Chapter1

Background to the study

1.1. Introduction

Job creation is critical in South Africa, particularly since unemployment (according to the official or strict definition of unemployment) was running at 25,8% at the time of the October Household Survey in 1999 (Stats SA 1999). Self-employment is seen as the driving force of economic growth, creating hundreds of thousands of new jobs annually in *developed* countries (Jennings 1994:298). In the United States about one in seven of the working population is self-employed (Timmons 1994:3). Also in a *developing* country like South Africa there has been a growth of 15% in self-employment since 1991 (CSS 1991 & Stats SA 1996). New business enterprises are the primary source of new employment opportunities (Schutte, *et al,* cited in Boshoff, *et al,* 1993:1). Jennings (1994:303) indicates, however, that failure is the rule, not the exception, in self-employment. Some 400 000 small businesses in America fail each year, and by their tenth year of existence, almost 90% of small businesses have failed. South Africa urgently needs to create jobs and cannot afford to have a high failure rate among the self-employed that creates jobs for others. That which can contribute to business success and growth in South Africa, needs to be determined.

Entrepreneurship entails value creation for owners, stakeholders, customers, employees and the economy as whole. The ability to generate sufficient income and create value separates businesses that fail from those that succeed (Timmons 1994:9-10). What has to be done to assure business success and ascertain that the self-employed in South Africa creates value and generate sufficient income ? What factors frustrate the attainment of objectives ? Many researchers believe that *growth-oriented* businesses are true entrepreneurial enterprises and that they differ significantly from small businesses in general (Sexton & Bowman-Upton 1991:16). Arising questions are, what is needed to assure growth, and when is self-employment truly entrepreneurial rather than merely a job substitution aimed at achieving nothing more than basic survival?

1.2. Rationale and problem statement

1.2.1. Relevance of self-employment in the South African labour market

As part of the Labour Market Analysis Programme, the HSRC recently completed a study that included an extensive survey of employers. The forecast was that fewer than 50 000 jobs would be created in the formal sector in the five years from 1998 to 2003 (Whiteford, *et al.* 1999:121). Budgetary constraints are likely to limit the ability of government to increase employment opportunities, while the private sector is battling to become and to remain competitive in the global environment. Ways of creating jobs will have to be found, and this will have to be done outside the public sector and large companies. The study also revealed that critical skills in most professional categories had been lost to the country as a result of emigration from South Africa. According to a report of the International Monetary Fund in July 1999, 8% of South Africa's professionals have emigrated to America and, according to the University of Cape Town, the loss of professionals has increased by 56% per annum since 1994 (De Lange 1999:5). A recent study, *First Employment Experiences of Graduates,* also shows that the segments of the labour market that have traditionally offered job security to graduates, such as the public sector and large companies, are being subjected to structural changes that limit their employment capacity (Moleke & Albertyn 1998:9).

1.2.2. Contextualisation and definitions

Before continuing with the discussion on self-employment and the potential of self-employed graduates as job creators, we should first clarify the terms *self-employment, small business organisation* and *entrepreneurship*, as these terms are often used interchangeably in the literature. Subsequently the role of *communication* in the context of self-employment and entrepreneurship is explained.

Many companies (micro, small, medium and large) evolve from self-employment endeavours. For some self-employed people, the "small" status is only temporary as they intend growing their businesses. Other self-employeds have no intention of developing their businesses into large or multinational organisations. According to Sexton and Bowman-Upton (1991:13), *growth* is a goal of only a limited number of business owners (self-employed). They add that lack of growth does not necessarily constitute failure as many successful companies elect to stay small. Against this background the three concepts, self-employment, small business venture and entrepreneurship can be defined as follows:

Self-employment: According to the definition used during the 1996 Census, a s*elf-employed person* "works for himself or herself for financial gain without employing anyone else" (one-person business), while an *employer* is "a person who employs other people in a work situation for pay, profit or family gain" (Stats SA 1999). In most of the literature, as well as in this report, the term *self-employment* comprises *both* the one-person business and the person who employs other people.

Small business venture: A small business venture is any business that is independently owned and operated, is not dominant in its field, and does not engage in any new marketing or innovative practices (Jennings 1994:139). This definition implies that *new marketing* and *innovation* differentiate entrepreneurial enterprises from ordinary small businesses. In other words, when a small business engages in new marketing and innovation it becomes an entrepreneurial enterprise. Sexton and Bowman-Upton (1991:9-10) think similarly, maintaining that growth-oriented people are "movers and shakers" and that it is the growth propensity that differentiates the typical small business owner from the entrepreneur.

Small business: According to the National Small Business Act (102/1996), a small business is a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy and which can be classified as a micro-, a very small, a small or medium In the National Small Business Act (102/1996):

- *micro* refers to businesses with five employees;
- *very small* refers to businesses with 10 to 20 employees;
- *small* refers to businesses with 50 employees;
- *medium* refers to businesses with 100 to 200 employees.

Entrepreneur: There is no consensus on the definition of an entrepreneur. Psychological traits attributed to entrepreneurs can also be attributed to successful people in general (Sexton and Bowman-Upton 1991:9). Gartner (1988:12) states that the personality characteristics of the entrepreneur are ancillary to the entrepreneur's *behaviour* and what the entrepreneur *does*. Many researchers (Jennings 1994:81, 139; Mitchell 1979:243-281; Sexton and Bowman-Upton 1991:9-10; Timmons 1994:4, 195) concur with Gartner as they see *initiation of change* through *creation* or *innovation* as an integral part of entrepreneurship. Gartner (1988:26) adds that entrepreneurship is not a fixed state of existence: the individual who creates an organisation assumes different roles at each stage of the development of the organisation – innovator, manager, small business owner, etc. and thus manifests a certain kind of

behaviour. According to Sexton and Bowman-Upton (1991:10), *growth* is one of the factors that distinguish an entrepreneurial enterprise from a small business. An entrepreneur is "an individual who establishes and manages a business for the principal purpose of profit and growth". The entrepreneur is characterised principally by *innovative* behaviour and is someone who will employ *strategic* management practices in the business. Draheim (1975:1) states that the entrepreneur's intention is "for the business to *grow* and prosper beyond the self-employment stage". According to these definitions, it is the *innovative* and *creative behaviour* of the small business owner which contributes to the growth of the business. This leads to job creation and changes a small business into an entrepreneurial enterprise.

The role of *communication:* From the process viewpoint the focus is on the *process* by which organisations are created in order to encourage growth. From the process viewpoint the individual who creates the organisation (the entrepreneur) takes on other roles (innovator, small business owner, vice-president, et cetera) at each stage of the organisation. Although different roles are required at various stages of development, at each stage communication is crucial. Prior to the start-up phase, networks with a high level of interaction should be developed, as networks link entrepreneurs to resources and provide information exchange opportunities. Once the venture has been initiated and begins to grow, the leader needs to become more concerned with communicating the vision or plan with providing subordinates with the power to accomplish tasks and participate in the process. Charismatic leaders have the ability to create a vision of where the organisation is going and how to achieve those goals and to persuade others to accept that vision. This is the quality that is required from *entrepreneurs*. Visionary leadership displays personal integrity and a willingness to take reasonable risks and give of oneself of the good of the organisation and demonstrations of personal warmth and charm, including showing concern for employees and their lives outside the organisation. The importance of communication for self-employment is thus all encompassing.

1.2.3. Self-employment in South Africa

As has been indicated in the previous section, the term self-employed includes both those who work for themselves without employing anyone else (one-person businesses), as well as those who work for themselves and employ other people in the work situation (employers). According to Stats SA (1998), 9% of the work force in South Africa (approximately 100 000) was *self-employed* (one-person businesses plus employers) at the time of the Population

Census in 1996. *One-person* businesses made up 5% and *employers* 4% of the *work force*. This constitutes a growth of 15% in self-employment since 1991.

Employers made up 45% of the *self-employed*, while 55% of the self-employed had one-person businesses. Half (49%) of the self-employed were African, whites formed just more than a third (38%), coloureds made up 7%, while 6% of the self-employed was Asian. Females made up a third (33%), while males made up two-thirds (67%) of those who were self-employed in the country. Self-employed females had increased with 36% (Stats SA, 1996) since 1991 (CSS, 1991). This is a 9% increase per annum, which is significant. Males on the other hand, had increased with 6% only (Stats SA, 1996) since 1991 (CSS, 1991). That was an increase of 1.5% per annum, which was in line with the economic growth of 1%.

Almost a third (30%) of the self-employed in the country had an educational level lower than secondary level and they were predominantly African people. More than half (56%) of the self-employed people in South Africa had an educational level lower than Grade 12 and they consisted mainly of African people. People that obtained a tertiary qualification made up 17% only of the self-employed people and they were predominantly white.

There were more employers (56%) among the white self-employed than one-person businesses (44%). Among all the other population groups, there were more one-person businesses than employers. Among the coloured and Asian self-employed, the ratio of employers to one-person businesses was almost the same. African employers made up 36%, while African one-person businesses made up 64% of the self-employed Africans.

The majority of employers were in the higher education brackets. Among the employers, 45% obtained a Grade 12 or higher qualification, while the majority of self-employed people in *one-person* businesses were in the lower education brackets. Less than a third (32%) of those in one-person businesses, acquired a Grade 12 or higher qualification. Those that created jobs for themselves as well as others (employers), were 45% of the self-employed and they formed the majority in the higher education brackets.

1.2.4. Demarcation / delimitation of the study

The different groups in the self-employed sector may differ from country to country. These various groupings in the self-employed sector may have different needs. Meredith (1986:237) distinguished the following groups among the self-employed: The *unemployed* involved in survivalist activities who often are illiterate and require special assistance, the *educationally disadvantaged*, potential self-employed in *isolated communities*, self-employed *women*, worker cooperatives, *high technology* enterprises, *growth enterprises* that have the potential for greater success and can make a significant contribution to the economic well-being of any country, *ethnic groups* in some countries with special needs that require specialized treatment. Meredith indicated that the needs of each group need to be addressed and that different programmes will apply to the different groups. It was also stated by Meredith that the level of expertise within high technology enterprises (most probably graduates) in the marketplace far exceeds the knowledge of personnel associated with education and training for self-employment and entrepreneurship and *high technology enterprises* are thus often inadvertently omitted from programmes and planning. *Growth and successful enterprises*, according to Meredith, are often omitted from consideration on the grounds that "such enterprises are self-sufficient and can obtain their own education and training." Successful enterprises, however, should not be placed in any position of disadvantage regarding planning, education, counselling or consulting services.

The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa states "....*problems and constraints differ widely between the various self-employed graduate segments of SMMEs and also between the sectors as well as owner categories.*" (1995:12). University graduates who are self-employed will be the target group in this study, because it has been indicated that the well educated are likely to have more successful firms (Anderson & Woodcock 1996:20) and without adequate skills, sustained and effective growth would be unlikely (Naude 1996:9-22). As in countries the world over, results showed that South Africa's most successful SMMEs generally were run by highly educated and experienced entrepreneurs (Levy 1996:2).

The HSRC labour market study indicated that changes in the broad occupational composition of employment were likely to favour skilled *professionals*, while the proportion of employment requiring lower skills was expected to decline substantially. Many professionals are self-employed graduates. The study, *First Employment Experiences of Graduates*, indicated that the public sector and large companies were subjected to structural changes that

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limited employment capacity and many graduates were thus becoming self-employed (Moleke & Albertyn 1999:9). According to surveys that monitor the income of graduates, self-employed graduates earned a higher income in comparison to graduates in the other sectors and were in a position to create jobs for others by becoming employers (Jacobs 1998). This study therefore concentrated on self-employed university graduates.

1.2.5. Problem statement

What are the *skills* and *factors* that are important in self-employment, growth and job creation and what is the role of communication in relation to other skills in self-employment and entrepreneurship? With unemployment standing at 25,8% (paragraph 1.1), job creation is critical in South Africa. Hope is placed on self-employment to relieve unemployment. The national strategy in the White Paper for the Development and Promotion of Small Businesses in South Africa aims to enhance the capacity of small business to comply with the demands facing South Africa's modernising economy and the challenge of increasing competition. According to the White Paper, the Government is committed towards a strategy of high sustainable economic development, which can be achieved through growth, enhanced productivity and expanding employment opportunities. The creation of an enabling environment for growth needs the effective input from all self-employed segments of the economy. The small business sector is highly diverse, with widely different problems and potential in the various segments. The problems of each, as indicated in the White Paper, need to be addressed differently.

South Africa needs firms to grow in order to create work for many. This country needs entrepreneurs to recognise opportunities and take the risk to become self-employed, but then they must be able to handle growth. This country also needs firms with a *long term-orientation* that increases wealth. Growth is dependent on conceptual and strategic thinking. Graduates are in the best position to take up conceptual and strategic planning. The self-employed graduates' needs should thus be addressed. The problems they encounter as self-employed must seriously be looked into. Policies must be implemented that create a business-friendly environment. Factors that hamper the development of a healthy environment for self-employment must be identified and facilitating policies must be instituted before sustained growth and progress can be achieved. The elements that are needed for growth and progress in South Africa need to be determined. This could differ from that in other countries, although the basic principles of entrepreneurship development may be the same.

The SMME sector is not a homogeneous group. As has been indicated, the sector consists of a number of subgroups. Each has its own set of problems and barriers to growth and development. Each group's problems need to be addressed. Hirschowitz and Orkin (1994:328) have noted that support services are needed for those businesses where survival is the crucial issue, and those that have the potential to grow and develop. This study addresses the needs of one group of the SMME sector, namely the self-employed university graduates. In South Africa, small businesses in the informal sector provide excellent job opportunities that are labour-intensive (Macleod 1995:6). Much that have been done and are in the process of being done to help small businesses, are programmes addressing poverty and developing emerging SMMEs of historically disadvantaged communities. At the heart of for example Ntsika's interventions is the establishment of a network of local business service centres (LBSCs) which deliver non-financial support to SMMEs, and which makes a real contribution towards poverty reduction. The Free Market Foundation with the assistance of the Law Review Project, has compiled a series of books on finance, justice, labour, land and licensing to draw attention of legislators to laws and regulations that are impacting on small business, to provide small business owners with information about laws affecting them and to provide small business organisations with an instrument for facilitating changes in the regulatory environment (Free Market foundation 1998). These initiatives contribute to the development of self-employers and are essential, but are at an early stage of development and need to be given time in order to develop further.

The White Paper (1995:15) indicates that: "...the volume of research with a practical orientation and/or policy relevance is still limited, compared to the needs of this country and our overall research capacity. This relates in particular to the systematic development of base data and trend indicators on the SMME sector with all its complexities". This study attempted to address some of the complexities. Job creation is required. The study thus researched factors that can contribute to growth and job creation in order to develop guidelines for the stimulation self-employment.

