Chapter 1: Introduction

1.1 Introduction

This document outlines and reports the findings of a research study that was undertaken to investigate the skills (and related training) necessary for the survival and the growth of small enterprises (SMEs) in the textile and clothing (T&C) industry in Gauteng, South Africa (SA). This chapter describes the background to the problem, articulates the aims, objectives and related benefits of the study; introduces certain terms, clarifies concepts and gives operational definitions for constructs that are used in the study. It gives details regarding the method of study; the referencing technique used and finally guides the reader on the outline of the study report.

1.2 Background

With the spread of capitalism and globalization, entrepreneurship continues to gain importance (Rwigema & Venter, 2004:315; OECD, 2002b:7; GEM, 2005b:5; Dawson, Breen & Satyen, 2002:302; Lee, Lim, Pathak, Chang & Li, 2006:352). Statistics show that there is no better way to provide a broad basis for rapid economic growth than to dramatically increase the number of active entrepreneurs in a society (McCleland, 1986:232; Pretorius, van Vuuren & Nieman, 2005b:413; Timmons, 1999:4; Themba, Chamme, Phambuka & Makgosa, 1999:103; Watson, Hogarth-Scott & Wilson, 1998:218; Umsobomvu, 2004:iv).

Linked with entrepreneurship is the SME sector. The important contribution of a dynamic SME sector to economic growth has been widely acknowledged (Timmons, 1999:17; Henning, 2003:1; McPherson, 2000:514; Baron, 1998:275; Dreisler, Blenker & Nielsen, 2003:383). SMEs are said to be major components of many economies (Miller, Besser, Gaskill & Sapp, 2003:215; Joubert, Schoeman & Blignaut, 1999:23; GEM, 1999:5). As a result, most governments, bilateral and multilateral agencies as well as non-governmental organizations worldwide have policies in place to assist entrepreneurship development (Rogerson, 2001a:115; Honig, 1998:372; Robertson, Collins, Medeira & Slater, 2003:308; Lange, Ottens & Taylor, 2000:5; Luiz, 2001:53).

Many authors have pointed out that SMEs are important because they contribute to:

- **The GDP**: SMEs comprise a high percentage of businesses and account for between 30% and 60% of the GDP of many countries (OECD, 2002b:8; Tustin, 2001:5; GEM, 1999:7; Praag & Versloot, 2007:351).
- **Economic development**: SMEs are seen to be the engine that drives economic progress because they develop new markets (including exports); they ensure continuous renewal of stagnating industries, they are a source of economic diversity and they develop vibrant commercial culture (Santrelli & Vivarelli, 2007:2; Pretorius & van Vuuren, 2003:514; Thomas & Mueller, 2000:287; Henning, 2003:2; Miller et al, 2003:215).
- **Wealth creation**: SMEs create wealth by stimulating demand for investment, for capital goods and trading (Dana, 2001:405; Lange et al, 2000:5; GEM, 2006:10; Robertson et al, 2003:308).
- **Job creation**: SMEs are labour intensive and account for over half of the employment in the private sector (Joubert et al, 1999:24, Rogerson, 1999:131; Ligthelm & Cant, 2002:3; GEM, 2002b:7).
- **Economic flexibility**: SMEs' ability to quickly manufacture smaller quantities puts competitive pressure on larger firms to boost productivity, thus enhancing economic flexibility (Lussier & Pfeifer, 2001:228; Gibbon, 2004:156; Kangasharju, 2000:28).
- **Innovation and technology transfer**: SMEs provide a nursery and proving ground for product differentiation, market innovation, technological change and entrepreneurship (Rwigema & Venter, 2004:315; OECD, 2002b:10).
- **Local resources**: Most SME products tend to originate from indigenous crafts that reflect local technologies, local raw materials and the local knowledge base (Rwigema & Karungu 1999:112; Luiz, 2001:54; Bannock, 2002:1; Romijn, 2001:58).
- **Development of skills**: SMEs provide opportunities for individuals to upgrading their human capital and realize their full potential (Gbadamosi, 2002:95; Nieman, 2001:445).
- **Socio-economic transformation**: SME promotion has become a political necessity, as they are a means for bringing social change; equitable distribution of employment and income generating opportunities; exploring the entrepreneurial talents of natives; the empowering of marginalized segments of the population; improving communities' standard of living; creating conditions for sustainable livelihoods and eliminating conditions of extreme poverty (Ladzani & van Vuuren, 2002:154; Mogale, 2005:135; Tustin, 2001:24).

- **Crisis or hardship**: SMEs are said to be particularly important during times of crisis or hardship related to conflict, depression, recession and natural disasters, as SMEs are likely to be more resilient and people turn to SMEs to seek new means of generating income to cope with these shocks (Gurol & Atsan, 2006:26; USAID, 2003).

1.3 The situation in South Africa

South Africa is a middle income, high growth and highly diverse country that has particularly turbulent social and economic conditions (Morris & Zahra, 2000:92; GEM, 2005a:15; GEM, 2006:13). This is partly due to two major factors namely the unfolding of a dynamic process of internal transformation and the country's re-entry into the global economy after decades of international trade and other forms of sanctions (Luiz, 2001:55; Berry, Von Bottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:1).

The internal transformation is due to the political liberation that abandoned the last vestiges of apartheid and moved towards democracy with majority rule (Tustin, 2001:25). This transformation led to the re-instatement of fundamental economic rights to the majority black populace (Morris & Zahra, 2000:92). The new government has identified job creation and employment as one of the national priorities for equitable economic development (Darroch & Clover, 2005:321; Nafukho, 1998:100).

South Africa's entry into the global economy resulted in the country's international trade commitments under the World Trade Organization (WTO) and the removal of policies designed to protect South African industries (Nasser, du Preez & Herrmann, 2003:393). The opening up of the economy to unfettered global trade exposed South Africa to fierce global competition (Mayrholer & Hendriks, 2003:597). This severely affected South Africa's traditional industries which, in the absence of global competitiveness, had enjoyed wealth creation and employment opportunities (Viviers, Van Eeden & Venter, 2001:12).

