy implications at all levels of government.

Firstly, so long as reliance continues to be placed on SMMEs to help alleviate societal problems (and there is no sign that this will change in the foreseeable future), there will continue to be the need for adequate managerial skills among owner/managers in order for them to steer their businesses towards sustainable growth hence success. But given the low levels of proper management reported in the literature study, policy makers, support institutions and all concerned with SMME development have to examine why managerial skills are so lacking in South African SMMEs.

It is quite encouraging that majority of owner/managers of SMMEs in rural settings like the GTLM are well educated. However with the South African education notorious for not emphasising entrepreneurship education at pre-tertiary level, many of these owner/managers might not have the necessary formal training in running businesses. It is therefore suggested that formal after hours management courses be run for owner/managers at affordable cost to enhance their business management skills.

The almost equal percentage gender representation of owner/managers of SMMEs in the GTLM (see Table 7.1) is an indication that the government's policy of encouraging entrepreneurship among women is bearing fruits and need to be sustained. Although previous data does not exist to compare with, it shows that at least inequality as far as business ownership between male and females does not exist or has been eliminated thus showing some victory for policy makers. This does not mean that they rest on their laurels. The 44% is still some way off. Targeted support for women entrepreneurs from rural setting should be pursued in order to lure more women into entrepreneurship as a career choice.

That over 85% of the businesses are either micro or very small (see Table 7.9) and the remaining 15% being small according to the South African definition of SMMEs should be a cause of concern for policy makers. This is because the job creating capacity of these types of SMMEs is highly restricted. With over 75% of the businesses six or more years in existence, it shows that they might never grow into medium enterprises. Policy makers need to investigate why there are no medium enterprises in the GTLM and to find ways of encouraging the establishment of medium enterprise whilst encouraging the micro, very small and small enterprises to grow. Small businesses with potential should be given all the support needs to expand.

The reported prevalence of BSR awareness among SMME owner/managers in the GTLM should encourage government, business, and NGOs interested in BSR to seize the opportunity to develop a dedicated SMME BSR code. Countries like Canada, USA and the UK have associations that are spearheading the campaign for BSR. The Canadian Business for Social Responsibility (CBSR) is one example. Through its activities BSR has become a household acronym in Canada. In the UK they have a minister for BSR. It is time developing countries take cue from these western countries. It will be a step in the right direction if the South African government can assist in the formation of an organisation for BSR. The CSM (2003) report that shows widespread awareness and performance of BSR among South Asian SMMEs in the UK is perhaps a vindication of the UK government's relentless effort in promoting BSR among all types of businesses. Like the UK perhaps the time has come for South Africa to appoint a minister of BSR.

Another area of SMME BSR that must concern policy makers is awareness creation. During the interviews with owner managers, it became clear that although many of them knew that they had to do "good", they did so not really because they expected benefits. They said that they did so because it was the "right" thing to do. In other words, 'they were merely being African' (UBUNTU). The concept 'BSR' therefore needs to be clarified to SMME owner/managers as meaning more than 'UBUNTU'. They need to know that it has to be part of their core business strategy for them to get maximum benefits. A suggestion in this

regard is that social responsibility should become an integral part of all business management courses whether formal or informal.

It is true that employee issues are important for business. However community issues are also important (Besser, 1999). The reported mean for employee related activities of 4.4443 and that of Community/customer activities being 3.7880 might suggest that SMME owner managers concentrate more on its employee BSR activities than community/customer related BSR activities. This might play into the hands of critics of BSR who could argue that it is really not BSR that these SMMEs are engaging in but rather they are merely providing what any business has to do for its employees. It is therefore necessary that SMMEs be encouraged to strike a balance between their BSR focuses on at least a 50/50 basis. Policy makers need to bring home to SMME owner managers the equal importance of all BSR dimensions as they affect SMMEs.

The fact that not much formal study has been undertaken in the SMME BSR should be a source of concern to government and the academia. Publicising research on SMME BSR, may help create more awareness about its business imperatives hence motivate SMMEs to actively pursue it. Research is an expensive and time-consuming exercise that individuals may not be able to afford on their own. Governments at all levels especially at municipality levels need to financially assist people interested in SMME BSR research.

## **8.8 RECOMMENDATIONS FOR FURTHER RESEARCH**

The empirical study raises a number of possible research questions which when explored have the potential to shed more light on BSR elements especially in SMMEs:

- What are the primary reasons for SMMEs engaging in BSR (whether business benefit motive or for common good)?
- How can the observed differences in SMMEs' employee BSR practices among the various South African Races/ethnicities be explained?