1.3. Aims of the study

The main aim was to determine the role of various factors in self-employment and entrepreneurship that could contribute to growth and job creation by:
- identifying *factors* that are important in self-employment and entrepreneurship;
- identifying key *skills* in self-employment and entrepreneurship;
- determining the role of various skills when *growth* is envisaged;

- identifying skills that differentiate mere self-employment from *entrepreneurship;*
- describing the role of *communication* in relation to other skills and factors;
- describing the role of communication in *self-employment* and *entrepreneurship*;
- developing guidelines for j*ob creation.*

In order to develop guidelines, the study looked at *factors* that were important in order to stimulate self-employment among the highly skilled that had the potential to grow and create jobs:

- the *nature of the businesses* of the highly skilled self-employed were analysed;
- factors that *motivated* them to become self-employed were given;
- *skills* that are important were discussed;
- the role of *communication* was analysed;
- factors that contributed to their *success* were provided;
- *difficulties* they experienced were analysed;
- the *growth potential* among the self-employed graduates and their ability to handle growth were researched.

The effectiveness of present *policies* can subsequently be debated, adapted or developed in future in order to create an environment that is conducive to self-employment and sustained growth. In this regard contradictory viewpoints as regard to for instance legislation and flexibility of the South African labour market that could impact on self-employment, were looked into to try and shed some more light on the subject. By implementing policies that create an entrepreneurial-friendly environment, South Africa can become more competitive and will most probably lose less potential entrepreneurs to other countries.

1.4. Methodology

The methodology that was used for this study is discussed in detail in **Chapter 4**. Because exploratory studies usually lead to insight, the literature review was used in order to develop theoretical propositions. As indicated in the literature study (Chapter 2), there are no established models and theories on self-employment and entrepreneurship in order to assure growth. There has been agreement on certain characteristics of entrepreneurs and job creation, but also contradictions. Certain theoretical propositions were made at the end of the literature study as point of departure for the study. The study was thus exploratory to a certain extent, but also descriptive in the sense that self-employed university graduates in South Africa were described as accurately as possible by making use of qualitative and quantitative research methodologies such as the postal survey and in-depth interviews.

As conceptualization is to specify the various meanings adhered to a concept in a systematic way (Mouton & Marais 1990:64), a thorough study of the literature on models and theories about self-employment and entrepreneurship in creating growth was conducted. Subsequently, a measuring instrument was developed in order to collect reliable data about self-employment and entrepreneurship in the process of job creation.

The research thus consisted of an explorative literature study and a postal survey that determined the relative importance of various variables in self-employment and job creation (as identified in the literature) and which formed the descriptive study. The postal survey was augmented by a qualitative study that comprised in-depth interviews with a selection of respondents.

1.5. Overview of chapters

The report begins with the *literature overview* that provided the framework for the survey. The literature revealed that well-educated self-employers were more likely to find successful businesses and become entrepreneurs that create work for others than the less educated (Chapter 1, paragraph 1.2.4). The study consequently focuses on the *university graduate, self-employed segment* of the self-employed in the country. At the end of the literature study (Chapter 2) the *theoretical propositions* that were derived from the literature study are given.

Chapter 3 is a continuation of the literature study, but focuses specifically on *business communication* and other communication skills that are required for self-employment and entrepreneurship. In Chapter 4, the *methodology* of the study is discussed in detail. To follow, a *profile* of self-employed university graduates is given in Chapter 5. Subsequently the *nature of their businesses,* which included the period self-employed, approach followed in becoming self-employed, form of business, staff complement and potential for job creation, and turnover are discussed. The same chapter also gives an indication of the *skills* that are important for self-employment, factors that *motivate* graduates to become self-employed, *constraints,* and factors that contribute to *success* of self-employment.

Many questions are asked concerning the number of graduates leaving South Africa. This study therefore included questions and answers on *university graduate mobility* in an attempt to gauge self-employed graduates' intention towards migration or temporary migration abroad. Chapter 6 is the final chapter that includes the *conclusions, recommendations and guidelines* for providing a conducive environment for self-employment and future growth.

Chapter 2

Literature overview of the recorded body of knowledge on self-employment and entrepreneurship

2.1. Introduction

If self-employment and entrepreneurship need to be stimulated in order to create growth, it is necessary to first look at what has already been written about self-employment and entrepreneurship. What does the literature say about self-employment, successful self-employment, growth and entrepreneurship? The literature study thus focus on the variables that play a role in self-employment and entrepreneurship, but more important, the variables that could contribute to growth. The literature was searched to determine which factors and how these factors are combined to contribute to growth. The literature study was thus done to shed more light on the circumstances that are needed to grow and to determine whether the circumstances are different for growth orientated firms as opposed to those that prefer to stay small.

The literature study first focussed on the factors that motivated people to become self-employed. Subsequently the focus moved to the elements that are important in self-employment, which included the screening of opportunities, networking, leadership, managerial skills, financial skills, and marketing skills. Self-employment among females was looked into to determine whether the circumstances that contributed to self-employment among females differed from those that contributed to self-employment among males. The role that business, government and higher education play in the promotion of self-employment has been investigated. Then the constraints to self-employment as revealed in the literature were discussed. To conclude an overview of self-employment, entrepreneurship and the link between the two concepts were drawn. This resulted in the forming of theoretical propositions.

2.2. Motivation for self-employment

The question can be asked whether motivation for self-employment is internally motivated and whether psychological characteristics play a major role. Much research has been directed towards identifying the psychological characteristics of an entrepreneur. A review of the literature indicates that entrepreneurs have a need for achievement, an internal locus of control, that entrepreneurs are risk takers, innovative, self-confident, independent, committed, and people with a high energy level (McClelland 1961; Rotter & Malry 1965; Palmer 1971). These factors, however, tend to describe successful people in many areas and not just entrepreneurs (Sexton & Bowman-Upton 1991:9). Studies on personality characteristics have not yet yielded a clear picture (Boshoff, *et al.* 1992). In order to be successful in self-employment, certain psychological characteristics seem to be necessary, but it is necessary to determine what is required in addition to become an entrepreneur and to contribute to *growth*.

There is a more sociological approach that tries to explain the social conditions from which entrepreneurs emerge and the social factors that influence their decision to become self-employed (Dollinger 1995:50). Institutions and incentives that promote entrepreneurship can be divided into those that exert a 'pull' function and those that combine a 'push/pull' function.

'*Pull*' functions identified can be:

- a supportive infrastructure;
- a market that encourages SMME development;
- deregulation; and
- technological development that contributes to innovative products/services.

"*Push/pull*' functions have been identified:

- *employment patterns* may 'push' people into entrepreneurship as an alternative to no job, alternatively;
- the *status* accorded by society to entrepreneurship; and
- *perceived economic benefits* may pull people into entrepreneurship; and
- *adverse economic structures* may push persons into entrepreneurship; or
- *fortuitous economic structures* may pull people into entrepreneurship as they recognise the potential financial rewards (Morrison 1998: 173).

Growth in self-employment in South Africa, however, was mainly motivated by the low labour absorption in the formal economy (a 'push' into self-employment) (Whiteford, *et al.* 1999:121*)*. There are a few instances of people entering the micro-enterprise economy out of choice rather than the need to survive (Manning, cited in Hirschowitz & Orkin 1994:18).

Sweeney (cf, 1997) indicates that research has revealed that entrepreneurs rarely cite making money as a motivating factor. Those that found a new business are much more likely to state that they wish to contribute to the welfare of their community - and want to be seen doing so. Personal satisfaction through the control of the many and complex variables is a major motivation. Further research thus looked at what entrepreneurs *do* and *why* they do what they do, as opposed to just their psychological characteristics. According to Sexton and Bowman-Upton (1991:30) there are three main reasons to make the vocational choice of venture initiation:

- the desire for achievement combined with a sense of *independence and autonomy;*
- the desire for a *change* due to dissatisfaction with present working conditions; and
- the desire to follow traditional family *role models.*

The association of the potential entrepreneur with other entrepreneurs provides important role models and an indication that the vision can be translated into tangible outcomes. The action of starting a business can inspire younger people to do the same (Timmons 1994: 26). All three reasons are related to *control issues,* yet an entrepreneur has the ability to exploit resources *outside his or her control.* An entrepreneur is motivated by the pursuit of opportunities, as opposed to managers who are concerned with the management of resources already controlled by the firm. The decision to initiate a venture has its basis in a combination of catalysts consisting of *personality factors* that constitute a propensity for such action, a *vision,* and *a desire for control* that could be described as the desire to pursue a perceived opportunity. (Sexton & Bowman-Upton 1991:31-41). Boshoff, Cronje, and Lange (1987:31) found promising results with regard to the use of motivation training. It seems as if the motivation to achieve could consistently be increased.

There thus seem to be a difference between an entrepreneur and a manager with regard to motivation. Entrepreneurs do not just control that which is already there, but goes further in *pursuing an opportunity.* Motivation is an important factor in reaching a desired goal, however there are more factors to be reckoned with. These will now be discussed.

2.3. Elements that are important in self-employment

2.3.1. Screening of opportunities

Timmons (1994: 87) indicates that an idea is not an opportunity. According to him, "an opportunity has the qualities of being attractive, durable, and timely and is anchored in a product or service which creates or adds value for its buyer or end user". Ideas and entrepreneurial creativity are used to create opportunities.

Strategic planning may be defined as the "process by which an organisation envisions its future and develops the necessary procedures and operations to achieve that future" (Sexton and Bowman-Upton (1991:118). However, Timmons (1994:94-95) is of opinion that an entrepreneur can seize an opportunity while others study it. According to him the screening should not begin with *strategy*, but *experience* in business that develops the rules of thumb to guide entrepreneurs in the screening of opportunities. Although the screening does not start with strategy, he further indicates that in the screening of opportunities, it is best to look at ventures that are based on *strategic value* such as for example technology, rather than on ventures with no strategic value. Ventures with strategic importance have for example a customer base, geographic coverage, distribution, proprietary technology, and contractual rights (1994:100). From this it can be concluded that experience is necessary to seek opportunities with strategic value.

Sexton and Bowman-Upton (1991:17) also hold this line of thinking since they indicate that entrepreneurs are opportunity seekers, not risk takers. Opportunity seeking and risk taking are thus not synonyms. Sweeney (cf, 1997) also points out that *intuition* of the entrepreneur is often the result of many years of *experience* and observation and risk taking by the entrepreneur is not to be confused with aimless speculation. Business plans and market research are a few of the techniques to reduce risk. Van de Ven, *et al*, cited in Jennings (1994:23), found that success was positively related to planning activities, although his research also showed that spending time on a detailed business plan seemed to result in poorer performance. Kuhn, cited in Sexton and Bowman-Upton (1991:310) argues that a strategic framework is valuable for all businesses, but especially for those that compete in volatile product market industries.

The *interaction* between industry structure and strategy appear to be strongly associated with performance (Sandberg & Hofer, cited in Jennings 1994:17). Businesses with controlled plans are more likely to obtain venture capital (Jennings 1994:304). However, Itami & Roehl (1987:V) are of opinion that there seems to be a difference between *true leaders* and systematic planners (Itami & Roehl 1987:V). From these opinions we can gather that planning seems to be important, but true leaders seem to have more than just the ability to plan. Experience seems to be a factor that is important in order to be able to plan. Experience contributes to the ability to differentiate between ventures with strategic value and those that do not have strategic value. Opportunities do not fall from the sky, but are created as a product of ongoing networks of relationships and exchanges in the industry that comes with experience. Planning that seems to be possible as a result of experience and network relationships, helps in the seeking of opportunities with strategic value. *Business* as well as *network relationships* are thus important variables that play a role in identifying opportunities with strategic value, as also found by Boshoff, *et al.* (1993) who indicates that *biographical* and *business* variables could be promising predictors of success or failure of small business owners. They found that the number of loans granted, nationality of entrepreneurs, security cover, education level, economic sector in which business operated, number of dependents, language preference, and race appeared as potent and promising predictors of the success or failure. Networks and planning are also necessary to obtain the resources required to exploit opportunities (Jennings 1994:27). To follow is a discussion on networking.

2.3.2. Communication / Networking

Research on networks is of major importance. The network concept is often applied in studies of:

- start-ups;
- Innovation; and
- internationalisation.

Networking also plays an important role with regard to small business strategies, the extention of the marketing concept, cooperation, and subcontracting (Landström, *et al.* 1997:385). One of the most crucial aspects affecting the creation and survival of new firms is the establishment of networks (Cardini & Fumagalli. 1997:188).

2.3.2.1. Communication / Networking in establishing a business

An entrepreneur manages a business by managing a network and prior to the start-up, entrepreneurs should develop networks with a high level of interaction. Networks link entrepreneurs to resources and provide information exchange opportunities. Entrepreneurs spend considerable time in developing and maintaining networks. There is a great variety in the type and size of networks among entrepreneurs, and the *context* in which entrepreneurs work, may be of great importance for how networks may be developed (Spilling 1997:233). Birley, cited in Sexton and Bowman-Upton (1991:208), concluded that:

- *informal contacts* (mainly business contacts) are seen overall to be the most helpful in assembling the elements of the business;

- family and friends are most useful where *local* issues are concerned (seeking location, employees, sales);

- *formal* sources come to the fore when the elements of the firm are set and the entrepreneur is seeking to raise financing.

Several surveys show that within the process of enterprise creation, *self-employed friends* very often play an important role as advisers. This means that established businesses are not only asked to convince potential founders to become self-employed, but they also have to convince enterprises in the region, that founding new enterprises will lead to further labour division and to a continuous development of the economic structure which will in turn enhance welfare for all in the region. (cf Icks, 1997). According to Cardini and Fumagalli (1997:182) numerous empirical studies carried out have highlighted that entrepreneurs setting up new businesses show a marked preference to locate their enterprises within the area where they live and/or an area where they have already worked. The reason lies in the availability of business contacts and opportunities, since the local habitat offer new entrepreneurs a number of advantages such as greater information concerning the presence of potential customers and suppliers, availability of facilities, familiarity with the local authorities, local banks and the labour market (Cardini & Fumagalli 1997:182). When technical and financial assistance is available locally, agglomerations may begin to form in which special innovation and production advantages are superior to less favoured areas (cf Oakey, 1997) Many SMMEs can be helped by specific support for clustering businesses in related or similar fields so they can trade more easily between themselves, support each other and reduce overheads by sharing common services. Similar results may come from encouraging networking and sub-contracting partnership exchanges (Fazey 1997:151). Networking among firms is thus important.

2.3.2.2. Networking among firms

A conducive environment socialises entrepreneurship throughout the culture of a community, so that none stand alone and all share their knowledge and skills (cf Visegrad conference, 1996). World-wide (for example in Italy, Denmark, Germany and other countries) there are examples of co-operation networks between small firms in order to compete with the best of large international firms (Landström, *et al.* 1997; White Paper 1995:17). Involving a large number of flexible and qualified small and medium sized contractors in production can create economies of scale and scope. The emergence of new industries, where small specialised firms play a vital role, for example in producing customised software, electronics, communication and advertising, craft and fashion is the trend in other countries (Hirschowitz & Orkin 1994:67).

A major advantage of efficiently run large enterprises is that they raise productivity levels by achieving economies of scale in their operations. According to the African Development Bank (1994a:16), manufacturing productivity among some small enterprises has been constrained because of their size. Developing economies need to foster linkages among small, medium, and large-scale enterprises to develop an integrated economic system. It is essential that fragmented small enterprises network more effectively in order to jointly address development obstacles (White Paper, 1995:17). When linked with other firms in the domestic economy, large-scale enterprises can provide a market for intermediate production of goods from smaller industrial firms (Spring & McDade 1998:15). Sub-contracting and franchising are two ways of linking large, medium, small and micro-enterprises (Hirschowits & Orkin 1994:330). In this regard the White Paper (1995:30) had indicated that public procurement practices will be adjusted at central, provincial an local government levels, and by parastatals, in order to facilitate the granting of some proportion of contracts to black-owned enterprises, and encourage small business tendering for such contracts.