By the end of the 1990s, business liquidations were on the rise, with many formal enterprises restructuring and retrenching more than 100,000 jobs every year (Tustin, 2001:5; Morris & Zahra, 2000:92; Nasser et al, 2003:393; Ligthelm & Cant, 2002:4,). This coupled with a population of 43,9 million (Mogale, 2005:135) and the high population growth (Toye, 2002:2), has resulted in unprecedented unemployment rates, estimated to

be between 30% and 41% in 2001 (Rwigema & Venter, 2004:10; Nasser et al, 2003:393; van Vuuren & Nieman, 1999:1, Viviers et al, 2001:10). These high unemployment rates cannot accommodate the annual rush of between 325 000 and 462 000 school leavers and university graduates wanting to enter the job market (Pretorius & Shaw, 2004:222; van Vuuren & Nieman, 1999:1; South Africa, 2006; South Africa, 2002a).

There is little prospect of a dramatic positive growth in the formal sector, which is currently growing at approximately 3% (Nieman, 2001:445). However, with SA's low (2%) enterprise density (which refers to the percentage of existing and potential entrepreneurs), there is room for expanding active enterprises (van Vuuren & Nieman, 1999:2). Therefore one logical solution to SA unemployment threat is to promote self-dependency, self-employment, entrepreneurship and SME development (Pretorius & Shaw, 2004:221; Nieman, 2001:445; Nasser et al, 2003:395, Umsobomvu, 2002:1).

The contribution that SMEs can make to the South African economy development is valuable, significant, and of particular importance because 80% of the businesses in South Africa are described as SMEs (Baard & Van Den Berg, 2004:1; Clover & Darroch, 2005:238; South Africa, 2006; Ntsika, 2001:37). SMEs contribute at least 35% of the GDP (Rwigema & Venter, 2004:10); generate 40% of all economic activities (Perks & Struwig, 2005:171; Morris, Pitt & Berthon, 1996:59; Berry et al, 2002:4); employ over 50% of the working population (Rwigema & Karungu, 1999:113; Cornwall & Naughton, 2003:61) and promote capacity building (Luiz, 2001:54; Pretorius, Millard & Kruger, 2005a:55).

Yet the South African entrepreneurial environment is marked by a combination of negative factors including the following:

1. South Africa has the lowest entrepreneurial activity rate of all developing countries (GEM, 2005b:7).
2. In general, South Africans are not socialized to become entrepreneurs, but to enter labour markets as employees (Van Aart, Van Aart & Bezuidenhout, 2000:127).
3. Furthermore due to the distortions created by apartheid, the supply of entrepreneurs is socially skewed, with the black population lagging behind the whites in entrepreneurship. It is estimated that only 1.4% of Africans are entrepreneurs compared with 7.5% of the whites (Luiz, 2001:55).

4. The highest percentage of black SMEs is in the survivalist class, where returns are very low and limited (Rwigema & Venter, 2004:15; Berry et al, 2002:5).
5. Most of the South African population remains excluded from the formal economy (Morris et al, 1996:64), as they lack collateral to secure start-up and running capital and are thus considered too risky for many financiers (GEM, 2003b:12).
6. The apartheid system also created an under-educated black majority, robbing black people of skills that are important for SME success (Rwigema & Karungu, 1999:113; Morris et al, 1996:72).

Nevertheless, in South Africa there is a vast amount of dormant human and social capital which can be leveraged into generating jobs and wealth across both the formal and the informal sectors of the economy (Nasser et al, 2003:394). The government of the new South Africa has placed an increased emphasis on the development of SMEs as the most important avenue for achieving national objectives like job creation (South Africa, 2001a; Davies, 2001:4; Ladzani & van Vuuren, 2002:154; Pretorius & Shaw, 2004:222; Pretorius, et al, 2005b:414; Rogerson, 2001a:116; Rwigema & Karungu, 1999:113; Tustin, 2001:14).

SME development forms an important part of the SA government's active strategy to ensure mobility between the first and second economies in order to help alleviate poverty, create profitable opportunities for indigenous entrepreneurs and create wealth for the previously disadvantaged people (Morris & Zahra, 2000:92; Nafukho, 1998:102; Themba et al, 1999:103; Tustin, 2001:23).

Thus the government initiated interventions such as the Reconstruction and Development Programme (RDP) and the growth, equity and redistribution (GEAR) policies to be used a platform for encouraging entrepreneurial activities in the SME sector (Nasser et al, 2003:394). In 1995 the White Paper on National Strategy for the Development and Promotion of Small Business (South Africa, 1995) stated that "the real engine of sustainable development and equitable growth in South Africa is through the private sector, with the SMEs playing an important part". To further this, the government launched the Small Business Act 102 of 1996 (South Africa, 1996; Henning, 2003:3) whose aim is to increase entrepreneurial activity in the country. These and other policies such as the Integrated Small Business Development Strategy for South Africa; the Black Empowerment Policy, the Intellectual Property Policy; the Tax Policy, the Labour Policy;

the Trade and Industry Policy and the Competition Policy, all support SME development and promotion (Nasser, 2003:394; Rwigema & Venter, 2004:315; Rogerson, 2000:676).

One example of government initiatives to support SME development is training aimed at increasing skills of SME owners (Umsobomvu, 2002:3).

1.4 Research problem

While the nascent entrepreneurship activities rate for South Africa is low at 3.6% (GEM, 2005a:18), generally there is not overall scarcity of nascent entrepreneurship, as new enterprises are being established at a rapid rate, with many youngsters now considering entrepreneurship as a career option (Baron, 2003:253; Rogerson, 2001a:117). The problem is the rather alarmingly high business contraction and closure rate in this segment (Cornwall & Naughton, 2003:71; Santrelli & Vivarelli, 2007:3). New jobs arise from two sources, namely the expansion of existing enterprises or the net creation of new businesses (Pretorius et al, 2005b:414). Mead & Liedholm (1998:61) calculate the number of net new jobs created in the SME sector as follows:

> Employment in SME sector = birth of new SMEs + growth of SMEs – contraction of existing SMEs – closure of existing SMEs.