- Is Ubuntu an African form of BSR?
- What are the reasons for the differences in perceived business benefits among the different age groups?
- How can the observed differences in perceived business benefits among the various sizes of SMMEs be explained?
- Is there a causative relationship between BSR awareness/performance and gross profit growth?
- Can the results of this study be extrapolated and generalised for all South African SMMEs?

## **8.9 FINAL CONCLUSION AND RECOMMENDATIONS**

The main aim of this study was to determine the extent to which the notion of BSR has permeated the SMME mindset in atypical rural setting. In order to do this the study investigated five research questions namely:

- Are SMMEs in the GTLM aware of the concept BSR and its elements?
- Do the GTLM SMMEs engage in activities that can be termed BSR?
- Do SMMEs in the GTLM regard BSR as beneficial to their businesses?
- Are there differences in the level of BSR awareness and performance among SMMEs along racial/cultural lines in the GTLM?
- Are there any observable positive outcomes for those SMMEs that practice BSR?

These research questions were then transformed into six hypotheses for testing in order to conclude as to whether the concept has permeated the SMME mindset in the GTLM or not.

Testing the hypotheses required that a measuring instrument be designed so as to gather relevant data that could be used for testing the hypotheses. In order to generate the necessary questions to be included in the measuring instrument a literature review was undertaken. The literature review covered topics such as the role of SMMEs in socio economic development, Stakeholder theory and ethics as foundations of BSR, the concept of BSR in general, the SMME/BSR interface, entrepreneurship versus small business management, and managing SMMEs. All these topics were explored within the premise that they are all interrelated.

#### 8.9.1 FINAL CONCLUSIONS

A vibrant SMME sector is key to socio economic development of rural communities. The worldwide recognition of the value of this sector seems to centre around its ability to generate new employment. Yet in South Africa the new job generation capacity of this sector has been put to question. The view is that this task is not being successfully met because only a few of the many SMMEs actually generate new meaningful jobs. The three main development issues facing South Africa today are poverty alleviation, inequality reduction and job creation. It is now clear that inequality and poverty are direct results of lack of jobs thus South Africa can only address the problems of poverty and inequality if new jobs can be created on sustainable basis. SMMEs hold the key to new job creation.

Establishing and maintaining a vibrant SMME sector capable of meaningfully impacting on socio economic development requires among other things a conducive enabling environment. At present, the South African SMME enabling environment does not appear very conducive to the development of SMMEs. In particular the labour laws and existing tax regimes seem inimical to SMME development. The poor quality of management particularly the lack of formal planning within the SMME sector is very worrying.

Consensus exists in the literature which points to BSR as a potent strategy for improving business performance and simultaneously increasing their impact on socio economic development. In other words BSR if properly conducted may lead to a win-win situation for shareholders and society at large. This is relevant to both small and large organisations. For rural communities that rely solely on SMMEs to provide for their economic needs, SMME BSR performance becomes a crucial issue that need vigorous attention.

BSR has many dimensions but those relevant to SMMEs seem to be community, customer and employee related for various reasons. The SMME/BSR interface is still a virgin area in South Africa that needs academic attention in order to generate hard empirical evidence that will form the basis of a useful framework for practical BSR implementation in SMMEs.

As mentioned earlier, the main aim of this study was to determine the extent to which the concept of BSR has permeated the SMME mindset in the GTLM, a typical South African rural setting. To form an opinion, five research questions were posed. These questions were transformed into six testable hypotheses and based on the evidence obtained through the empirical study the following final conclusions are reached.

**Question one:** Are SMMEs in the GTLM aware of the concept BSR and its elements?

In order to answer this question the hypothesis “SMMEs in the GTLM are not aware of the concept BSR and it elements” was tested. The empirical evidence did not support the acceptance of this hypothesis. **Therefore, the conclusion was reached that SMMEs in the GTLM are aware of BSR and its elements.**

**Question two:** Do the GTLM SMMEs engage in activities that can be termed BSR?

In order to answer this question the hypothesis “SMMEs in the GTLM do not perform activities that can be termed BSR” was tested. The empirical evidence did

not support the acceptance of this hypothesis. **Therefore, the conclusion was reached that SMMEs in the GTLM perform activities that can be termed BSR.**

**Question three:** Do SMMEs in the GTLM regard BSR as beneficial to their businesses?

In order to answer this question the hypothesis “SMMEs in the GTLM do not perceive BSR as beneficial to their business” was tested. The empirical evidence did not support the acceptance of this hypothesis. **Therefore, the conclusion was reached that SMMEs in the GTLM perceive BSR as beneficial to their business.**

**Question four:** Are there differences in the level of BSR awareness and performance among SMMEs along racial/cultural lines in the GTLM?