Neworks may also be regarded as a strategic resource. Borch and Huse, cited in Spilling (1997:235) point to the importance of a board of directors to develop informal strategic networks for small firms. Bullvag and Kolvereid, cited in Spilling (1997:234) have compared growth in firms operated by loners to those operated by partners, and concluded that partner ventures start larger and grow faster than their counterparts run by loners.

2.3.2.3. Networking and cooperation in internationalisation

SMMEs often have a scarcity of management capacity, information management capacity, knowledge of markets, logistics, distribution, et cetera, that requires some form of *cooperation* with other firms to combine forces. Businessmen are not always aware of international opportunities. Size as a possible disadvantage and a major obstacle in pursuing foreign opportunities, was often of central concern (Reid, cited in Donckels, *et al.* 1997:341). In the literature it is clear that there is a positive relationship between the extent of the use of *information sources* and successful export operations (Landström, *et al.* 1997:338). A working knowledge of foreign languages, managerial experience, level of education, sensitivity to strategic information, and firm and market related factors such as size, industry, market demand, et cetera seem to influence an export orientation (Cavusgil, cited in Donckels, *et al.* 1997:339). Cooperation and networking among firms can address these needs to improve exports.

2.3.2.4. Networking and innovation in a firm

2.3.2.4.1. Communication

"To communicate is to *transmit meaning*" (Guirdham 1990: 266). However, very different messages can be transmitted about the same situation according to the communication style of the sender. Communication is not a straightforward process. There could be environmental noises, the medium (telephone, book, etc.) could change the message, the sender and/or listener could select, distort, categorise, interpret, decode inaccurately, and certain behaviour could convey a certain meaning. To achieve accurate and full interpretation involves recognising the biases, which often distort our perceptions. To communicate the correct meaning, one should therefore be aware of perceptions. Barriers in communication need to be reduced. The main biases to avoid are: Halo effects (inferring the general qualities of an object from a specific characteristic), expectation effects (we see what we expect to see), distortions to meet emotional needs, overuse of stereotypes, assuming greater similarity of others to ourselves than really exists, assuming that others have more control over their situation than they really have, and getting locked in to first impressions. In trying to eliminate these biases, interpretation skills need to be improved by active listening, empathy, and postponement of judgements (1990:177).

Many organisations now stress the importance of employee communications and the centrality of *face-to-face communication.* Face-to-face communication places demands on managers' skills in transmitting the correct meaning. Employee communication should communicate not only what is happening, but also why and how it is happening. It should be timely, continuous, should link the 'big picture' with the 'little picture' and should avoid trying to dictate the way people should feel about the news (1990:300). Clarifying of roles and responsibilities, along with establishment of regular meetings, eliminate many communication problems (Flamholtz 1986:98). Once a venture has been initiated and begins to grow, the entrepreneur should alter his or her role. An entrepreneur needs to become more concerned with communicating the vision or plan and with providing subordinates with the power to accomplish tasks and participate in the process (Sexton & Bowman-Upton 1991:41-42).

2.3.2.4.2. Communication and change

Intrapreneurs are described as individuals who operate entrepreneurially in a larger organisation. Individuals who choose the career of corporate entrepreneur over that of an independent entrepreneur might need different competencies to success such as being skilled at corporate politics. Most independent entrepreneurs, however, find corporate politics reprehensible which motivates them to resist working for anyone but themselves (Jennings 1994:271). This study will focus more on the entrepreneur than the intrapreneur, although some of the discussions applies to both the entrepreneur and intrapreneur.

Successful organisations are those that constantly create change, innovate and adapt to change. There are three elements to consider when interventions should be made: Analysing the forces for and against the change, presenting changes, and dealing with resistance. Part of the benefit of introducing change by questioning and listening is not just gaining information, but also establishing a relationship leading to more friendliness and trust (Guirdham 1995:353). One of the most common ways to overcome resistance to change requires a good relationship between the initiators and resisters (Kotter & Schlesinger, cited in Sexton & Bowman-Upton 1991:187). How does an idea travel between its members and how does the firm react to society? What matter is not the size of the firm, but whether or not a project or plan can be understood, shared and worked upon. For growth, entrepreneurs need to alter their roles and become more concerned with *communicating* the vision and providing subordinates with power to accomplish tasks and participate in the process of growth (Sexton & Bowman-Upton 1991:41-42). Networkers are sensitive to, *inter alia,* other people's

motivations and attitudes. Networkers believe in themselves and in their ability to change things (Guirdham 1991:335). Effective leaders are both task orientated and people orientated. They emphasise goals, facilitate interaction and work, are supportive of personnel, and encourage personnel development (Flamholtz 1986:126). Entrepreneurs are thus more than managers that control. Entrepreneurs in addition need to have interpersonal skills and be good communicators. For leaders as effective communicators, refer to Chapter 3, paragraph 3.3.

A good example of effective networking is the Italian small firm, which is a cultural entity that has familial, social and artistic aspects as well as economic aspects that offers its workers satisfactions besides that of earning a living. The Italian small firm has less of the communication problems that beset larger hierarchic firms, because of the informality of relationships (Goodman, *et al.* 1989:9). Good networking brings us to the role of leadership in self-employment.

2.3.3. Leadership

According to Abraham Zaleznik (1977:67-68), businesses are caught between two conflicting needs:

* the need for *managers* to maintain the balance of operations; and
* the need for *leaders* to create new approaches and imagine new areas to explore.

He suggests that leaders and managers are basically different types of people that have different relations with others and themselves. Managers tend to adopt impersonal, if not passive attitudes towards goals. Leaders are active, shaping ideas to change the way people think. Leaders have specific agenda towards the accomplishment of an objective (Sexton & Bowman-Upton 1991:35).

Literature characterises the entrepreneur as the bold decision maker, fully in control, who walks *confidently* into an uncertain future (Mintzberg & Waters 1982:465-499). Entrepreneurship is not foolhardiness, but an entrepreneur knows the consequences of a move (plan of action). The leader has intimate knowledge of the business and the environment that are taken in consideration when a decision is made and a strategy is formed to reach a goal. Strategy (plan of action to achieve a goal) is conceived in the entrepreneurial mode, which is characterised by creativity. Creativity alone does not guarantee change or innovation (Dollinger 1995:53). The manager does the planning which is the elaboration of the given vision of the leader. Planning gives order to vision, and puts form on it for the sake of

formalised structure and environmental expectation. Planning is the programming of a given strategy rather than the formulation of a new one. Ultimately, the planning mode forces out the entrepreneurial one and the result is less innovation (Mintzberg & Waters 1982:465-499).

Litzinger (1965:268-281) distinguishes between *managers* who "carry out policies and procedures in achieving goals" and *entrepreneurs* who are "goal and action orientated". This course of thinking also comes from Schumpeter (1934:254) who defines entrepreneurship as "doing things that are not generally done in the ordinary course of business routine, it is essentially a phenomenon that comes under the wider aspect of *leadership*". An entrepreneur must innovate, cannot allow things to get into a rut and exercise what in the business literature is called *leadership* (Jennings 1994:81). Top managers should enact at least the roles of sponsor, mentor, critic, and institutional leader (Van de Ven, cited in Jennings 1994:194). Entrepreneurship to me, when one looks at these discussions, seems to include both leadership and management. Managerial skills alone do not entail entrepreneurship. Timmons (1994:25) has the same line of thinking by indicating that although the management skills of the manager and the entrepreneur overlap, the manager is more driven by conservation of resources and the entrepreneur is more opportunity-driven. An entrepreneur must be more than a capable manager and must be the initiator of growth and change as well as the role model and in addition, the conscious guide for the firm. The ethical standard of the organisation is established by the entrepreneur through the leadership role and the establishment of a code of ethics that involves personnel at all levels (Sexton & Bowman-Upton 1991:195-197).

More recently, research into leadership has made progress by starting to focus on the *behaviour* of leaders and by determining what situational factors or conditions moderate the effects of their behaviour and performance (Gartner 1988:22). According to Van Gelderen and Frese's (1998:234-248) behaviour approach to study small business owners, strategy use of small business can be studied by what they *do* (strategy content) and *how* they do it (strategy process). A strategy can be regarded as a plan for action that influences how we are doing things (Hacker, cited in Van Gelderen & Frese 1998). Founders of new ventures follow a strategy to reach a goal. Van Gelderen and Frese (1998) came to the conclusion that some restricted form of *planning* is necessary for success. Schwenk and Shrader, cited in Van Gelderen and Frese, as well as Miller and Cardinal (cited in van Gelderen & Frese 1998) found that the relationship between strategic planning and success is not as high as one would expect. Van Gelderen and Frese distinguished three forms of planning:

- *complete Planning Strategy* (top down approach);
- *citical Point* (some degree of planning for the main issue at stake); and
- *oportunistic Strategy*, which interject periods of planning into acting on opportunities.

The results of their study suggest a success cycle pattern, in which the Critical Point Strategy is related to success at an earlier phase. Success in turn may lead to the necessity to use a more structured and top down planning approach. Using the approach in turn helps to increase success. Opportunism has been deemed to be an important strategy in cognitive science, but does not seem to be so clearly related to business ownership success, as it may lead one to loose sight of one's goal. Top down planning is thus not always good, while no planning is also bad. Different concepts of planning may lead to different results at different points along the *success cycle of a firm*. Localised planning with a quick reaction to environmental opportunities and with a clear concept of what is important is the best way to run a start-up firm - at least during the first years. It may be more useful to use a planning strategy when the firm becomes larger and when the owners have a better grasp of the exact conditions under which they do business (Frese, *et al.* 1999:2-30). These results correspond thus with the view that managerial skills become more important at a stage when a firm experiences growth, while more innovation was required at an earlier stage.

According to Vesper (cited in Gartner 1982:26) "entrepreneurship is the creation of a new organisation". He also has a behaviour approach in that he is of opinion that the focus should be on the *process* by which new organisations is created, in order to encourage growth. From the process viewpoint, the individual who creates the organisation as the entrepreneur takes on other roles at each stage – innovator, manager, small business owner, division vice-president, etc. Entrepreneurship is not a fixed state of existence, but the individual who *creates an organization* (Gartner 1988:26).

Charismatic leaders have the ability to create a vision of where the organisation is going and how to achieve those goals and to persuade others to accept that vision (Conrad & Poole 2002:100, 121). For more detail on persuasive communication, refer to Chapter 3, paragraph 3.2.3. Charisma is a quality that is required from *entrepreneurs*. Visionary leadership displays personal integrity and a willingness to take reasonable risks and give of oneself of the good of the organisation and demonstrations of personal warmth and charm, including showing concern for employees and their lives outside the organisation (Gardner &

Cleavenger 1998:3-41). For cultural strategies and other forms of strategies used by leaders, refer to Chapter 3, paragraph 3.3.2 and 3.3.3.

2.3.4. Transition from an entrepreneurial to a professionally managed firm

A founder needs to grow with the organisation and needs not be left behind. At some stage entrepreneurship is not sufficient and the nature of the organisation must change. Professional management becomes more important at this stage. If a firm is successful in the first stage, it will begin to experience rapid growth. This is the time for a transition from an entrepreneurial to a professionally managed firm. Some authors suggest that the traits that affect the entrepreneur's behaviour positively during the early growth of an organisation have a negative impact when the emphasis is on sustained growth (Sexton & Bowman-Upton 1991:250).

Flamholtz (1986:XV) has come to the conclusion that the key ingredients in successful organisational development are the entrepreneur's ability to think conceptually and *strategically* about the company. In a framework in which competition is becoming ever keener, a firm's strategic responses need to be highly sophisticated and therefore the growth of professional expertise needs to be stimulated so that entrepreneurs can successfully make the transition from *small entrepreneur* to that of the *managerial entrepreneur* (Marchini, cited in Cardini & Fumagalli 1997:187). From this I gather that in order to handle growth, it becomes necessary to have more managerial skills than only innovative skills.

As firms expand, change is required and *management systems* need to be put in place to overcome problems. Entrepreneurial firms that are successful and grow rapidly have not had time to develop effective management systems. Transition, however, cannot be accomplished overnight. Introducing change slowly can help to reduce employee resistance and anxiety. It can help employees understand why changes are being made and what can be expected in the future (Flamholtz 1986:79-101). Here again the communication skills that were discussed in paragraph 2.3.2.4, becomes important.

After the management systems have been professionalised, the *corporate culture* needs to be formalised. Corporate culture consists of the values, beliefs, and norms that govern the behaviour of people in an organisation. The culture reflects what the firm stands for in its products and services, the management of its people, and the way it conducts business. It can determine the degree of employee commitment to a firm and affect the way customers

perceive the business. Creating a corporate identity is the first step in defining a corporate culture and designing a strategic plan. A firms' identity can be clarified through meetings and discussions that outline present and future business growth opportunities. Once a mission statement is agreed upon, management can start to create a strategic plan and formalize the strategic planning process (Flamholtz 1986:102-128).

Cultural change can be accomplished through a variety of methods: A formal corporate communications program, informal family-style gatherings, changes in senior management attitudes, a culture survey, a committee structure to increase interdepartmental communication, and management development. The company's culture can be refined and communicated to employees through changes in policies and practices. The culture can be manifested in the firm's leadership style, its management development programs, and its strategic planning process (Flamholtz 1986:102-128).

Strategy planning involves deciding about the future direction of an organisation and the organisational capabilities that will be needed to achieve the organisation goals. The strategic plan specifies what the organisation seeks to accomplish, states the mission or general direction and provides a focus. A written business plan facilitates the planning aspect of the control process by providing criteria against which performance can be measured and evaluated (Flamholtz 1986:133-155). Van Gelderen (1998:234-248) indicates that different concepts of planning or strategy, may lead to different results at different points along the success cycle of a firm. Top down planning is not always the preferred strategy characteristic. "The capacity of the lead entrepreneur to craft a vision, and then to lead, inspire, persuade, and cajole key people to sign up for and deliver the dream makes an enormous difference between success and failure, between loss and profit, and between substantial harvest and 'turning over the keys' to get out under large personal guarantees of debt" (Timmons 1994:255).

Researchers, however, are divided on whether there is a relationship between strategic planning and company success (Sexton & Bowman-Upton 1991:118). In a comparative analysis, Kudla (1980:5-20) found no significant difference in success achieved by planning and non-planning firms. Welsh and White (1981:18) found that smaller firms lack the resources, time, and knowledge to perform strategic planning. Flamholtz (1986:153) indicates that if a firm has an entrepreneur who is brilliant at explicit or intuitive strategic planning, it may not need a formal strategic planning process. Yet most CEOs believe that

planning results in improved time efficiency, company growth, and understanding of the market (Sexton & Bowman-Upton 1991:130). Planning is important, but flexibility is required to quickly respond to new opportunities (Jennings 1994:27). At different stages of a firm, different planning strategies are required. Planning seems to be more important when growth is experienced (paragraph 2.3.3).