This study adopts this equation. However, caution must be taken when using this equation as it is. As it is, this equation ignores the role big business plays in job creation. It would be more accurate if it was preceded by an equation that shows that the enterprises are made up of big business, public sector and small business. Following this clarification this equation would then focus only on employment in the SME sector.

Despite the dynamics that led to the rapid growth of the SME sector, and the numerous efforts by government to assist the development of this sector; the SMEs sector is notoriously volatile and experiences a high degree of business closure and shrinkage (MacMahon & Murphy, 1999:25; Baard & Van Den Berg, 2004:1; Eriksson & Kuhn, 2006:1033). This implies that SMEs are limited in their ability to create long-term sustainable employment and may also be responsible for the greatest number of job and wealth losses (Way, 2002:766; Ligthelm & Cant, 2002:4; Rogerson, 2001a:117; Ahwireng-Obeng, 2003:1).

It must be noted however that the term business closure encompasses all terms referring to discontinuance of business operations for any reason and formal bankruptcy proceedings. However there are SMEs that have exited their businesses not because of the failure to create wealth or reach adequate turnover targets but also due to numerous other reasons that caused them to stop operations and close their business (Erikson & Kuhn, 2006:1021; Watson & Everett, 1999:31). These include owner retiring, illness, moving places or changing lifestyles, the business changing ownership, business being bought by another firm, merging with other companies, termination to prevent further losses, moving resources to other priorities or more profitable opportunities as well as failure to motivate oneself to make a go for it (GMAP, 2007:15; Nieman, 2006:226). This study uses the term business closure to describe 1. failed businesses that ceased due to bankruptcy and with losses and 2. non failed businesses that cease without loss (Watson, Everett & Newby, 2000:3). This study focuses on failed business and adopts the definition that "failure" is when an SME's resources are exhausted and the firm lacks sufficient capital to cover the obligations of the business (Thornhill & Amit, 2003:497; Panco & Korn, 1999:1; Dahlqvist et al, 2000:15).

SMEs are the most vulnerable in terms of survival because of the liability of newness and smallness (Davila, Foster & Gupta, 2003:689; Thornhill & Amit, 2003:497; Kangasharju, 2000:28; Watson et al, 1998:218, Fielden, Davidson & Makin, 2000:296). The SME life span tends to be short, with approximately two thirds of all start-ups failing within the first five years (Solymossy & Penna, 2001; Ibrahim & Soufani, 2002:421; Miller et al, 2003:215; Ladzani & van Vuuren, 2002:155). Only small percentages stay in business in the long term, with many of the survivors achieving only marginal performance (Lussier & Pfeifer, 2001:228; Rogerson, 2001a:117; Freeman, 2000:372; GEM, 2007:5, MacMahon & Murphy, 1999:25).

In South Africa, this SME failure rate is somewhere between 70% and 80% (Van Eeden, Viviers, & Venter, 2003:13), costing the South African economy millions in rands and in employment (Baard & Van Den Berg, 2004:1). Furthermore, most South African SMEs are at the low end of the enterprise size scale and exist primarily as survivalist firms with little capacity for sustained survival or growth (GEM, 2007:20; Rogerson, 2001a:117). The opportunity for SMEs to create jobs and economic wealth will be missed if they cannot attain their potential (Fielden et al, 2000:303).

Despite the many challenges and difficulties of the SMEs, the sector has great potential for increased employment creation (Miller et al, 2003:215). While many SMEs fail, others survive beyond infancy and adolescence, becoming major success stories, creating wealth for their founders and jobs for the communities they serve (Thornhill & Amit, 2003:497; GEM, 2001a:8; Monk, 2000:12; Rogerson, 2001b:268). Studies have found that as much as 90% of the employment growth originates from the entrepreneurial sector of the South African economy (Morris et al, 1996:72). Growing SMEs create about 5.28 sustainable and long-term jobs in the first year to 8.14 jobs by the fourth year (Rogerson, 2001a:117; GEM, 2007:5; GEM, 2002a:5).

The employment record of SMEs would improve if, instead of failing, they could be assisted to reach steady growth path and become entrepreneurial (Kangasharju, 2000:28). Entrepreneurship should thus be the focus of intervention instead of supporting many struggling SMEs (Themba et al, 1999:110). The debate over the distinction between an entrepreneur and an SME is established and ongoing (Glancey, Greig, & Pettigrew, 1998:250). The main difference between an SME and entrepreneurship is that SMEs are started with the aim of supporting the owners, and normally have limited growth ambitions (Hisrich & Peters, 2002:13; Gundry & Welsch, 2001:453). By contrast, entrepreneurs are more opportunity driven, innovative, change-oriented, dynamic, formal, professional and strategic; they usually aim for high potential ventures (Mueller & Thomas, 2001:57; Morris et al, 1996:61; Rwigema & Venter, 2004:6).

At the same time SME survival is important in the theory of sustained entrepreneurship because the survival of the SMEs, especially in developing states and in periods of economic instability, can lead to sustained job creation (Glancey et al, 1998:250). Also a significant number of SMEs make their contribution by helping people survive when nothing better is available, and thus SMEs are appropriate for enabling a large number of people to earn some income; therefore making more people less poor (Rogerson, 2001a:118). Since this study is to investigate survival, success and growth factors, both entrepreneurs and SMEs are considered.