In order to answer this question, two hypotheses were tested. Firstly, the hypothesis “The level of BSR awareness does not differ among SMMEs along racial lines” was tested. The empirical evidence did not support the acceptance of this hypothesis. Secondly the hypothesis “The level of BSR performance does not differ among SMMEs along racial lines” was tested. The empirical evidence did not support the acceptance of this hypothesis. **Therefore, the conclusion was reached that level of BSR awareness and performance differs along racial lines among the GTLM SMMEs.**

**Question five:** Are there any observable positive outcomes for those SMMEs that practice BSR?

In order to answer this question the hypothesis “There are no observable benefits for SMMEs that engage in BSR activities” was tested. The empirical evidence although somewhat weak, did not support the acceptance of this hypothesis. **Therefore, the conclusion was reached that there are observable benefits for SMMEs in the GTLM that engage in BSR activities.**

Based on the above it is finally concluded that **the concept of BSR has to ‘some extent’ permeated the SMME mindset in the GTLM.** However, much work needs to be done to bring the level of awareness and performance to

internationally acceptable level that will have meaningful impact on socio economic development. For that reason, the following recommendations are offered

#### 8.9.2 FINAL RECOMMENDATIONS

The main aim of this study was to determine the extent to which the concept of BSR has permeated the SMME mindset in the GTLM, a typical South African rural setting. It was concluded that **the concept of BSR has to 'some extent' permeated the SMME mindset in the GTLM**. However, it was also postulated that much work needs to be done to bring the level of BSR awareness and performance of SMMEs to a level that can make them impact more on the socio economic development at grass root level (rural communities). For that reason, the following final recommendations are offered:

- Research into BSR needs to be intensified in South Africa.
- This may require the establishment of BSR research centres in our tertiary institutions.
- The practice where centres of business ethics cater for BSR is not ideal and need to be supported/replaced by the above because BSR is more than ethics.
- All business study programmes should contain compulsory modules on BSR.
- Like the UK perhaps the time has come for South Africa to appoint a minister of BSR.
- The concept 'BSR' needs to be clarified to SMME owner/managers as meaning more than 'UBUNTU'. They need to know that it has to be part of their core business strategy for them to get maximum benefits. Courses should be run for business owners and aspiring ones on BSR.

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- Foreign SMME owner/managers need to be educated on BSR and its relevance particularly with regard to how well they treat their employees.
- It is necessary that SMMEs be encouraged to strike a balance between their BSR focuses. Policy makers need to bring home to SMME owner managers the equal importance of all BSR dimensions as they affect SMMEs. And
- As said before, it is time BSR is taken more seriously in South Africa. The South African government needs to assist in the formation of an organisation for BSR.

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**ANNEXURE A**

**SMALL B BUSINESS SOCIAL RESPONSIBILITY**

**QUESTIONNAIRE**

Interviewer instructions

Phone the number on the list provided and ask to speak to the owner/manager and say the following to him/her

Good day, Sir/Madam. My name is ... (state your name). I represent Mr Dennis Dzansi who is a Doctorate student at the University of Pretoria and is currently collecting data for his thesis. May I please make an appointment for an interview with you?

Date of interview: \_\_\_\_\_

Time of interview: \_\_\_\_\_

Physical address: \_\_\_\_\_

**INTRODUCTION AT THE START OF THE INTERVIEW**

Good day, Sir/Madam. My name is ... (state your name). I represent Mr Dennis Yao Dzansi who is a Doctorate student at the University of Pretoria and is currently collecting data for his thesis. The topic for his thesis is: **Small business social responsibility in rural communities**

May I please use a few minutes of your time to ask you some questions? The interview should take about **30 minutes**. I wish to assure you that information from this interview will be treated with the outmost confidentiality and will be used for research purpose only.