There were clearly different opinions regarding the role of *management* and *leadership* in entrepreneurship. To me it seems that both management and leadership are important, although the focus on leadership and management changes with the stage of development in a firm. At the start-up phase a leader should have the vision and creativity, but as Dollinger (1995:53) stated, creativity alone does not guarantee change. Management systems need to be put in place in order for a firm to handle change and growth, as Flamholtz has indicated (1986:79). International experience has found for example that growth slows down when enterprises matures (Levy 1996:6) and that competitiveness and better returns can be stimulated by improving, *inter alia,* managerial skills (Fazey: 1997:151). Profitability and development potential are based on managerial and technological capabilities (Hirschowitz & Orkin 1994:52). However, in a dynamic environment monolithic management easily fails to generate creativity, which is required to react fast enough (Caulkin & Simon, cited in Aula 1998:10). If established organisations seek to become more entrepreneurial, traditional hierarchy and formalised processes should be replaced by flatter hierarchies and tolerance for ambiguity (Honig 1998:418). Room must thus be made for intrapreneurship in an organisation that wishes to keep up performance and growth.

Modern society's organisations often encounter pressure for change due to environmental factors from outside. The loss of control or the absence of resources can cause chaos. At the beginning both chaos and the changing organisation can influence development. Communication as a substructure of an organisation can be an effective tool for management in the safeguarding of correct choices and the realisation of favourable outcomes. Communication, however, can direct development towards order, but also towards disorder. Integrative communication would therefore be the instrument by which the organisation reacts successfully to pressure for change from the environment. On the other hand, dissipative communication works in reverse and can become damaging (Aula 1998:4-7).

However, order is not self-evidently beneficial and disorder noxious to the organisation. Dissipative communication is effective when an organisation needs innovation and creativity.

Integrative communication is productive when a crisis is over and the organisation needs control and planning. Dissipative communication allows communicative partners to present alternative views and interpretations. Integrative communication is a monologic process, in which a sender communicates to a receiver without involving interactive participation. Dissipative communication is suitable for imagination, while integrative communication for continuous and routine tasks (Aula 1998:8). An organisation needs diversity to break existing ways. Linear ways to change are not effective in a nonlinear world (events do not follow straight lines). Transforming an organisation's culture structure requires communication to lead people in the desired direction. Entrepreneurship is thriving in a world of ideas. For development over time, opportunity recognition continues to be important (Honig 1998:416). What does this implies for management in an organisation? This subsequently brings us to a discussion of managerial skills.

2.3.5. Managerial skills

Poor managerial skills and inadequate knowledge of the industry contribute to 80% of business failures (Naudé 1996:11). Criteria are used to evaluate and select entrepreneur's proposals for funding. A venture capitalist's most important criterion in allocating funds is the entrepreneur's *managerial skills* (Sexton & Bowman-Upton 1991:238). Swart and Kleynhans (1994:8-14) found that case studies and idealised redesign of an industry can give potential self-employers a feeling of the industry without the risks and this kind of experience could be gained through tertiary training. The case method prompts students to solve problems and make decisions based on actual happenings. It is a Socratic teaching method designed to assist students in focusing on the core problem (Jennings 1994:3). The experience of supervising and organising the work of others seems to be an advantage. There are indications that entrepreneurs with prior experience of management and who are well educated are likely to found more successful firms (Anderson & Woodcock 1996:20). It has been found that if experience was gained also in administration in a previous employing firm, a start-up has a high possibility of success (Fazey 1997:163). Potential entrepreneurs that have gained understanding and knowledge of business operations through practical experience are better equipped for managing ventures (Awasthi & Sebastian 1996:79-80).

It seems that in the light of the importance of communication in the management process (Aula 1998:10), both *training* in communication skills, along with the necessary *experience* in communication within an organisation, are crucial for successful management when becoming self-employed. However, if companies need to grow after the start-up phase, the

pursuit of certainty through management structures and systems, with the consequent reduction of ideas that challenge the status quo, may rather lead to no growth (Honig 1998:416). Within the views of Newtonian science, organisations were operated according to a deterministic, predictable mode. New approaches to management bring less control and more organic, holistic and ecological organisation. It is the responsibility of management to help people engage in dialogue (McDaniel 1997:21-31). For venturing and further growth, enhanced information and organisational communication systems are crucial. Instead of focusing on the roles of managers and their organisation in the hierarchy, attention to enhanced communication systems focuses on the information sharing relationships among managers. Differences of opinion should be encouraged. Entrepreneurship arises from the management of resources under the uncertainly presented by the presence of many ideas. Management of entrepreneurial ventures should seek to preserve this dynamic as their organisations grow and develop, by seeking to promote greater uncertainty in manageable ways (Honig 1998:417-418).

Founder CEOs often lack sufficient management skills to help their firms make critical life cycle stage transitions, and instead rely on their own narrow technical views. Firm performance suffers, as a result, and in many cases new leaders are needed to help effect successful stage transitions (Meyer & Dean, cited in Honig 1998:415). In rapid-growth organisations, results usually require close collaboration of a manager with other people, resolving differences, managing others, but also growing managerial talent as well (Timmons 1994:211-212).

2.3.6. Financial planning

Many businesses fail because of poor financial planning (Hiam & Olander 1996:257). Financial planning is crucial for own business planning, supports strategic planning, is required in order to secure loans, for growth planning, asset management, profit planning, and cash-flow planning. Accurate financial statements and management reflect well on a company. According to Hiam and Olander (1996:260), owning a business requires some basic understanding of accounting and bookkeeping functions. Those who have experience, previous to setting up a firm, in administrative tasks as well as technical and production seem to survive better than others (cf, Sweeney 1997). Financial health is an indicator of past performance and an enabling resource for future performance. A strong financial base provides greater freedom in strategic choices and helps a firm think longer term. A firm operating under financial constraints is more interested in short-term survival (Human &

Horwitz 1992:79). Venture capitalists, in evaluating entrepreneurs for funding, place emphasis on investment opportunities that offer high growing potential and high investment liquidity (Sexton & Bowman-Upton 1991:237).

2.3.7. Marketing skills

Another important reason for failure among SMMEs, is poor marketing. Shortage of working capital is often the result of insufficiently effective marketing and sales. SMMEs frequently also do not understand their markets. The market can change faster than the firm's ability to compete effectively and thus calls for exit planning (Sexton & Bowman-Upton 1991:96).

Most business people realise that success depends upon the customer and therefore the marketing concept. Businesses that are customer-driven are successful. This implies, *inter alia*, a positive first impression, a satisfied customer, awareness of the customer's needs and a personal interest in a customer (Hiam & Olander 1996:139). According to Silver (1986:67-68), marketing is communication and entrepreneurs have an inbred sensitivity to listen. Maybe they should preferably have an inbred sensitivity to listen. Communication skills have to be learned and practiced and listening is an important part of communication. Sales can be improved by customer loyalty, which again can be fostered by communication. Positive word-of-mouth publicity is still the best advertisement (Mathews 1993:104).

The realisation that customer loyalty is an important consideration in long-tem marketing success has been the most recent refinement of the marketing concept. Firms build relationships with customers by offering value and providing satisfaction on a consistent basis. Keeping a customer costs about one-fourth of what it costs to attract a new customer, and the probability of retaining a customer is over 6%, while the probability of attracting a new customer is less than 30%. Customers also benefit from stable relationships within firms as they can rely on more personalised service (Lamb, *et al.* 2000:10-11). In order to grow and gain financial benefits, long-term relationships with customers are required (Jordaan 2001:80). Traditional marketing focused on attracting more and more customers, while *relationship marketing* focuses on retention of existing customers (Lamb, *et al.* 2000:183). Relationship marketing is based on the idea that important customers need continuous attention (Futrell 2000:25). A leader should not just spend time managing a business, but very important also is relationship marketing and understanding customers (Lamb, *et al.* 2000:178). As growth is part of entrepreneurship (Sexton & Bowman-Upton 1991:10), relationship marketing is an important aspect to reckon with in self-employment.

Unless corporate strategy follows the trends of the environment, a firm cannot continue on a path of high performance. The product/market strategy has to be in line with trends in customer demands. A strategy must fit with three factors in the external environment: customers, competition, and technology. Customer demands and competitors' behaviour determine the basic character of the product market. The trends and characteristics of the technological environment determine the firm's options regarding manufacturing processes as well as products. Corporate strategy is the organisation's blueprint, and all of the elements of that strategy must be closely interrelated. Product/market portfolio, business operations, corporate resources, and implementation strategies all must mesh. Of these, corporate resources, especially *invisible assets*, are the most important; they serve as the focal point of strategy development and growth. According to Itami and Roehl (1987:169) to build a successful strategy, a firm must differentiate itself from its competitors either in:

- the marketing; or
- the products;
- price; and
- supplemental services; or
- in efficiency of production and distribution, achieved through the choice of plant location, for example; or
- through lower labour costs.

2.3.8. Synthesis: Elements that are important in self-employment

Psychological characteristics like, *inter alia,* an internal locus of control and self-confidence describe successful people in general and not entrepreneurs as such. The sociological approach tries to explain the social conditions from which entrepreneurs emerge. It was found that personal satisfaction through the control of many complex variables (pull and push functions) is a major motivation for self-employment. An entrepreneur is motivated by the pursuit of opportunities, as opposed to managers who are concerned with the management of resources already controlled by the firm. Entrepreneurs do not just control that which is already there, but goes further in pursuing an opportunity. Entrepreneurs thus need to be leaders that innovate and inspire others to follow and also to be managers that handle growth.

It was found that education as well as experience is important for self-employment, as professional expertise needs to be stimulated and developed so that entrepreneurs can successfully make the transition from entrepreneurship to professional managed firms.

Education and experience is required in a framework in which competition is becoming ever keener. Self-employers who had experience as employees, previous to setting up their firms, seem to survive better than others who did not get the necessary experience. Crucial networks can be formed with first getting experience with an employer. To be successful, self-employers need to be leaders that think conceptually, innovate, and inspire others to follow, but then they also need to be managers that can plan strategically and handle growth. With experience comes the ability to identify strategic opportunities. Opportunities come as a result of networking and exchanges.

Manufacturing productivity among some small enterprises has been constrained because of their size. Developing economies need to foster linkages among small, medium, and large-scale enterprises to develop an integrated economic system. Sub-contracting and franchising are two ways of linking large, medium, small and micro-enterprises.

International experience shows that young, small firms grow most rapidly, with growth slowing as enterprises mature. Better returns are forthcoming from helping SMMEs to improve management, operations, marketing and competitiveness in order to grow. In improving managerial skills, operations and marketing skills, the ability to form a corporate strategy becomes possible which forms an organisations blueprint that interrelates all business elements and improves competitiveness. However, in a dynamic environment monolithic management easily fails to generate creativity, which is required to react fast enough (Caulkin & Simon, cited in Aula 1998:10). Linear ways to change are not effective in a nonlinear world. Transforming an organisation's culture structure to adapt to change requires integrative as well as dissipative communication to lead and inspire people in the desired direction and that requires leadership. Not just at the start-up phase, but also for established firms that need to adapt to changes in the environment, enhanced communication systems are required for information sharing relationships as opposed to strict functionally orientated organisation systems.

2.4 Self-employed females

According to Anderson and Woodcock (1996:209), females are forming businesses at a rapid rate since the 1980s. The number of self-employed females has in fact been growing faster, proportionately, than males. There are many reasons for the increase in self-employed females, including layoffs, a lack of meaningful work opportunities, and a desire for flexibility in working hours. In South Africa, though, females still form only a third of the self-employed (Stats SA, 1996).

Anderson and Woodcock (1996:235) indicates that research into female entrepreneurship and the role of females as proprietors and employers has, until recently, been largely neglected as an area of academic study. The lack of enquiry into gender as a variable in entrepreneurship could be because there is no reliable measure of self-employment, no agreed definition of what constitutes an entrepreneur, and no coherent theoretical background against which to measure entrepreneurial activity. There appears to be reasons for suspecting that male and female entrepreneurs are significantly different, but research needs to be done more extensively.

2.4.1 Similarities between male and female self-employed

Much of the comparative research between male and female entrepreneurs points out the similarities between the sexes, not the differences (Sexton & Bowman-Upton 1991:291). Females seem to possess the same motivations as males concerning need for money, need for independence, and seizing of opportunity (Hertz 1986). Males and females also both have the need for achievement, autonomy, independence, non-conformity, and show persistence, aggression, goal orientation, self-confidence, leadership, and internal locus of control (Changanti 1986:18-29).

2.4.2. Problems as experienced by female self-employers

It was found by Hisrich (1986:8-16) that female entrepreneurs are confronted with problems, such as:

- lack of *business training*;
- lack of *experience*;
- lack of the development of *business-related skills*, such as independence, self-confidence, assertiveness and drive (skills that men learn growing up);
- lack of confidence especially in their *financial/marketing/communication skills;*
- lack of *guidance;* and
- the relative absence of a defined women's *network* for referrals of business and inroads to other successful business.

Sexton and Bowman-Upton (1991:289-290) found that the main problems encountered by self-employed females are gender *stereotyping* that has led to inadequate educational and background experiences and this, in turn, has led to *financing* and *operational* problems. Females are also subject to barriers limiting their access to important regions of the *social networks* (Sexton & Bowman-Upton 1991:210). Differences between males and females may be due to socialisation rather than intrinsic attributes (Cromie 1987:259).

However, Hirschowits (1994:4) indicates that self-employed females are steadily overcoming obstacles. Women show considerable strength in coping with their circumstances and are forming networks. An objective of the national small-business strategy is also to redress discrimination with respect to blacks' access and women's access to opportunities (White Paper 1995:16). Business associations need to be encouraged to become more representative and inclusive in terms of gender (White Paper 1995:39). However, are associations not voluntary? The only requirement to join professional associations is appropriate qualifications. Women need to take the initiative themselves to become members of existing associations or form new associations. Women are capable enough, as research has shown that overall female entrepreneurs are well-educated, from the middle-class backgrounds, interested in the area of business they own, motivated by achievement, inspired by the desire to be in charge and provide better service, confident of their people management and product innovation skills, energetic, goal orientated, and somewhat competitive (Hisrich 1986:8-16).

2.5. Business, government and higher education

The White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa has placed the SMME sector close to central in the process of economic transformation in the country. The White Paper, however, states that *problems and constraints differ widely between the various segments* of SMMEs and also between the categories in the segments (1995:10). Hirschowitz and Orkin (1994:328) also indicate that different support services are needed for those businesses where *survival* is the crucial issue, and on the other hand those that have the *potential to grow and develop*.

Awasthi and Sebastian (1996:132) draws attention to the fact that trainees in entrepreneurship development programmes face problems with state financial corporations, industrial development corporations, electricity board; water works departments etc. Government should treat entrepreneurship development as a long-term investment in human resource development. Training programmes should be directed, supported and helped when required (Awasthi & Sebastian 1996:159).

According to Hirschowitz and Orkin (1994:328), there are no close links between thinking on future policies for micro-enterprise development and educational, training, and general industrial development policies in South Africa. Hirschowitz and Orkin, however, indicate that the reconstruction and development programme of the African National Congress is an exception, as it attempts to link growth and development into a unified programme. Concerted efforts will facilitate the implementation of the national strategy that should include increased co-operation between business and tertiary education institutions. Business internships and traineeships for SMME managers at well-run enterprises are important for intensive experience exchange (White Paper 1995:18, 35).