Clearly if SMEs are to be the vehicle for job creation they must be started, sustained and grown (Luiz, 2001:56; Gbadamosi, 2002:95; Clover & Darroch, 2005:239; Honig, 1998:373). The key issue facing government is how best to promote the creation of more SMEs with growth potential (Freeman, 2000:373), and at the same time help those SMEs

that are starting to survive and become efficient enough to achieve entrepreneurial growth, such that there is net firm creation (i.e. start-up exceeds closure) and firm expansion exceeds contraction of existing SMEs (Darroch & Clover, 2005:324; Fielden et al, 2000:296; Rogerson, 2001a:117, Nieman, 2001:446). Therefore any method that can aid in the successful growing of SMEs is important, not only to these SMEs but also to the entire economy of a country (Way, 2002:766; Glancey, 1998:18; GEM, 2003b:13).

1.5 Study purpose

The purpose of this study is to investigate the link between SME success, competencies of the SME team and the training that was received by the SME.

Critical to aiding the successful growing of SMEs is the understanding of which factors cause some firms to grow and become successful SMEs who create sustainable long-term employment opportunities (Rogerson, 2001a:118; Dockel & Ligthelm, 2005:54, Larsson, Hedelin, Garling, 2003:205), and which factors cause other firms to close down creating negative net jobs (Fielden et al, 2000:296; Honig, 1998:373; Watson et al, 1998:217; Baron, 1998:276).

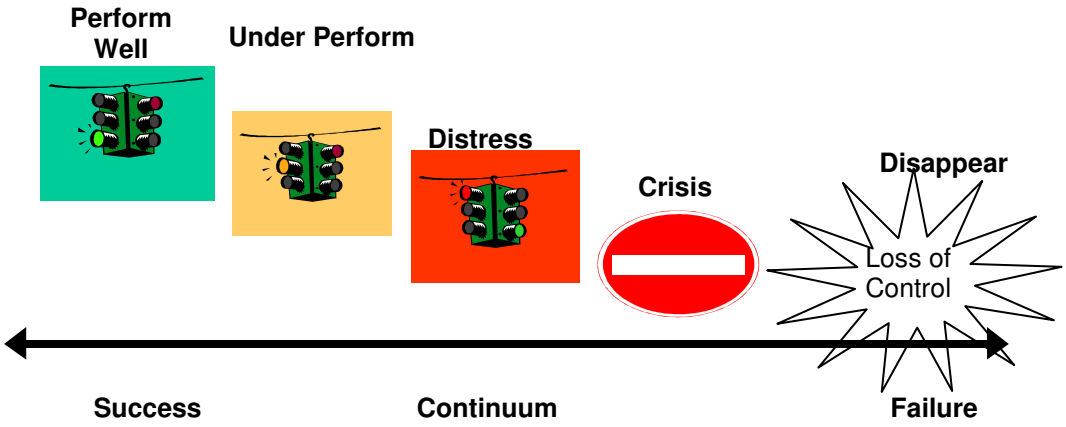
Very little is understood about these growth-determining factors and many questions about new venture creation (especially in non-USA contexts) remain unanswered (Mueller & Thomas, 2001:53; Deakins & Freel, 1998:144; Fielden et al, 2000:296). This study thus starts by investigating the determinants of SME survival, success and growth as well as those determinants of SME failure.

Studying the factors that influence SME success gives access to reliable information about how the successful SMEs carry out their high performance (Watson et al, 1998:220; Lussier & Pfeifer, 2001:228, Baron, 2003:253, Mueller & Thomas, 2001:52; Pretorius et al, 2005a:55; Rowden, 2002:79). Such studies provide useful information enabling others to build on the successful ideas by emulating best practices, or adopting such ideas for ensuring success in other companies (Bridges, 2002:4, Nasser et al, 2003:396; Fielden et al, 2000:297).

Instead of focusing only on successes, it is important to also analyse failures (Thornhill & Amit, 2003:497; Cornwal & Naughton 2003:71; Pretorius, 2001:44). The success or

failure of a new business is often dependent on overcoming the series of potential life-threatening barriers that many SMEs experience throughout their start-up and growth periods (Fielden et al, 2000:297). Studies of failure can provide useful information about the factors which led to the failure, and how successful owner-managers overcame their problems (Panco & Korn, 1999:1; Watson et al, 1998:221). Such information can help SMEs (existing or planned) to be forewarned and proactive in their decision making, to avoid falling into the trap of business failure (Ligthelm & Cant, 2002:1; Dahlqvist, Davidsson, & Wiklund, 2000:2).

Figure 1.1: Venture failure slide



Source: Nieman (2006:228)

already been made by others and taking appropriate action to develop strategies for overcoming threatening barriers, to correct market failures, to minimizing their impact, to improve the odds of survival under given conditions and to arrest the venture's slide into ultimate failure (Panco & Korn, 1999:1; Nieman, 2006:228; Clover & Darroch, 2005:240; Fielden et al, 2000:295; Gartner, Starr & Bhat, 1999:215).

For the public sector, identifying factors that constrain business survival, performance and growth could assist public sector institutions to develop policies and strategies that will remove the barriers and counter those distortions to "level the playing field" (Robertson et al, 2003:308; Luiz, 2001:53, Lussier & Pfeifer, 2001:228; Dreisler et al, 2003:387). For researchers, these studies can help create better analytical models of entrepreneurial value creation (Thornhill & Amit, 2003:498) and also enhance the

construction of management training syllabi for SMEs (Ligthelm & Cant, 2002:1; Rwigema & Venter, 2004:14).

Survival, success and growth of small business (or failure and bad performance) has been of interest to researchers for many years and has thus become the subject of a lot of analysis (Perks & Struwig, 2005:171; Gundry & Welsch, 2001:454; Watson et al, 1998:222; Panco & Korn, 1999:2). Researchers have been struggling to uncover the primary determinants of new venture success (or failure), and thus have been trying to come up with a comprehensive list of the factors that play a role in the success (or failure) of new ventures (Baron 2004b:221; Pretorius et al, 2005a:55; Dahlqvist et al, 2000:1).