Company name	
Responsible person (Respondent name)	
Designation	
Telephone number	
Physical location	

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RESPONDENT NUMBER					
Indicate the degree to which you agree or disagree with the following statements about your company/organisation					
	Strongly disagree	Disagree	Neither	Agree	Strongly agree
1. The company tolerates all religions, races and orientations of its employees	1	2	3	4	5
2. The company provides its workers with regular training	1	2	3	4	5
3. The company provides paid maternity leave	1	2	3	4	5
4. The company provides paid family sickness and bereavement leave to its employees	1	2	3	4	5
5. Employees are free to decide how much overtime they want to do	1	2	3	4	5
6. My company prohibits child labour	1	2	3	4	5
7. My company views customer complaints as an opportunity to improve service rather than as a problem that is taking valuable time	1	2	3	4	5
8. When my company does not have the product/service it is not my problem to suggest alternatives or options to the customer	1	2	3	4	5
9. I sometimes lose my patience with customers whose complaints I consider wrong.	1	2	3	4	5
10. Customer satisfaction is more important than finance and human resource issues.	1	2	3	4	5
11. The company is committed to fair trading practices	1	2	3	4	5
12. The company cannot be concerned with vulnerable groups such as children because it is not a priority customer	1	2	3	4	5
13. The company always and clearly explains to the customer the way the product works	1	2	3	4	5
14. The company sells only products that are clearly labelled	1	2	3	4	5
15. Community issues like (bursaries, Sports & youth organisations, disaster relief etc) are very important to my company	1	2	3	4	5
16. My company gives first preference to local employment	1	2	3	4	5
17. Workers are allowed to use company time for community issues	1	2	3	4	5
18. The company responds promptly to customer complaints	1	2	3	4	5
19. (The concept of business social responsibility) - that is the idea that businesses need to look beyond profit motive and also contribute towards community causes such as disaster relief, sponsorships, etc. as well as taking extra care of its employees and customers is well known to me	1	2	3	4	5
20. Businesses irrespective of size indeed have a responsibility to contribute to the above named social causes in 19.	1	2	3	4	5
21. Business irrespective of size stands to benefit from contributing towards the above social causes mentioned in 19	1	2	3	4	5
Indicate the degree to which you agree or disagree with the statement that a company that engages in socially responsible activities mentioned in question 19 above are more likely to derive the following benefits					

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	Strongly disagree	Disagree	Neither	Agree	Strongly agree						
22. Enhanced company image	1	2	3	4	5						
23. Increased sales	1	2	3	4	5						
24. Greater worker productivity	1	2	3	4	5						
25. Keeps operating costs down due to lower (legal costs and penalties)	1	2	3	4	5						
26. Increased level of customer loyalty	1	2	3	4	5						
27. Increased level of customer loyalty	1	2	3	4	5						
Indicate the degree to which you agree or disagree with regard to your company's general performance over the last three years											
	Strongly disagree	Disagree	Neither	Agree	Strongly agree						
28. Employee attendance has improved	1	2	3	4	5						
29. Sales has been growing	1	2	3	4	5						
30. Overall financial performance has been improving	1	2	3	4	5						
31. Increasing number of loyal customers	1	2	3	4	5						
32. What type of business are you engaged in?											
Commercial farming 1	Health/Medical 2	Hospitality-restaurant hotels 3	Mining 4	Retail 5	Transport 6	Education 7	Other (specify) ..... ..... 8				
33. Please indicate your gender			Male (1)		Female (2)						
34. Please indicate your age in years											
35. Please state your highest educational level											
No formal education 1	Primary 2	Secondary (grade 7 - 9) 3	Matric (grade 10 - 12) 4	Post matric 5	Post graduate 6						
36. Indicate the number of years your business has been in operation											
37. Indicate your First/home language											
Afrikaner 1	English 2	Black RSA 3	Indian 4	Chinese 5	Portuguese 6	Other African 7	Other Asian 8				
38. Please think about your company's sales over the past three to five years and indicate the <b>average</b> per year sales growth over the last three to five years.											
Decreasing (1-20%) 1	No change 0% 2	Increasing 1-10% 3	Increasing 11-20% 4	Increasing 21-30% 5	Increasing 31-40% 6	Increasing 41-50% 7	Increasing Over 50% 8				
39. Please think about your company's gross profit level over the past three to five years and indicate the <b>average</b> per year profit level over the last three to five years.											
Decreasing (1-20%) 1	No change 0% 2	Increasing 1-10% 3	Increasing 11-20% 4	Increasing 21-30% 5	Increasing 31-40% 6	Increasing 41-50% 7	Increasing Over 50% 8				
40. Besides the owner/manager how many people does your company employ on full-time basis?											
41. Finally could you please use the table below to estimate in monetary terms the percentage of pre-tax profit that your company spends annually on social causes?											
Less than 1% 1	1% 2	2% 3	3% 4	4% 5	5% 6	6% 7	7% 8	8% 9	9% 10	10% 11	Over 10% 12

**THANK YOU!**