A successful policy to promote productive entrepreneurship will depend on government-business coalitions accomplished to protect the interests of both parties while seeking to maximize national welfare (Ahwireng-Obeng 1993:9). Once a conducive environment for entrepreneurship is created and is backed-up by appropriate training intervention and intensive post-programme follow-up to help trainees with high potential for venture launching, the start-up rate will increase (Awasthi & Sebastian 1996:95). Constraints, however, need to be overcome through joint action (White Paper 1995:13). Facilitating

communication and co-operation between institutes of higher education and business is one way to diffuse knowledge (During, cited in Landström, *et al.* 1997:218). Icks (cf, 1997) mentions that some universities and polytechnics have an education joint venture with companies in the new German Länder. The success of this type of college is shown in the increasing number of students. During the three-year courses, practical and theoretical units alternate. This training is a first step to reducing the knowledge deficit, which hampers entrepreneurial thinking and behaviour. Awasthi and Sebastian (1996:147) found that policy makers and governments felt that entrepreneurial development programmes are more theoretical in their approach and suggest that programmes be more practical in orientation.

The *lecturers* at the universities and polytechnics in the new German Länder also have practical experience (cf, Icks 1997). Sweeney (cf, 1997) also indicates in this regard that teachers and mentors must have real experience and be able to provide holistic skills. They at least need to have failed twice in setting up an own business before becoming teachers or mentors.

Human resources are the key to a more innovative and competitive entrepreneurial and SMME sector, as the Finnish SMMEs and the British TECs recognise. One of the functions of TECs is to re-introduce the unemployed (especially young and older people without skills) to the work force by providing them with new skills. Skills in making and doing things are fundamental to economic development, use of new technologies and further employment creation (Fazey 1996:161). Some German institutions have developed a dual study programme with local companies in which economics, informatics, and engineering are taught in theory in the polytechnic and in practice in the company. The students therefore develop the multiple skills necessary for the successful entrepreneur. The employer gains status in the community by acting as a mentor, assisting with counselling and even with sub-contracting and helping a new business get off the ground (Fazey 1996:163). Entrepreneurship courses that involve case studies, "hands-on" involvement, team competition, internships, and mentorships might be very congruent with problem-solving skills development (Ivancevich 1991:5). Attitudes are open to change and therefore entrepreneurial attitudes may be influenced by educators and practitioners (Robinson, *et al.* 1991:24).

2.6. Constraints

Compared to big business in South Africa and in other countries, small businesses face a wider range of constraints and problems and are less able to address these on their own. Constraints relate to the legal and regulatory environment, access to markets, finance, business premises, the acquisition of skills, managerial expertise, access to technology and taxation (The White Paper 1995:12).

2.6.1. Employment legislation

It is often viewed that inappropriate legislative conditions are critical constraints on the access of small enterprises into the business sector (White Paper 1995:26). Despite the reform of many rules and regulations in South Africa, the situation in still unfavourable for SMMEs (Hirschowits & Orkin 1994:55, Hetherington & Davie 1999:iii). Contradictory viewpoints, however, regarding the *flexibility* of the labour market are held. There are those that argue the South African labour market is flexible in the light of the many retrenchments, the opportunity to resort to casual labour and labour contracting. They see rigidity in the labour market as only a *perception* (Bezuidenhout & Kenny 2000:1-36). On the other hand, the view is held that stringent labour policies are the main culprit for job losses (Glynos 2001:2). Scholtz (2000) is of opinion that rigidities in existing labour policies lead to unemployment and subsequent growth in the informal sector.

According to the Employment Equity Act (55/1998) only employers who employ:
- 50 or more employees; or
- fewer than 50 employees, but with a total annual turnover equal or above the applicable turnover of a small business in terms of Schedule 4 to this Act are subject to the rules and regulations stated in this Act. Refer to Table 2.1.

Table 2.1: **SCHEDULE 4: Turnover threshold applicable to designated employers**

Sector or sub-sectors in accordance with the Standard Industrial Classification	Total annual turnover
Agriculture	R 2.00 m
Mining and Quarrying	R 7.50 m
Manufacturing	R 10.00 m
Electricity, Gas and Water	R 10.00 m
Construction	R 5.00 m
Retail and Motor Trade and Repair Services	R 15.00 m
Wholesale Trade, Commercial Agents and Allied Services	R 25.00 m
Catering, Accommodation and other Trade	R 5.00 m
Transport, Storage and Communications	R 10.00 m
Finance and Business Services	R 10.00 m
Community, Social and Personal Services	R5.00 m

Source: Employment Equity Act (55/1998)

However, the largest volume of cases coming before the Commission for Conciliation, Mediation and Arbitration involves SMMEs, and most of those are for alleged wrongful dismissals (Bagraim & Davie 1997:1). Existing legislation may thus negatively influence the expansion of SMMEs that have the potential to grow, because paid employees in the business may become problematic.

Research has found that SMMEs have problems with certain sections in various acts (Bargraim & Davie 1997:9-23):

- the requirements of the Labour Relations Act, the Basic Conditions of Employment Act and the Employment Equity Act do not make provision for "customised contracts" between employees and SMMEs;
- small employers are granted rights of dubious value in comparison with the powerful rights granted to employees in sections 4 and 10 of the Labour Relations Act that disallow freedom of disassociation. Employers need to have the right of freedom of disassociation as well as association;
- section 10 of the Labour Relations Act places the burden of proof on the SMME employer who in most circumstances has only rudimentary understanding of the law;

- SMMEs are not always informed themselves on their financial records and propose to be exempted from the requirements of section 16 of the Labour Relations Act relating to disclosure of information;

- rigid, inflexible and compulsory conditions of employment make it difficult for small firms to offer compensating advantages to workers, such as flexible arrangements regarding hours of work, methods of compensation, time off, job responsibilities, leave periods and wage rates, varied to suit the capabilities and preferences of the individual employee. It is proposed that SMMEs who are non-parties to collective agreements to be exempted from extension of those agreements;

- applications by SMMEs to be exempted from determinations promulgated by the Minister in terms of section 44 of the Labour Relations Act can be costly and time-consuming. Automatic exemption for SMME employers should be considered;

- SMME employers are not necessarily in a powerful position in the employer-employee relationship and are unable to deal with the severe consequences of a strike or lock-out. If replacement labour can not be hired, contract deadlines can not be met;

- large firms may be able to absorb the cost when employees participate in secondary strikes, but small employers can be badly harmed if they are not able to continue to function as a result of such strikes;

- SMMEs have problems with the existing dispute resolution procedures required for the resolution of disputes under the auspices of the Commission for Conciliation, Mediation and Arbitration. A shorter form of arbitration for SMMEs would be welcomed;

- a SMME employer is not always a member of an employer's organisation and would appreciate it if he or she could be represented by an expert in labour law in conciliation proceedings held in terms of section 135 of the Labour Relations Act;

- the average SMME employer does not have the administrative capacity, time, costs and knowledge to deal with the complicated procedures required to prove that a dismissal has been fair;

- SMMEs do not have the administrative capabilities or knowledge to ensure that labour brokers through whom they are employing temporary staff are complying with the requirements of the labour laws;

- SMMEs cannot be expected to be an expert on labour relations matters as well as the many other laws and regulations that apply to business;

- relationships between most small employers and their employees are congenial and not at all adversarial, so that mutually satisfactory arrangements regarding working hours, leave and wages are achieved without statutorily determined rigidity acts;

- the Usury Act prohibits a lender from recovering more interest than a specified%age and has the effect of drying up loan finance (Moore 1997:1);

- special consideration in tax legislation to SMME is required in order to have a stronger SMME sector. A simplified income tax act should be adopted (Hetherington & Davie 1999:2);

- there is inadequate access to justice for SMMEs. Prescribed formalities are needlessly cumbersome, time-consuming and costly. In the absence of effective access to justice, SMMEs resort to illegitimate or underground means of dispute resolution (Louw 1997:4).

2.6.2. Competition

The extreme market dominance of a few large conglomerates, with exceptionally broad scope, means that they also dominate niches where micro-enterprises could prosper (Aeroe & Hartzenberg, cited in Hirschowitz & Orkin 1994:69-70). Tendering opportunities are being open up to historically disadvantaged SMMEs in South Africa, by means of, *inter alia,* affirmative procurement, but complex and difficult tenders call for infrastructural support of skilled staff, office equipment and managerial skills (Martins & Tustin 1999:23-24). There is a strong perception of *unfair* business practices, especially among the African majority and it is important to level the market playing field. It would help to strengthen the powers of the Competition Board (Levy 1996:26). A balance needs to be found to harness the forces of effective competition, while at the same time making opportunities accessible to all economic participants (Hirschowitz & Orkin 1994:51).

Naudé (1998:303-308) is of opinion that South Africa's macroeconomic policies and trade reform seem to be credible, but there is still a lack of sufficient investment responses. He suggests that the answer might rather lie on a *microeconomic level*. The private sector in South Africa is largely characterised by small informal, unregulated, and unrecorded activities that fulfil a survival function. Local entrepreneurs lack the technical, managerial, accounting, marketing, and sales skills required for successful entrepreneurship in the global village. Exports need to be differentiated, of high quality, and tailor-made to the needs of the consumer and that will require *quality education*. Computational skills are needed by entrepreneurs for the sound financial management of their businesses, to adopt new

technology, and to equip workers with the needed tools to manufacture high-quality, value-rich exports.

2.6.3. Finance constraints

During, *et al.* (cited in Landström, *et al.* 1997:217) found that financial constraints on entering the market, acts as the single most important factor affecting size of the new enterprise and its development plans. High cost of employment, high tax, environmental legislation, slow granting of licences, complexity of regulations, and quantity of administrative tasks were factors in Holland that inhibited entrepreneurship Finnish SMMEs placed the burden of the state and regulation, labour costs and tax at the top of their list of obstacles to development (Fazey 1996). Awasthi and Sebastian (1996:130-131) found that procuring finances is the biggest stumbling block, followed by product identification and legal formalities. While the banks could be held responsible for the finance related delays, other problems are the domain of the entrepreneurship development organisations. The government in question should address taxation. Fazey (1996:151) cautions that the formulation of tax policy is problematic when room is left for individual interpretation, when policy is often changed, or when it leads to the favouring of one target group.

A key factor in determing the success of high-tech small firms is sustained support from external funding agencies over a five to 15 year period. The formation and growth of high-tech small firms will be minimal, regardless the intellectual abilities and potential, if interest rates, inflation and local commercial support is not addressed (Oakey 1997). Services by the financial sector to the small business sector have not developed fully. Real interest rates are high, and there are very limited resources of equity capital. In addition, small businesses have little understanding of financial issues and of the services that are to be expected from the financial sector. There is a need to stimulate technology use with softer loans and tax incentives (Marot 1997).

Levy (1996:11, 26, 28) is of opinion that contrary to the view that South Africa's banks neglects small firms, commercial and parastatal banks are active in lending to SMMEs. The smallest African-owned firms, however, may be subject to some discrimination and for historically disadvantaged borrowers in particular, collateral problems appear especially acute, even though collateral requirements of South African banks are relatively liberal by the standards of developing countries. The relative importance of finance constraints declines systematically with age and size of firms. South Africa's SMMEs do not have financial

flexibility to invest in the uncertain exploration of new markets and technologies, and for all the strength of the financial system, the provision of risk capital for SMMEs remains very limited.

2.6.4. Crime

In South Africa (SA) crime is very problematic. According to The World Competitiveness Yearbook (1999:415), in 1996 SA had the highest number of serious crimes per 100 000 inhabitants in the world. SA had 951.8 serious crimes as opposed to 657.5 in Australia that took second place. Murder, violence, and armed robbery are reckoned as serious crimes. There are about 247 000 outstanding cases to be heard in South Africa's courts (Olivier 2001:1). Few crimes lead to the arrest of suspects, as out of 2.4 million crimes during 1999, only 8.5% ended in the conviction of the perpetrators (Schönteich 2001:1). Schönteich indicates that the justice system is poorly resourced and has a shortage of skilled personnel.

According to Moodie (2001:6), vast amounts of money are being spent on private security. Yet very little research has been done into just what effect security spending is having on the economy. Fazey (1996:151) indicates that it is important to tackle the black (illegitimate) market and crime, which distorts markets and make business planning and legitimate expansion difficult. High crime rates are serious obstacles to small-business growth as it, *inter alia,* damage buildings, reduces turnover and discourages tourism (White Paper 1995:33).

2.7. The link between self-employment and entrepreneurship

business organisation, and entrepreneurship are often used interchangeable in the literature. A *self-employed person* has been defined as person who works for himself or herself for financial gain without employing anyone else (one-person business), while an *employer* on the other hand, was defined a person who employs other people in a work situation for pay, profit or family gain (Stats SA, 1999). In most literature as well as in this report, the term *self-employment* includes *both* the one-person business and the employer who employs other people.

According to the National Small Business Act (102/1996), a *small business* is a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if

any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small or medium enterprise (SMMEs).

On the other hand, there is no consensus concerning the definition of an *entrepreneur*. According to Sexton and Bowman-Upton (1991:10) *growth* is one of the factors that distinguishes an entrepreneur from a small business. An entrepreneur is "an individual who establishes and manages a business for the principal purpose of profit and growth". The entrepreneur is characterised principally by *innovative* behaviour and will employ *strategic* management practices in the business. Draheim (1975:1) also indicated that entrepreneurs' intention is "for the business to *grow* and prosper *beyond the self-employment stage*".

Schumpeter, cited in Jennings (1994:133) was one of the first to identify the entrepreneur as an entity worthy of study, distinct from business owners and managers, as entrepreneurs contribute so much to the economy of a country. *Entrepreneurship has been found to extend beyond self-employment and small businesses.* Even some large corporations have been described as engaging in entrepreneurial behaviour (Ronstadt 1982, Schollhammer 1982, Shils 1982, cited in Jennings 1994:134).

Numerous studies have supported various personality characteristics of entrepreneurs. A review of the literature indicates that entrepreneurs have a need for achievement, an internal locus of control, that entrepreneurs are risk takers, innovative, self-confident, independent, committed, and people with a high energy level (McClelland 1961; Rotter & Malry 1965; Palmer 1971). From a societal perspective, the characteristic of *innovation*, as believed by Schumpeter, is perhaps the most important factor (Jennings 1994:135). Medium and large firms can thus also be classified as entrepreneurial if innovative behaviour resulted.

From this discussion it is clear that there is overlap between self-employment, small businesses and entrepreneurship. Entrepreneurial firms may begin at any size level, but growth over time is envisaged. The entrepreneur combines resources innovatively for profit. An entrepreneur is an individual who establishes and manages business for the principal purpose of profit and *growth* (Jennings 1994:138-139).

While entrepreneurs stand alone, there are also *intrapreneurs* that operate under some form of corporate system, with reporting relationships to hierarchical superiors. Most independent entrepreneurs find corporate politics reprehensible which motivates them to resist working for

anyone but themselves (Bird, cited in Jennings 1994:271). Because of size and structure, big companies are risk-averse. Creativity is experienced as chaotic in most business environments. A finding by Coopers & Lybrand Consulting Group however found that most top-level managers believe that they must improve their companies' intrapreneurial abilities to remain competitive. Senior management must make a personal commitment to support innovation. It is not so much what leaders say but what they do to support innovation and encourage intrapreneurship that counts. Management must thus focus on generating new ideas, giving innovators freedom and provide strong leadership (Jennings 1994: 280-284).