Clearly a very large number of variables are involved (Baron, 2004a:169; Gartner et al, 1999:218; GEM, 2005a:12). While some analysts suggest that the dynamics of the growth of businesses remains a black box (Deakins & Freel, 1998:145; Dockel & Ligthelm, 2005:55), others have argued that the success of enterprises is a function of a combination of both external and internal factors (McCline, Bhat & Baj, 2000:82; Markman & Baron, 2003:282; Guzman & Santos, 2001:218).

The external factors are also referred to as exogenous, environmental or contextual factors. These external factors are outside the control and influence of the manager and his team or their actions, and cover a number of issues, depending on the unique environment of the community in which the business operates (Simpson, Tuck & Bellamy, 2004:484; Viviers et al, 2001:4). Internal factors (also referred to as endogenous factors) are firm-based and cover personal and behavioural factors. These internal factors are thus potentially controllable since they involve the decisions, behaviour and actions of the entrepreneurs and his or her team (Kangasharju, 2000:28; Panco & Korn, 1999:2; Ligthelm & Cant, 2002:4).

Below is a table listing some of the factors that were identified in literature and which the study has decided to highlight, as discussed briefly in chapter 2:

Table 1.1: Summary of the factors that influence venture success

Exogenous / external factors	Endogenous / internal factors
Macro Economic factors • Geographic area and region • Density • Inflation & Interest rates • Unemployment • Exchange rates • Economic change	**Company demographics factors** • Size of firm • Age of firm • Organizational structure • Community networks
Political-Institutional factors • Macro-economic policies • The business environment • The judiciary • Bureaucracy • Costs of compliance • Public support	**Human demographics factors** • Age • Gender • Family background • Exposure to role models
Socio-Cultural factors • Access to public infrastructure • Access to money / capital • Access to technology • Access to labour • Access to other resources • Crime • Health • Culture • Role models	**Previous Experience factors** • Education • Training • Work experience • Business ownership • Industry specific
Market Opportunity factors • Demand for supply • Competition • Access to markets • Location	**Human Capital factors** • Personal characteristics • Capabilities, abilities and skills

Source: Own compilation adapted from literature study

This is not an exhaustive list but is given to illustrate the context of the focus of this study which was aimed at investigating capabilities, abilities and skills that are one of the internal factors identifies for SME success (Rogerson, 2001a:119; Strydom & Tustin, 2003:1; MacMahon & Murphy, 1999:25).

The study seeks to probe the argument that successful SMEs owners-managers have the skills, competencies and know-how needed to run and grow their business (Viviers et al, 2001:2; Ladzani & van Vuuren, 2002:154; Wasilczuk, 2000:88; Ibrahim & Soufani, 2002:421; Lange et al, 2000:5; Nafukho, 1998:103).

While the determination of success and growth in large corporate firms is well researched, similar studies on SMEs are less common and many unknowns remain (Glancey, 1998:18; Bruyant & Julien, 2000:172; Baines & Robson, 2001:351 Perks & Struwig, 2005:171; Praag & Versloot, 2007:352). Thus the purpose of this study is to fill the gap that exists in identifying the subset of the skills associated with growth potential in the context of SME development.

While it is widely accepted that ability plays a significant role in SME development, the question remains whether the crucial set of competencies is a universal one or whether it differs in different economies or industrial sectors (Wasilczuk, 2000:93; Dahlqvist et al, 2000:15). While entrepreneurship is a global phenomenon, it has significant differences between countries (GEM, 2001b:6; GEM, 2002b:5; Sternberg & Wennekers, 2005:193). Some researchers argue that it is best to view entrepreneurship in the context of specific countries, economies and cultures, as some problems are universal while others are specific to a country, industry or region (Viviers et al, 2001:4; Man, Lau & Chan, 2002:139; Rogerson, 2001a:120).

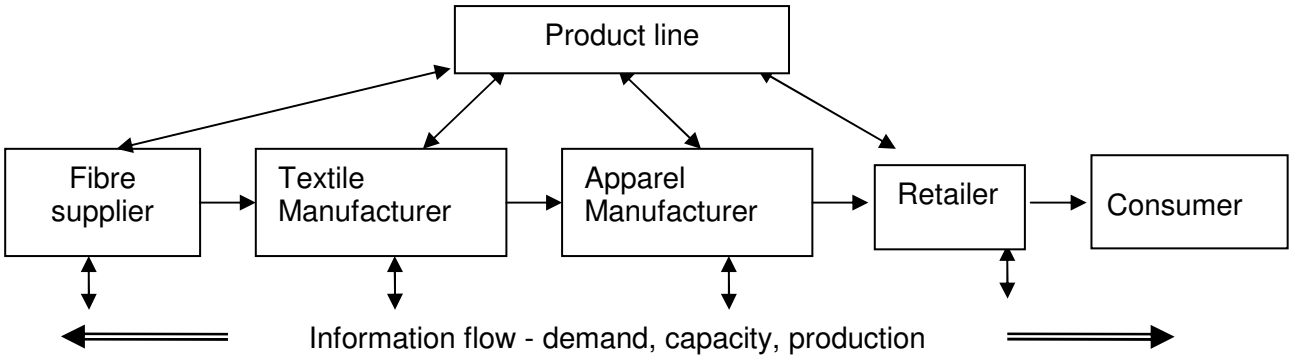
Focusing on one industry in one area standardizes and controls external factors like market opportunities, industry circumstances, the labour market, public sector regulation and the business environment (McCLine et al, 2000:83; Rauch & Frese, 2000:8; Rogerson, 2001a:117; Rwigema & Venter 2004:41). Thus the specific purpose of this study is to focus on internal factors in particular those skills factors which are key to setting up, running and growing SMEs in the textile and clothing industry in the Johannesburg Metropolitan area of South Africa.

1.6 The textile and clothing industry in Johannesburg, South Africa

Being one of the oldest sectors in the history of industrial development, the textile and clothing (T&C) industry is often referred to as a traditional industry (Coughlin, Rubin & Darga, 2005:5). The textile and clothing sector is a diverse and heterogeneous industry whose products are used by virtually everybody (Stengg, 2001:3). The tectile and clothing industry can be seen as a supply chain comprising of a number of discrete activities (Norda, 2004:2).