Entrepreneurs envisage growth and have to inspire others to achieve goals and growth. *Relational* communication involves the alignment of the organisation's structure with motivational strategies and leadership so that it nurtures an informal communication system that promotes the organisation. By empowering members, the relational strategy attempts to create a flexible, responsive organisation that is open to innovation and change. To create a communication system that helps the organisation, the relational strategy emphasises lateral communication and vertical communication. Transformational leaders have *charisma* and the ability to create a vision of where the organisation is going and how to achieve those goals and to persuade others to accept that vision (Conrad & Poole 2002:100, 121). This is the quality that is required from *entrepreneurs*. Visionary leadership displays personal integrity and a willingness to take reasonable risks and give of oneself for the good of the organisation and demonstrations of personal warmth and charm, including showing concern for employees (Gardner & Cleavenger 1998:3-41). Transformational leadership relies, however, also on ambiguity. Ambiguity allows different people to interpret the same message in different ways, helping to maintain diversity of viewpoints. When the organisation faces problems or changes, this diversity can lead to innovative solutions and this is entrepreneurial leadership. (Conrad & Poole 2002:123).

There has been an unprecedented growth in self-employment, however the odds of survival are not in their favour. As discussed above, in the definition of entrepreneurship is the idea of value creation and distribution, not just for the owners but also for other stakeholders, partners, customers, suppliers and employees. Relationship marketing is one of the most recent refinements of the marketing concept that contributes to growth on the long run. Firms go out of existence, but entrepreneurs do not (Timmons 1994:9-12). Entrepreneurs thus envisage growth.

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2.8. Summary and conclusions

All self-employed people are not necessary entrepreneurs. *Psychological traits* found to be significant in predisposing a person to initiate a new venture may also include a number of traits that may be significant in predisposing a person towards growth of a business, but in addition it is important to have a *vision*. Leaders have a specific orientation towards the accomplishment of an objective.

There is consensus among researchers that *networking* is required to identify opportunities and to exploit these opportunities for business growth. Networking is also necessary to recognise changes in the environment and adapt to changes externally and internally. Opportunity seeking and risk taking is not synonyms. Many researchers indicate that entrepreneurship is not foolhardiness, but a confident move, knowledgeable about the consequences. *Planning* thus seems to have a role to a certain extent, but on the other hand, rigidness smothers creativity. Spending too much time on detailed business planning can be counterproductive, as opportunities need a quick response in a competitive environment. A balance between responsiveness and planning seem to be required. A business plan and market research e.g. helps to reduce risks, but *experience* seems to be more important. Entrepreneurs thus need to be both leaders and managers.

The ability to recognise an opportunity with *strategic value*, requires a leader. A *leader* has a vision or goal to accomplish growth. A leader is both task and people orientated and facilitates interaction in order to lead co-workers in reaching the envisaged goal. At some stage in the development of a business, however, a change in role is required. More planning than innovation is needed when growth is already taking place. A more *managerial role* becomes necessary. However, if continued growth is to be obtained, dissipative communication as associated with creativity and not just integrative communication as associated with routine tasks, is required for change in order to adapt to a continually changing environment. In a competitive environment, highly sophisticated responses are needed and this requires professional expertise. Professional expertise builds on training and experience in order to manage a business successfully through communication skills, marketing skills, financial skills and a more elaborate business-plan that requires managerial skills. However, differences of opinion and communication are required for continued growth. It is however a difficult challenge for leaders to encourage diverse points of view, while at the same time maintaining vision and direction (Honig 1998:416). Charismatic leaders have the ability to create a vision of where the organisation is going and how to

achieve those goals and to persuade others to accept that vision (Conrad & Poole 2002:100, 121). This is the quality that is required from *entrepreneurs.* Visionary leadership displays personal integrity and a willingness to take reasonable risks and give of oneself of the good of the organisation and demonstrations of personal warmth and charm, including showing concern for employees and their lives outside the organisation (Gardner & Cleavenger 1998:3-41). Open communication builds trust that leads to more open communication and to more trust (Conrad & Poole 2002:149-151).

In order for self-employers to be successful and to have the potential to become true entrepreneurs with a growth orientation, they need first to have experience, be innovators, leaders and then also managers in order to handle the growth and diversity. However, the government, the business world and higher education need to work together to create an *environment,* conducive to entrepreneurship. Problems that could hamper the realisation of such an environment seem to be, *inter alia,* too little flexibility as a result of rigid legislation, financial constraints, the high cost of employment, high tax, dominance of markets by large businesses and low education levels. Females experience the same obstacles as males do, but gender stereotyping and the absence of a defined women's network have made obstacles even more difficult for females.

There needs to be co-operation between government, the business world and tertiary institutions to create a conducive environment for entrepreneurship. Co-operation is required to address the many constraints that were discussed. The statements made in the literature will be evaluated, confirmed or contradicted in the subsequent chapters by focussing on self-employed university graduates in South Africa as the well-educated that most probably have the best potential to contribute to growth, job creation and be true entrepreneurs.

2.9. Theoretical propositions

From the literature study, the following theoretical propositions can be made:
- entrepreneurship and successful self-employed graduates are similar in many ways, but there are *certain factors* that distinguish entrepreneurs from successful self-employed graduates in general;
- inadequate *communication networks* is one of the important factors that constrains self-employment;
- the impact of existing labour legislation on self-employment and job creation is only a *perception* that needs correction through proper communication.

Chapter 3

Business and other communication skills for self-employment and entrepreneurship

3.1. Introduction

In Chapter 2 the important role of communication and networking in self-employment and entrepreneurship was discussed (paragraph 2.3.2). It was indicated that one of the most crucial aspects affecting the creation and survival of new firms is the establishment of networks via effective communication. Entrepreneurs create organisations by leading and shaping ideas. "Leadership relies above all else, on effective communication skills" (Locker 2000:3). Ten percent of business organisations in the USA fail every year primarily because of bad management and ineffective communication (Goldhaber, cited in Puth 1994:40). In essence, leading has to do with influencing others through communication. The effective leader has a team of people who do not only respond to orders, but work enthusiastically by sharing a vision (Puth 1994:150).

Many changes in the workplace revolve around processing and communicating information. In traditional companies, information flows through various levels of managers, however, in today's flatter organisations, lines of communication are shorter and bring greater communication challenges. In addition, improved systems and telecommunication give opportunities to move around the world (Guffey 2000:3-5). To follow then are the important skills required in order to communicate effectively and motivate other people in the *changing* business world of the *global market* of today.

3.2. Successful business communication

In order for an organisation to achieve its envisaged vision and goals, the recipients of communication need to get the correct message. It is crucial for the communicator to know who is the recipient, what channel to use, what needs to be said, and how it needs to be said. The *purpose* of the message must be kept in mind in order to know whether communication should be:

- informative;
- persuasive; or
- to build goodwill (Wiener cited in Locker 2000:6-24).

Attitude and style of communicating should look at things from the recipient's point of view and protect the recipient's ego. In today's global market language should for instance be non-sexist, non-racist and non-agist (Hlibok, cited in Locker 2000:45-50). Global communication requires the development of new skills such as cultural knowledge and sensitivity in intercultural business transactions. It is required from the communicator to accurately predict how a message will affect the receiver and applies the necessary skills in order to adapt the message to the receiver in order to communicate successful. Appropriate words and symbols need to be chosen. The channel (computer, telephone, letter, or fax) must be chosen with care, as channels deliver both verbal and nonverbal messages. The appearance of an annual report for example conveys a certain nonverbal message. Barriers to successful communication includes bypassing, differing frames of reference, lack of language or listening skills, emotional interference, and physical distractions. The sender should assure that the receiver attach the same symbolic meaning to the words, be alert to the frame of reference of the receiver and the sender, and shape an intelligent message by focussing on content and objectivity. Ideas and words should be arranged logically and precisely. Finally, good communication asks questions to stimulate feedback (Guffey 2000:5-14).

3.2.1. Communication in fostering innovation

Face-to-face interpersonal communication promotes networking, because it is warmer, stimulates immediate feedback and gives nonverbal clues to improve meaning. Oral communication minimises misconceptions, although it provides no written record and is not always as convenient as written communication.

Relational communication involves the alignment of the organisation's structure with motivational strategies and leadership so that it nurtures an informal communication system that promotes the organisation. By empowering members, the relational strategy attempts to create a flexible, responsive organisation that is open to innovation and change. To create a communication system that helps the organisation, the relational strategy emphasises lateral communication and vertical communication. Co-workers should communicate openly with each other. This creates a problem-solving system that transcends the narrower perspectives of particular individuals or units. According to the relational strategy, emotional, expressive,

and relationship-building communication is also important and not just task related communication. The importance of teams and interpersonal relationships are recognised (Conrad & Poole 2002:65-99).

To improve communication many companies have formed smaller units and work teams. Management speaks directly to team leaders and speeds up the process. Many companies have moved away form rigid authoritarian management structure in which managers were privy to vital information, such as product success and profit figures. Employees, who are informed, feel like important members of the team (Guffey 2000:15-23).

3.2.2. Building goodwill

In order to build goodwill it is important to create *you-attitude*, by focussing on what the receiver wants to know. Treating customers well pays off in more sales and higher profits. In most situations it's better to be *positive*, although sometimes negatives are needed to make people take a problem seriously. A positive emphasis can be created by avoiding negative words, by focussing on what the receiver can do, by justifying negative information, by omitting unimportant negative information, and by presenting the negative information compactly. The *desirable tone* for business communication is businesslike but not stiff, friendly but not phony, confident but not arrogant, polite but not grovelling. It is advised to:

- use courtesy titles for people outside your organisation;
- be aware of the power implications of the words you use;
- be straightforward when the stakes are low;
- consider hedging your statement when bad news must be given.

Bias-free language and visuals help sustain goodwill and complies with the law. Language should treat people fairly. Language and visuals in annual reports and ads should for example be presented in such a way so as to not create potential barriers to the image people create of themselves. Treating every group with respect and understanding is also essential to win loyalty and business (Hlibok, cited in Locker 2000:34-50).

3.2.3 Persuasive communication

A leader needs to persuade followers to reach envisaged goals of the company. Persuading means to use arguments or discussion to change an individual's beliefs or actions. To motivate others to do what you want them to do depends largely on the reasonableness of requests, credibility and attractiveness of requests. The purpose of the message establishes the strategy of the message. An effective message focuses on the need of the receiver, by solving a problem, by achieving an objective or by making life easier for the receiver. Different situations and different goals require different techniques. There are however certain rules to follow in persuasive communication:

- be tactful and empathic;
- first gradually prepare receivers for new ideas;
- acquire credibility by identifying with the receiver's interest and goals and by citing authorities who rate highly with the receiver;
- be objective by disclosing all sides of an argument, without compromising your own argument;
- support your own conclusions and proposals by specific recommendations;
- place strongest points strategically and do not bury the main idea in the middle of an argument;
- facts alone are not enough, but added information is required for defending in discussions.

The key components of a persuasive request are gaining attention, showing the worth of the proposal, overcoming resistance, and motivating action. To gain attention you need to be brief and interesting. To show worth, the receiver must be convinced by facts, expert opinion, examples, details, direct benefits, and indirect benefits. To motivate action, specify exactly what should be done, sound confident, offer incentive, don't provide excuses and repeat the main benefit.

To be persuasive does not mean you need to be unethical. Ethical communicators maintain credibility and respect by being honest, fair, and objective. It is unethical to distort facts or to manipulate with the intent to deceive. Arguments may put forth strongest points, although it must be based on truth and fairness (Guffey 2000:248-257).

3.2.4 Communication across cultures

To be a successful intercultural communicator one should be aware of different values and practices, be open to change, be sensitive to verbal and nonverbal behaviour, and take note of differences among individuals. In high-context cultures information is inferred from the context of a message, while in low-context cultures, context is less important and information is explicitly spelled out. Gestures do not have universal meaning across cultures and should be used with care (Pinton, cited in Locker 2000:313-327).

3.2.5 Communication in teams

Diverse teams in an organisation imply various communication styles that derive from different cultures, gender and social backgrounds. Productive team leadership is sensitive to the difficulty of interpreting nonverbal cues and how nonverbal cues are used. Sensitive communicators develop abilities to convey consistent and credible nonverbal messages to facilitate their teams and to interpret their team mates' nonverbal communication perceptively. Being a skilled nonverbal communicator helps to provide leadership by facilitating the participation of other members through nonverbal support. Less assertive members can be helped to participate through nonverbal regulators like for instance by making eye contact, using posture to make others comfortable and by taking interest in the person by leaning forward. Team mates may find it easier to participate when all are seated at the same level. Communicating nonverbally demands adaptation to listeners and the situation. Stronger nonverbal skills can be developed through getting feedback from friends and family, by using videotaping, by watching others' responses, by practicing new behaviours, by visualising yourself the way you want to be, by using relaxation techniques before communication situations are entered, and by practicing in various contexts (Lumsden & Lumsden 2000:210-229).

Team communication is crucial to the success of an organisation. Interpersonal skills such as listening and dealing with conflict are used in one-to-one interchanges and in problem-solving groups. Listening is crucial to building trust. To reduce listening errors caused by misinterpretation, do not ignore instructions, consider the other person's background and paraphrase what the speaker has said. Listening to people is an indication that you're taking them seriously. Acknowledgment responses show that you are listening. Active listening involves the concentration, commitment, and intense involvement of the listener with the speaker's content. Interactive questioning confirms, clarifies, probes, and analyses

information, and empathic listening seeks to understand feelings of team mates. Dialogical listening involves all these skills in a mutual, creative process through talking, listening and questioning (Lumsden & Lumsden 2000:235-249).

Several studies have shown people who talk a lot, listen effectively, and respond nonverbally to other members in a group are considered to be leaders. A case study found that in successful groups, leaders set clear deadlines, scheduled frequent meetings, dealt directly with conflict that emerged in the group, had an inclusive decision-making style, and a higher proportion of members who worked actively on the project (Wilson, cited in Locker 2000:336, 340).

3.3. Leaders as effective communicators and entrepreneurs

True leaders view employees as assets that require investment and not control. A leader consults employees in realising a shared vision for the organisation. Leaders with a vision should motivate others in the organisation to also assume ownership of the vision. Through communication leaders must work at promoting identification with the vision. Leaders continually need to reiterate, reinforce, and redefine the vision and goals to enlist support and commitment from followers. In order to get support from followers, it is crucial to build good interpersonal relationships (Puth 1994:150, 156).

3.3.1. Good interpersonal relationships

Whetton and Cameron (cited in Puth 1994:74) described interpersonal communication that help managers to communicate accurately and honestly without jeopardising interpersonal relations as *supportive communication*. Supportive communication is *problem orientated*, not person orientated. Best interpersonal communication is based on *congruence*, that is, matching both verbal and non-verbal communication with the communicator's feelings and line of thinking. Good interpersonal relationships result from congruent, open and honest communication. Supportive communication is descriptive and not evaluative. Descriptive communication tries to eliminate the process of evaluating and labelling people by:
- describing as objectively as possible an event or behaviour;
- describing own reaction, and not other individuals;
- Suggesting a more acceptable alternative and avoiding accusations;
- a middle ground where both individuals are satisfied must be reached.