Figure 1.2 illustrates the main categories of activities in the textile and clothing industry:

Figure 1.2: The textile and clothing industrial pipeline



Source: Coughlin et al (2005:55)

The textile and clothing industry is a global industry whish has production activities worldwide and is connected through various arrangements and strategic decisions to serve the world market internationally (McCormnick & Rogerson, 2004:2). Although a marginal player in international production leagues, South Africa retains the largest textile and clothing sector in Africa, with an estimated output of $4.1 billion (Rogerson, 2004b:110; Gibbon, 2004:157).

The textile and clothing industry accounts for at least 225 000 jobs (Kamaha, 2004:426; Nordas, 2004:1); with at least 75% of its workers being women (McCormnick & Rogerson, 2004:4). The low skills requirement of the sector and the fact that it costs less to create one formal job in this sector than in any other sector makes it a key industry for the South African government that is trying to create as many jobs as possible for the substantial part of the active population which has few or no skills (Otiso, 2004:84).

The clothing sector is also dominated by SMEs (Stengg, 2001:5; Rogerson, 2004b:128; Kamaha, 2004:430). Due to its small-scale production, low technology requirements and the related low costs, low economies of scale and low barriers to entry, this sector is viewed as a seedbed for fledgling entrepreneurs (Peberdy & Rogerson, 2000:27).

Another advantage of this industry is that it uses extensive local resources and has high export potential, given the opportunities around the African Growth and Opportunity Act (AGOA) and the European Union (EU) trade agreements which have made tariffs and quotas free for African-Caribbean-Pacific ACP countries (Coughlin et al, 2004:18; Gibbon, 2004:164; McCormnick & Rogerson, 2004:4).

Clearly the textile and clothing industry in South Africa has great potential to generate employment opportunities and enhance national economic growth. However, major problems exist in this sector (Coughlin et al, 2004:61). Although the overall demand for clothing and textiles has increased; the textile and clothing industry of South Africa is exhibiting characteristics of distress, retreat and even decline (Rogerson, 2004b:113; Kamaha, 2004:426). Against other manufacturing trends, the overall output levels, productivity and capital utilization have shrunk in this industry by at least 20% in real terms since 1995 (Gibbon, 2004:187; Rogerson, 2001b:271).

The business environment in the T&C industry is shaped by foreign ownership, market instability; skills shortages, low productivity, the inflexibility of the highly unionized labour market, tremendous buyer power, global cut-throat competition and unprecedented imports (Kamaha, 2004:438; Peberdy & Rogerson, 2000:28; Coughlin et al, 2004:61; Otiso, 2004:85).

The shedding of apartheid saw South Africa become part of the General Agreement on Tariffs and Trade (GATT), which resulted in the reduction of tariffs such as the textile and clothing import duty (Rogerson, 2004b:113; Nordas, 2004:1). This led to a flood of cheap imports, with import penetration levels rising from R220 million in 1994 to R950 million in 2000, making the T&C industry one of the most import-flooded sectors in South Africa (Peberdy & Rogerson, 2000:28; Kamaha, 2004:426).

This meant that any enterprise in this industry that could not grow or move into export activities to counteract the loss of local markets was in trouble (Rogerson, 2004b:133). Since most of the enterprises in the T&C industry were unable to compete with the unprecedented and fierce international rivals, many enterprises saw their markets disappear and their production plummet (McCormick & Rogerson, 2004:3; Gibbon, 2004:157). By 2001 the sector was referred to as a shrinking manufacturing sector characterized by retrenchments (40% of the employment base being lost) and firm closures (35% of the businesses having closed with factories long abandoned), with many remaining firms using little of their capacity and being idle most of the time (Coughlin et al, 2004:61; Kamaha; 2004:426; Peberdy & Rogerson, 2000:28).

When the South African T&C industry first developed, it was largely concentrated in Johannesburg (Gibbon, 2004:157), which currently houses the third largest cluster of

T&C manufacturers after Cape Town and Durban (Rogerson, 2004:765; Kamaha; 2004:430). Johannesburg is regarded as the economic hub of South Africa and the country's biggest consumer market (Nieman, 2001:446). SMEs account for 35% of Johannesburg's employment (Finmark, 2006). In Johannesburg, clothing production is the number one economic activity to secure jobs, and the government has earmarked this sector to help to rejuvenate the otherwise decaying inner city (Kamaha, 2004:426). Moreover, there are in Johannesburg other enterprises in the T&C industry that are growing and successfully exporting to highly demanding European and American customers (Coughlin et al, 2004:61).

Thus it is very important to understand the factors behind the emergence of successful T&C enterprises (Rogerson, 2004b:113) that are operating in the Johannesburg area in this time of globalization, trade liberalization and a free South Africa.

At 25%, the textile and clothing sector has been the largest beneficiaries for government support programmes in the city of Johannesburg (Rogerson, 2004:773). The study was sparked by the programs offering training support in particular those of the by the Department of Labour (DOL) and the city of Johannesburg. The Department of Labour passed the Skills Development Act (South Africa, 1998) to lay the legal base for improving the skills of the people in South Africa. This led to the creation of the National Skills Development Strategy (South Africa, 2001b), the National Skills Fund (South Africa, 2003) and the Clothing and Textile SETA (South Africa, 2005c) all aimed at enlarging the skills base to advance workplace security and productivity. The city of Johannesburg (COJ) Municipality's Economic Development Unit (EDU) has embarked upon implementing a "2030 skills strategy development" process to address a mismatch identified between the demand for and supply of skills within the City (COJ, 2004).

While both the Department of Labour and the City of Johannesburg were supporting many training programmes as a means to develop their SMEs, neither DOL or COJ knew whether the training targets the transfer of those skills that were important for business success nor whether the training had any impact in terms of actual SME survival and success.

In this context this study examines the skill levels of textile and clothing SMEs operating in Johannesburg (Kamaha, 2004:430). This study takes into cognizance that manufacturing and retailing are quite different in nature and experience different

problems (Stengg; 2001:3; Viviers et al 2001:6); thus most of the research statistics and analysis in this study focus only on the manufacturing part of the textile and clothing industry, and the study only refers to the distribution sector on an ad-hoc basis.

1.7 Defining constructs

At this point it is necessary to define certain constructs used in this study report. This section forms part of the conceptual foundation of this study. This section introduces certain terms, clarifies concepts and gives operational definitions for constructs that are used in the study.

Skills

Wickham (2001:41) defines "skills" as knowledge that is demonstrated by action – an ability to perform in a certain way. This is in line with the UK department of education's definition, which defines skills broadly as "the ability to perform tasks according to a pre-defined standard of competence" (Tustin (2003:26). Also a skill is defined as "a combination of knowledge and the ability to apply it" (Rwigema & Venter 2004:43). Al-Madhoun & Analoui (2002:432) defines skill as "an ability which can be developed and which is manifested in performance, not merely in potential; the ability to translate knowledge into practice". Synonymous with skill are the words competency, capability, ability, aptitude, know-how, knowledge, proficiency, expertise, adeptness and capacity (Oxford dictionary, 2005).

PDIs Previously disadvantaged Individuals

This study frequently refers to PDIs which means to those communities/individuals in the population who have been disadvantaged by the apartheid and separate development policies of the past (Nieman, 2001:445).

SMEs

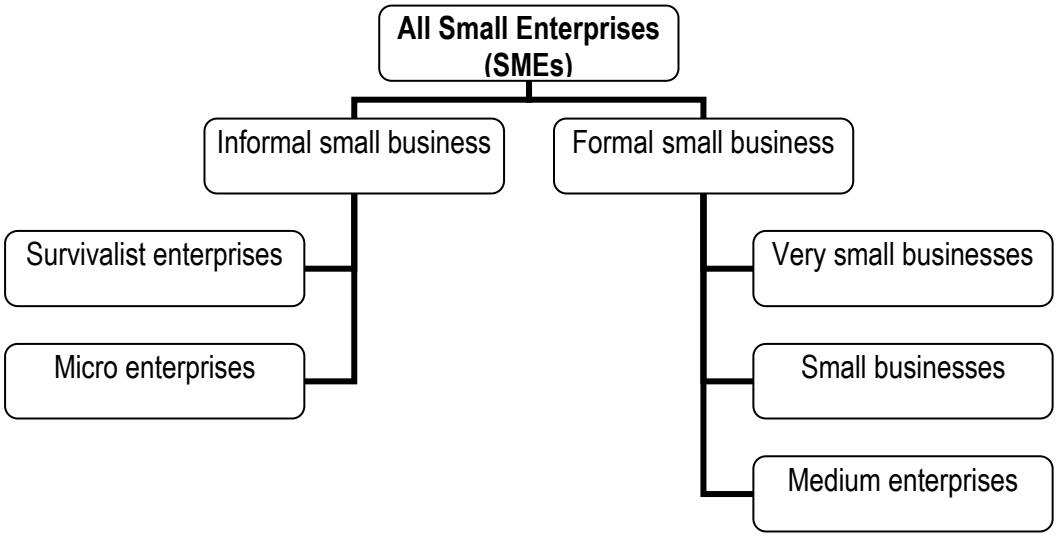
This study uses the acronym "SME" to mean all small enterprises / businesses. Definitions of what constitutes a small enterprise/business vary within the literature (Hill & Stewart, 2000:106; Dawson, Breen & Satyen, 2002:303). This study uses the National Small Business Act No. 102 of 1996 (South Africa, 1996) which defines it as:

> "A separate and distinct business entity, including cooperative enterprises and nongovernmental organizations, managed by one owner or more which, including its braches or subsidiaries, if any, is carried on in any sector or sub-sector of the

economy and which can be classified as micro, a very small, a small or a medium enterprise."

For this study the construct "SME" refers to all survivalist, informal, micro, very small, small business and medium businesses as classified in accordance with the Standard Industrial classification shown in figure 1.3 below:

Figure 1.3: Classification of SMEs



Source: Tustin (2001:10)

The classification is both qualitative and quantitative. Qualitative classification entails categorizing and defining SMEs in terms of ownership structure. Quantitative classification entails defining SME according to three main criteria, namely employment, turnover and asset value (Tustin, 2001:12, Ntsika, 2001:13), where:

- "Annual turnover" is the total gross income in the past year, which is the sum total of sales excluding VAT, before any deductions.
- "Asset value" refers to the gross movable asset value before any deduction such as depreciation. It excludes fixed property such as land and buildings but includes items such as tools, machinery and motor vehicles.
- "Employees" includes paid employees that contribute towards turnover. It includes casual labour and contract labour from all sources. It does not, however, include unpaid labour such as the employer (or owner-manager or working proprietor or family workers. Total full-time paid employees are equal to the total number of full-time employees plus the full-time equivalent of part-time or casual employees.

Informal businesses consist of survivalists and micro-enterprises that usually activities of people unable to find a paid job; they include all business projects that do not pay value-added tax (VAT), and are not licensed or audited e.g. vendors, hawkers, subsistence farmers, household industry (Ntsika, 2001:13, Morris et al, 1996:61, Tustin, 2001:27; Peberdy & Rogerson, 2000:29). Informal SMEs are usually run from home, street pavements or market stalls; they generate income less than the poverty line; they have minimal asset value; are usually in sectors with ease of entry; are unregulated and have low competitive markets (Dockel & Ligthelm, 2005:56; Honig, 1998:372; Morris & Zahra, 2000:95; Fielden et al, 2000:298).