Supportive communication is *validating,* rather than invalidating. Validating communication is egalitarian, flexible and two-way. Egalitarian communication implies that the manager sees employees as worthwhile and competent in jointly solving problems. A manager is flexible in considering alternatives in solving a problem. Two-way communication fosters validation by encouraging employees to participate actively in assuring success and problem solving. Supportive communication is also specific and not general. Extreme statements deny alternatives. Specific communication focuses on an identifiable problem that can be solved.

3.3.2. Cultural strategy

Leaders that recognise the importance of *relational concepts* (paragraph 3.2.1) such as decentralisation, and participation, but who stress *connectedness,* such as values and symbols (that hold organisations together) more, follow a cultural strategy. Leaders that follow a cultural strategy argue that humans are emotional beings and that feeling of connectedness and community are important aspects of all social structures and organisations. Motivating and controlling employees' behaviour depends on persuading them to accept the organisation's core beliefs, values, and frames of reference as their own. Creating a sense of community within teams is depicted as a primary means of managing the tension between individual and organisation needs (Conrad & Poole 2002:99).

However, employees sometimes interpret management's attempts to mould beliefs and instill values as manipulative or they respond in completely unanticipated ways to management's messages. Leaders that follow a cultural strategy recognise this tension and strive to deal with it through "transformational" processes. Transformational leaders have what Max Weber called *charisma.* Charismatic leaders have the ability to create a vision of where the organisation is going and how to achieve those goals and to persuade others to accept that vision (Conrad & Poole 2002:100, 121). This is the quality that is required from *entrepreneurs* (paragraph 2.3.3). Visionary leadership displays personal integrity and a willingness to take reasonable risks and give of oneself for the good of the organisation and demonstrations of personal warmth and charm, including showing concern for employees and their lives outside the organisation (Gardner & Cleavenger 1998:3-41).

Transformational leadership relies, however, also on ambiguity. Ambiguity allows different people to interpret the same message in different ways, helping to maintain diversity of viewpoints. When the organisation faces problems or changes, this diversity can lead to

innovative solutions and this is entrepreneurial leadership. Ambiguities create space within which transformational leaders can act. *Framing* begins when a leader develops a view of reality and makes sense of the organisation's past, present, and future in terms of that view. If the leader's view make sense and seems honest and credible, employees will automatically approach new situations through the leader's frame of reference (Conrad & Poole 2002:123).

However, there are very few organisations that use only one strategy of organisation. Organisations develop their own mixes in an innovative way of traditional, relational, and cultural strategies, as the need arises (Conrad & Poole 2002:127). An entrepreneur will use a strategy according to the opportunities that exist and to be taken advantage of in a competitive environment. Similarly, communication is multidimensional.

3.3.3. Network strategies

Along with the knowledge society, came technological development and globalisation. Computer and telecommunications technologies made many structures and communication systems possible. In order to deal with change and turbulent environments, organisations must incorporate communication mechanisms for coordination. Traditional, relational, and cultural strategies can however only go so far. The network strategy of organisation is appropriate for organisations that have to cope with high levels of uncertainty. It is mainly a relational strategy that links units in a network in a relatively flat hierarchy with emphasis on teams and use of information technology to coordinate units. Networks can be changed relatively easy. Employees in a network must be independent and team-orientated. The network is held together through trust, commitment and open communication systems. The network is coordinated through communication and negotiation rather than through authority. Many organisations, however, are a pastiche of more than one strategy (Conrad & Poole 2002:167).

3.3.4. Motivation

Herzberg (cited in Puth 1994:86) came to the conclusion that motivation is a function of growth from getting intrinsic rewards out of interesting and challenging work. By creating a clear vision, employees can be motivated. When there is collective commitment, alignment is present. Through effective motivational communication, an attitude of commitment is created. Recognition and feedback (even constructive criticism) are powerful motivating tools. A boost in self-esteem is more motivational than monetary compensation that has more of a short-term motivation. Ford Motor Co. realised that by empowering employees and

making them feel that their contribution is meaningful, they work more effectively. Finally providing growth opportunities can encourage career development (Puth 1994:87-90).

Network organisations motivate and control units through three complementary routes. First, *trust* is cultivated in the network by working together or through reputation. Generally trust is assessed informally through direct experience of others. A second source of motivation in network organisations is an *inspiring task*. A meaningful goal can inspire individuals in the network to work hard. A third source of motivation and control in *a network is network-based formal systems for monitoring and control of activities*. These systems are based on contracts among the units in the network that provide formal understanding of responsibilities and compensation. Information technologies are often employed to keep track of project plans and information that allows units to coordinate activities. A full disclosure information system is comprised of *accounting-information system and electronic communication systems*. The accounting-information system reassures units that others are holding up their end of the bargain and trust is build up over time. Timely and effective use of electronic communication systems such as e-mail and teleconferencing can build trust and trust is a self-reinforcing cycle: Open communication builds trust that leads to more open communication and to more trust (Conrad & Poole 2002:149-151).

3.4. Summary

Entrepreneurs create organisations by leading and leadership relies on effective communication. A leader needs to persuade followers to reach an envisaged goal and at the same time maintain credibility and respect by being honest, fair, and objective. Team communication is crucial to the success of an organisation. Productive team leaders facilitate participation of team members through nonverbal support. Listening is crucial to build trust. Trust is required in order to motivate others to assume ownership of a vision. Creating a sense of community within teams is depicted as a primary means of managing the tension between individual and organisation needs. Ambiguity, however, also has a place, as it helps to maintain diversity of viewpoints. This diversity can lead to innovative solutions.

A network strategy helps organisations to cope with high levels of uncertainty. It links units in a network in a relatively flat hierarchy with emphasis on teams and use of information technology to coordinate units. The network is held together through trust and open communication. Timely and effective uses of electronic communication systems build trust, which leads to more open communication, and more trust.

Chapter 4

Methodology

4.1. Introduction

It is accepted that scientific research, as a typical human activity, is fallible and therefore it is necessary to take rational research decisions in order to minimize as far as possible inaccuracies. Practically it is not possible to take into account all factors that pose a threat to the validity of research findings. However, with a research design the researcher can critically and systematically take note of nuisance variables that could possibly have an influence and thereby assure more validity. It is mainly in experimental studies that research design is referred to. In field research however, the environment is part of the design and accurate planning or control are ruled out to a great extent. Nonetheless, even when it is not possible to structure the whole project, certain threats to validity at the beginning and during the course can be eliminated (Mouton & Marais 1990:31-33).

Physical sources of data, such as literature do not pose as big a threat to the validity of the findings, because the data are low on reactivity (the reaction of human beings on a research situation). Questionnaires and interviews, on the other hand, lend themselves to the possibility of control by making use of appropriate statistical techniques, but these sources of data are highly reactive, as human beings react to the fact that they are participants of research. The researcher should thus weigh the advantages and disadvantages of issues against each other in order to decide upon measures that would increase the validity of findings (Mouton & Marais 1990:76-79).

Because exploratory studies usually lead to insight, the literature review was used in order to develop theoretical propositions. As has been indicated in the literature study (Chapter 2), there are no established models and theories on self-employment and entrepreneurship in order to assure growth. There has been agreement on certain characteristics of entrepreneurs and job creation, but also contradictions. Certain theoretical propositions were made as point of departure (Chapter 2, paragraph 2.9). The study as whole was thus exploratory to a certain extent, but also descriptive in the sense that self-employed university graduates in South

Africa were described as accurately as possible by making use of qualitative and quantitative research methodologies such as the postal survey and in-depth interviews.

As conceptualization is to specify the various meanings adhered to a concept in a systematic way (Mouton & Marais 1990:64), a thorough study of the literature on models and theories about self-employment and entrepreneurship in creating growth was conducted. Subsequently, a measuring instrument was developed in order to collect reliable data about self-employment and entrepreneurship in the process of job creation.

The research thus consisted of an explorative literature study and a postal survey that determined the relative importance of various variables in self-employment and job creation (as identified in the literature) and which formed the descriptive study. The postal survey was augmented by a qualitative study that comprised in-depth interviews with a selection of respondents.

4.2. Literature study

The goal of the literature review was to place the project into a scientific perspective. An explorative literature study was done first in order to explicate the main concepts and constructs and to develop theoretical propositions. The literature study focused on basic principles that generally served as a framework for self-employment. These basic principles were used to obtain a general view of self-employment and trends among the self-employed and possible entrepreneurs that contributed to job creation.

Local as well as international literature was studied in order to get an overall view as well as a more specific South African view. The international information could enhance the South African situation and local information could address specific South African issues. The literature study was a way to gather existing data.

4.3. Postal survey

Existing data can be gathered by means of a literature study, while new data can be gathered by means of, *inter alia*, a postal survey and/or interviews. The postal study could provide descriptive data as well as exploratory data for use at a later stage in in-depth interviews (Mouton & Marais 1990:121-122).

A postal survey is self-administered and the mailing piece is the only contact that respondents have with the researcher. Consequently, it was assured that that the questionnaire was completely self-contained. Once the questionnaire was complete and the survey mailed, there were no opportunity to make changes or corrections. A cover letter accompanied the questionnaire to explain the project and win the cooperation of the recipients. In order to assure effectiveness, revision and a "pilot" data collection was done.

Use of deadlines have been supported due to their effect on response speed, not on response rates, but in a study of Green, et al (1996) it was found that a deadline also has a significant effect on response rate. As it was also found that a promised incentive could influence the response rate (Fink 1995:37), completed questionnaires received before a deadline were entered for a lucky draw. The lucky winner received an amount of R2 000.

A postal survey was used:

- to get as big a response as possible in order to have a good statistical and measurement design;
- it is the most convenient form of gathering data, because a big number of respondents all over the country can be reached at the same time. The researcher can conduct the survey from office and need not to travel around;
- It is least time-consuming;
- it is the most economical way of gathering a large amount of data;
- it is the most effective administration method (Dane 1990:134), because it can easily be structured and coded; and
- it assures anonymity to a greater extent than face-to-face interviews, although respondents are not necessarily convinced that it does ensure their anonymity (Mouton & Marais 1990:92).

4.3.1. Reliability and Validity

The fact that human beings are being investigated in the social sciences creates problems, as they are rational, historical and normative beings that result in change of behaviour over time and this pose important threats to the validity of research findings. Verbal or written responses to questions posed by a researcher are forms of human behaviour, which only becomes accessible by means of indirect observation such as, inter alia, questionnaires and interviews. Questionnaires and interviews are data sources where human beings are directly involved. Human beings react to the fact that they are participants of research and this

threatens validity of findings. Reliability is required and this implies that a valid measuring instrument be applied that will lead to the same observations under different sets of circumstances (Mouton & Marais 1990:75-79). A survey is valid to the degree that it measures what and only what it is supposed to measure (Alreck & Settle 1985:64). Validity can be assessed through consensus or an agreement (Dane 1990:34). To follow is the detail in assuring reliability and validity in the postal survey of this study.

4.3.1.1.   Sample

The reliability of data depends first on the size of the sample that is obtained and not the number of questionnaires sent (Alreck & Settle 1985:45). Enough questionnaires were sent in order to yield a big enough response. The HSRC's Register of Graduates has been used as a sampling frame. The HSRC's Register of Graduates is a comprehensive database that has information on university graduates. It has certain limitations however:

- technikon graduates are not included on the database;
- previously disadvantaged universities do not always respond well to the HSRC's request for updating the Register of Graduates and this results in an under-representation of, especially, Africans on the Register;
- the Register of Graduates also does not include most graduates who obtained their qualifications abroad.

At the time of the study there were approximately 54 004 self-employed university graduates on the Register of Graduates, while there were about 64 578 self-employed graduates in the country at the time of the Census 1996 (Stats SA, 2000). Self-employed graduates in the country made up about 18 percent of all employed graduates (n=360 427) in the country (Stats SA, 2000), while self-employed graduates on the Register of Graduates represented approximately 15 percent of all employed graduates in the country.

Self-employed university graduates on the Register of Graduates were the target population. The target population were made up of:

- university graduates that indicated that they were self-employed at the time of the 1997 HSRC Remuneration Survey (Jacobs 1997); and
- university graduates in typical self-employed occupations (engineers, IT consultants, software developers, medical doctors, accountants, attorneys, working proprietors, property brokers, publishers, training consultants, business advisors, etc.).

Using the sampling frame (self-employed graduates on the Register of Graduates) that covers the target population, a simple random sample was drawn and that provided a sample of approximately 14 000 graduates. A response of 30 percent (n=4 225) was received. This was a good response as response rates over 30 percent are rare for postal surveys (Alreck & Settle 1985:45). The realised sample was compared with the sampling frame according to occupational field. Table 4.1 gives the percentages of self-employed university graduates in the different occupational fields for the target population (n=54 004) and for the realised sample (n=4 225).

Table 4.1:   **Self-employed university graduates: Target population versus realised sample, according to occupational field**

Occupational field	Target population	Realised sample
Science: General	920	16
Computer science / IT	337	34
Geology	414	25
Mathematics and statistics	1330	31
Biological science	1871	59
Physics / Chemistry	1206	34
Engineering	4796	350
Quantity surveying	358	74
Quantity surveying (Diploma)	169	15
Architecture	566	108
Building science / management	149	22
Architecture / Building (Diploma)	84	3
Town and regional planning	262	43
Town and regional planning (Diploma)	5	1
Land surveying	131	29
Land surveying (Diploma)	17	2
Agriculture: General	1385	212
Food science / Home economics	179	4
Veterinary science	411	106
Medical and surgery	4581	762

Table 4.1. (Continued)

Occupational field	Target population	Realised sample
Optometry	25	14
Dentistry	785	208
Nursing	637	17
Physiotherapy	211	51
Pharmacy	1237	126
Pharmacy (Diploma)	687	29
Health: General	504	70
Occupational therapy	93	26
Humanities / Arts general	851	27
Publishing, journalism, creative arts, advertising, marketing	165	15
Literature / Languages	3878	81
Politics	430	19
Psychology	753	86
Social science	2739	112
Fine art	908	39
Education	4434	70
Library and information science	1020	10
Social work	1166	17
Legal	482	26
Law	3323	413
Theology	938	21
Commerce	3696	288
Marketing	76	9
Administration	365	18
Economics	181	20
Management	1417	133
Chartered Accounting	3813	347

Weights were calculated to correct for discrepancies between the realised sample and the target population in terms of occupational field. For example: In the engineering field, there were 4 796 self-employed university graduates in the population, while 350 self-employed university graduates in the sample. For the sample, a weight in the engineering field was calculated that was representative of the frequency in the engineering field in the population (n=4 796). The weight of 13.70 in the engineering field was obtained by dividing 4 796 (frequency in the population) by 350 (frequency in the sample). The weight for each occupational field was calculated similarly.

The 47 fields of study in Table 4.1 were recoded into 12 more manageable fields of study. See paragraph 4.5.1.

4.3.1.2. Questionnaire design

Reliability and validity of the survey results depend on the way every aspect of the survey is planned and executed, but the questions that are addressed to the respondents are the most essential component.

Instrumentation bias

Care was thus taken to assure that instrumentation bias did not take place by assuring that:

- the questions focussed on the topic of self-employment, job creation and communication;
- the questions were put as short and brief as possible, while still conveying the meaning;
- the questions were expressed simple and clearly, so as to be understood by every respondent;
- the proper vocabulary and grammar were used;
- the questions were put so as to be applicable to all respondents;
- the questions did not require memory over an extended period of time;
- the questions were specific, but on the other hand, not over specific as this could result in respondents being unlikely to express themselves;
- over emphatic terms were not used so as not to impose a judgement or conclusion on respondents;
- ambiguity was avoided as far as possible;
- double-barrelled questions were not used;
- leading questions that could lead respondents to a particular answer were not used;

- loaded questions were avoided, so as not to subtly influence respondents.

Response bias

Care was taken to avoid as far as possible, response bias by using the correct wording and sequence of questions. Issues that could result in socially acceptable responses were avoided as far as possible. The cover letter that accompanied the questionnaire was written in such a way that it asked for honest cooperation and care was taken so as to not give any indication of what would be seen as a positive response. Positive/negative options that required yes/no answers were avoided as far as possible, although it could not be avoided altogether. A rating on a continuum tried to reduce the effect of the desire for prestige. Euphemisms were used in order not to come across as threatening. Questions were worded in such a way so as to not create feelings or hostility. The sponsor of the prize for the lucky draw was not mentioned in the cover letter so as to not bias answers. The frame of reference for each question was stated when required so as to not result in caring over a frame of reference to a next question. A random mix of positive and negative statements was put in a list in order to avoid a pattern. A Likert scale with five points was used to reduce extremity bias.

Structured questions

Structured questions were mainly used, although a few open-ended questions were also included so as not to restrict the respondents or the variety of answers and assure exhaustiveness. Structured questions were preferred, because structured questionnaires indicate the range along which respondents should answer, make data comparable among respondents, are less time-consuming to record, lessens the likelihood of errors, and make the response task quicker and easier.

In choosing the categories into which responses were to be classified, care was taken to be all-inclusive, to have categories that were mutually exclusive, and to cluster together responses that are similar to one another. The maximum number of categories was constructed, as categories could easily be combined during processing, if necessary. Numeric codes to represent answers to questions were used, because numeric data can more easily be manipulated than words. Scales are efficient and practical. The Likert scale was used to obtain the degree of agreement or disagreement to a question. It provides answers in coded data that are comparable.

The questionnaire was constructed with the contents of the literature study in mind. Factors and issues that are debated around self-employment, entrepreneurship and communication have been found in the literature. These have been used to get the framework for the study of self-employment among university graduates.

Cover letter

The aim of the survey was introduced in the cover letter that accompanied the questionnaire. The cover letter explained the project in such a way that the questionnaire could stand on its own and win the cooperation of recipients.

First part

The first question asked were to be filled in by those that did not need to fill in the rest of the questionnaire (those that were not self-employed) and would thus not waste their time further. The rest of the first part of the questionnaire included general questions that were applicable to all respondents. Occupation, previous employment status (employed or not), period of employment and/or self-employment, nature of business, form of business, and staff complement were asked.

Middle portion

The middle portion of the questionnaire included questions that dealt more with the main topic. The first part ended with a question on staff complement, while the first question in the middle part linked-up with the first part by including a question on future plans regarding staff complement (growth or no growth) and turnover. The rest of the middle part included questions in a logical sequence. First respondents were asked to state the necessary skills required in order to become self-employed. Next they had to indicate what motivated them to become self-employed, what difficulties they experienced in becoming self-employed, what contributed to their success, and what was unique to their businesses.

Final part

The final part was reserved for questions that dealt with more sensitive issues such as mobility and plans to move abroad. These questions were reserved for last, as respondents first needed to answer most questions before they terminated or refused to answer some items. Demographic questions were not asked, as the unique number on each questionnaire linked with the database that contained the necessary biographic information (on gender, population group and age). Recipients were assured of confidentiality in the cover letter, as

the unique number could arise some concern over identification. The questionnaire was piloted among three self-employed university graduates in order to test whether the questionnaire was clear and measured that which it intended to measure.

4.4. Interviews

Bingham and Moore (cited in Dane 1990:128) described an interview as a conversation with a purpose. Interviews were done in this study, because some of the questions in the postal survey needed to be elaborated on in order to get a clearer picture with more qualitative information. A postal survey is restricted regarding the length and interviews were thus used in order to fill in the detail.

Face-to-face interviews were mainly used to collect the necessary qualitative information. However, face-to-face interviews were restricted to respondents that were near by. As travelling costs can become problematic with face-to-face interviews that need to be done across the country, some telephonic interviews were also done. Klecka and Tuchfarber (cited in Dane 1990:131) used a telephone survey to replicate a survey done via face-to-face interviews and found no appreciable differences between the results of their survey and those of the original interviews.

4.4.1. Instrument

The reliability and validity of a study depends, in a large measure on consistency. Messages that reach respondents through interviews could vary to some degree from one interview to the next and control of the interview process is thus required. Structured interviews were therefore conducted, although there was opportunity for less structured probes to prompt the respondent to elaborate on a particular response. Rewording was used only when it was clear that the respondent did not understand. The questions were presented, as far as possible, in the same order as they appeared on the instrument.

During interviews it was important to make an effort to reduce response bias that could be caused by the mere presence of the interviewer. An attempt was thus made to assure that verbal and non-verbal actions did not for instance intimidate respondents and a neutral stand was taken so as not to influence respondents.

The interviews were in-depth studies that focused on communication patterns, the potential for growth, and difficulties as experienced by respondents. In the postal survey respondents responded to a broad question for example whether they experienced problems with some of the acts. With the interviews respondents were asked to elaborate and indicate why they experienced problems with one or more of the acts and what could be probable solutions or changes. The purpose of the interviews was to obtain qualitative information that elaborated on the more quantitative information that was obtained via the postal survey.

The focus of the interviews was on:
- the uniqueness of the businesses. This stimulated respondents' interest in the interview;
- the growth potential in the company/firm/practice;
- potential for job creation;
- obstacles to success;
- how obstacles were handled and overcome;
- the value of higher education programmes;
- the role of leadership, managerial skills and strategic planning;
- the role of communication and interpersonal relationships in:
  - becoming self-employed;
  - in leadership; and
  - in management.

4.4.2. Sample

A stratified random sampling procedure was used, as the target population was not homogeneous. The target population consisted of those self-employed university graduates that responded (n=4 225). It was decided to do about 30 interviews:
- the self-employed university graduates that responded in the postal survey, were included in a list from which a stratified random sample were to be drawn. Only those whose contact details (telephone number and/or fax number and/or e-mail address) were available were listed;
- the sampling frame were stratified into twelve groups that represented twelve fields of study (Natural science; information science; engineering, building & related; agricultural & related; veterinary science; medical & dental; supplementary medical services; human resources & social sciences; publishing, advertising & creative arts; business management & administration; legal; and chartered accounting). Four respondents were randomly selected out of each of the medical & dental field;

engineering, building & related field; and the business field, as they were the largest groups;

- out of each of the other nine fields of study, two respondents were selected, as they were the smaller groups.

4.5. Data analysis

The questionnaire design included numerical pre-coding for most of the questions. As there were also a few open-ended questions, post-coding were done and also recoding of some multiple answers. Every unique response, however, had a unique code and data analysis software (SPSS) was used to create combined categories. In this way, the original codes are still there should one decide to re-categorise the data at a future time. Frequency tables were used to detect categories containing too few respondents for inclusion in further analysis. Frequency tables were also used to help decide which categories need to be combined.

After the data was entered into the data file, identifying and correcting erroneous codes cleaned the data. Proofreading and simple frequency analysis was done on each variable in the file to correct the erroneous codes. In some instances however, it was necessary to relate one variable with another in a cross-tabulation before an error could be detected.

4.5.1. Recoding of fields of study

In order for easier statistical manipulation, the 47 fields of study were recoded into 12 main fields of study. However, the fields of study were not the basis according to which the self-employed graduates were categorised into the 12 main fields of study. The *current occupations* occupied by self-employed graduates were used to allocate them into the 12 main fields of study. In some cases the field of study were used in combination with the current occupation in order to determine the main field of study. The field of study was however used to check the validity of the occupation that was indicated by the graduate (as the fields of study were obtained from the universities where graduates obtained their qualifications):

- *agriculture & related*: agriculturist; agricultural scientist; agricultural adviser, consultant; animal scientist; soil scientist; forest scientist; horticulturist; food scientist; farmer; and nurseryman;
- *business*: estate administrator; management consultant; accountant (not CA); management accountant (not CA); financial accountant (not CA); cost accountant (not CA); income-tax consultant, advisor; financial controller, inspector; financial

advisor, consultant; economist; economic advisor; investment consultant; business analyst, advisor; marketing consultant; marketing planner; export planner; company director; company manager; chief executive official of company; business development director; property development manager; working proprietor (trade); working proprietor (catering and accommodation); working proprietor (other); stockbroker; insurance advisor, consultant; estate agent; property broker; property developer; micro lender; dealer; and import or export merchant, trader;

- *chartered accounting*: auditor; chartered accountant (CA); management accountant (CA); and financial accountant (CA);

- *engineering & related*: industrial engineer; chemical engineer; electrical engineer; electronic engineer; telecommunication engineer; mechanical engineer; aeronautical and marine engineer; metallurgical engineer; mining engineer; civil engineer; architect; quantity surveyor; town and regional planner; land surveyor; building contractor; building manager; and construction manager;

- *information technology (IT)*: computer programmer; computer systems programmer; computer systems analyst; computer network specialist; computer network administrator; multimedia developer; computer scientist; software developer;

- *legal*: advocate; attorney or lawyer; and legal advisor;

- *medical & dental*: general medical practitioner; surgeon; dermatologist; gynaecologist; physician (specialist); paediatrician; anaesthesiologist; neurosurgeon; neurologist; oncologist; ophthalmologist; ear, nose and throat specialist; orthopaedist; plastic surgeon; psychiatrist; radiologist; urologist; cardiologist; and pathologist;

- *natural science*: physicist; geologist; hydrologist; geohydrologist; geophysicist; mathematician; statistician; chemist; entomologist; micro-biologist; nature conservation scientist; environmental consultant; ecologist;

- *publish, advertise & creative arts*: sculptor; artist; cartoonist; designer; interior decorator; graphic designer; musician; composer; actor; film, TV or theatre producer; editor; publisher; journalist; writer; and poet;

- *social sciences & human resources (HR)*: teacher; educational advisor; clergyman, priest; psychologist; social worker; community developer; labour relations consultant; development specialist; and human sciences researcher;

- *supplementary medical services*: biokineticist; pharmacist; physiotherapist; occupational therapist; speech therapist; radiographer; nurse; dietician; optometrist; chiropractor; and homeopath;
- *veterinary science*: veterinary surgeon.

4.5.2. Statistical techniques

Statistical procedures were used to investigate the relationship between two variables or two sets of variables:

- the sample was large, so CHAID, an automatic interaction detection method that uses the CHI-squared test for independence, was used to explore the relationship between dependent and independent categorical variables;
- the T-Test was used to determine whether two independent groups differed significantly in terms of their mean value on certain quantitative variables;
- a one sample T-test was done to test if the mean of a sample was significantly different from a fixed value (hypothesis value);
- ANOVA was used to determine whether more than two independent groups differed significantly in terms of their mean values on certain quantitative variables;
- multivariate analysis of variance (MANOVA) was used to determine whether *two independent groups* differed significantly in terms of their mean value on all the quantitative variables simultaneously;
- the median, mean and standard deviation were used as descriptive statistics;
- the median was used for analysing income levels. The median value is regarded as a better index than the arithmetic mean for analysing income levels, as it is less sensitive to extremely high or extremely low income values. The median is the fiftieth percentile value that indicates the point where 50% of a group receive less and 50% receive more than the income indicated;
- the mean was used to analyse age, years of experience, and years self-employed, as these did not have extremely high or extremely low values and followed a relative normal distribution curve;
- the Likert scale was used to obtain the degree of agreement or disagreement to certain questions. The mean was calculated as an indication of the importance of the items listed for the specific question;
- results are displayed in tables, pie charts, bar charts, and line charts.

4.5.3. Hypothesis testing

Theoretical propositions were derived from the literature study (Chapter 2, paragraph 2.9). Hypotheses were generated from these questions that need to be answered. There are two hypotheses. One is called the null hypothesis and the other the alternative hypothesis. The testing procedure assumes the null hypothesis is true. The goal is thus to determine whether there is enough evidence to infer that the alternative hypothesis is true (Keller & Warrack 2000:313-314). Hypothesis testing, however, does not establish whether the null hypothesis is true or false, but quantifies how persuasive the evidence is against it. In hypothesis testing, as in most significant real-life decisions, clear-cut solutions are the exception, not the rule (Aacker, *et al.* 1998:462).

In the process of testing hypothesis, it was necessary to first do a **factor analysis** in some of the cases. Factor analysis was done in order to determine whether some of the variables correlated highly and could be grouped together before the hypothesis testing could proceed.

In order to test a hypothesis in one group, the *one sample T-test* was done to test if the mean of a sample was significantly different from a fixed value (hypothesis value).

When two groups were involved in the hypothesis testing, the T-Test was used to determine whether *two independent groups* differed significantly in terms of their mean value on certain quantitative variables. The p value is the probability of observing a sample value as extreme as, or more extreme than, the value actually observed, given that the null hypothesis is true. A low p value indicates impressive evidence, and a high p value indicates that the evidence is not impressive. A small p value represents the risk of rejecting the null hypothesis (Cooper & Schindler 1998:476).

Multivariate Analysis of Variance (MANOVA) was used to determine whether *two independent groups* differed significantly in terms of their mean value on all the quantitative variables simultaneously. A p value of 0.05 or less is seen as significant and the null hypothesis can be rejected in favour of the alternative hypothesis.

4.6. Report layout

The report begins with the *literature overview* (Chapter 2) that provided the framework for the survey. The literature revealed that well-educated self-employers were more likely to find successful businesses and become entrepreneurs that create work for others than the less educated (Chapter 1, paragraph 1.2.4). The study consequently focuses on the *university graduate, self-employed segment* of the self-employed in the country. At the end of the literature study (Chapter 2) the *theoretical propositions* that were derived from the literature study were given.

Chapter 3 was a continuation of the literature study, but focused specifically on *business communication* and other communication skills that are required for self-employment and entrepreneurship. To follow, a *profile* of self-employed university graduates is given in Chapter 5. Subsequently the *nature of their businesses,* which included the period self-employed, approach followed in becoming self-employed, form of business, staff complement and potential for job creation, and turnover are discussed. The same chapter also gives an indication of the *skills* that are important for self-employment, factors that *motivate* graduates to become self-employed, *constraints*, and factors that contribute to *success* of self-employment.

Many questions are asked concerning the number of graduates leaving South Africa. This study therefore included questions and answers on *university graduate mobility* in an attempt to gauge self-employed graduates' intention towards migration or temporary migration abroad. Chapter 6 is the final chapter that includes the *conclusions, recommendations and guidelines* for providing a conducive environment for self-employment and future growth.