Micro businesses often involve only the owner, some members of the family and at most one or two paid employees. They usually lack formality in terms of business licences, VAT, registration and accounting procedures. Most of these enterprises have a limited capital base and only rudimentary technical or business skills among their operators. Metal workers, furniture makers, spaza shops, and minibus-taxi businesses belong to this category. Micro-businesses employ not more than 5 employees and have a turnover of at least R150,000 and gross assets of R100,000 (South Africa, 1996, Tustin, 2001:10).

Very small businesses refer to self-employed persons and enterprises employing a limited number of employees who operate in the formal market and have access to modern technology. Very small businesses in the textile sector have full-time paid employees of not fewer than 10 and not more than 20, and have a turnover of between R150,000 and R2 million, and gross assets of R600,000 (South Africa, 1996, Ntsika, 2001:13; Tustin, 2001:11).

A small business is described as generally more established than the very small enterprise category. The processes employed by organizational structures of these enterprises are more complex. This type of enterprise has resorted to a secondary coordinating mechanism as opposed to direct supervision by the entrepreneur himself. These enterprises are likely to operate from business or industrial premises, are tax registered and meet other formal registration requirements. These SMEs employ fewer than 50 full-time employees and have a total turnover of between R2 million and R6 million and gross assets of R1,75 million (South Africa, 1996; Ntsika 2001:13; Tustin, 2001:12).

A medium business is an enterprise that has a more complex management and ownership structure but is still owner/manager controlled. Often decentralisation of power to an additional management layer, division of labour and functional divisions are characteristics that help distinguish between small and medium enterprises (Tustin, 2001:12). These enterprises employ fewer than 200 employees and have a total annual turnover of between R6 million and R25 million, depending on the industry sector, and total gross assets of R7.5 million (South Africa, 1996, Ntsika, 2001:13).

Entrepreneurial Businesses*:*

The entrepreneurial business is one that proactively seeks to grow and is not limited by the resources currently under its control (Morris et al, 1996:61).

Entrepreneurship:

The construct of entrepreneurship is both complex and controversial, as there is no universal agreement on the definition (Pretorius & van Vuuren, 2003:516; Dana, 2001:405; Shane & Venkatarama, 2000:218). The study acknowledges that there are various other definitions as shown with the few samples below:

- "Entrepreneurship is the creation of an innovative economic organization or networks of organizations for the purpose of gain under conditions of risk and uncertainty" (Dollinger, 1999:7).
- "Entrepreneurship is new independent business creation" (Dess, Lumpkin & McGee, 1999:93).
- "Entrepreneurship is any attempt by individuals to start a new firm including any attempt for self employment" (GEM, 2007:8).

This study adopts Schumpeter's definition that "Entrepreneurship is innovation or carrying out unique combinations of resources so as to create new products, services, processes, organizational forms, sources of supply and markets" (Schumpeter, 1934:195).

The entrepreneur:

There is also no consensus on a clear universally definition of the entrepreneur. The following definitions are but a sample of what is available:

- "An entrepreneur is a person who destroys the existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials" (Schumpeter, 1934a).
- "An entrepreneur is someone who perceives an opportunity and creates an organization to pursue it" (Bygrave, 1993:257).
- An entrepreneur is one who habitually creates and innovates to build something of recognized value around an opportunity" Bolton & Thompson (2000:11).
- "An entrepreneur, is one who "owns, launches, manages, and assumes the risks of an economic venture" (Bradley, 2002:14).
- "An entrepreneur is one who brings innovative products and services to the market and whose role is to coordinate the assembling of resources and people and make a profit from arbitrage" (Jansen, 2003).

This study adapts the University of Pretoria definition: *"*an entrepreneu**r** is a person who sees an opportunity in the market; gathers resources and creates and grows a business venture to satisfy these needs. He/she takes the risk of the venture and is rewarded with profit if it succeeds." However it is acknowledged that except for profit and wealth creation, there are various other drivers of leading entrepreneurs to start and run businesses including the drive for wealth, profit, self employment, achievement, independence, artistic, aesthetic, altruism, transformation, values, beliefs, ideologies as well as other social, political, economic and environmental benefits (Martin & Osberg, 2007:34; Alvord, Brown & Letts, 2001:135; Dees, 1998:1; Bolton & Thompson, 2004:21; Lowe & Marriott, 2006:198; Krueger, Reilly & Carsrud, 2000:411). Therefore this study shies away from the term "profit" and uses rather the term "value-add" in its place. This covers all types of entrepreneurs including the classic entrepreneur, the business entrepreneur, the internet entrepreneur, the social entrepreneur, the artistic entrepreneur and the entrepreneur in the shadows as described by Bolton & Thompson (2004:16) and Radu & Redien-Collot (2008:259).

Success

There are problems with the term "success" and its various interpretations and perceptions in the SME sector (Simpson et al, 2004:483). Wickham (2001:123) defines success as "the measure of achievement of an organisation utilizing its performance". Measures of achievement include: surviving the three-year death valley (Jansen, 2003; Perks & Struwig, 2005:172; Dockel & Ligthelm, 2005:54), growth in employment, sales,

profitability, assets, locations (Delmar, Davidson & Gartner, 2003:189; Hupalo, 2003:1); innovativeness, which includes products and service strategy and sales in innovative products (Jansen, 2003); and employee and customer satisfaction (Rauch & Frese, 2000:10; Cornwal & Naughton, 2003:62).

For this study, the groups of SME are classified into the following categories, namely successful and less successful SMEs.

- A successful SME is defined as a business that has been in operation for more than three years, generates more than R150 000 and employs more than 5 people. This includes all SMEs that continue to survive and expand.
- A less successful SME is defined as a business that has been in operation for less than three years, generating less than R150 000 or employing less than 5 people. This would include all SMEs in business startup and survival.

Barriers

The *Oxford Dictionary* (2005) defines barriers as obstacles barring advance or preventing access. Synonyms to barriers include words like hurdles, blockages, difficulties, problems.

1.8 Research questions

The study sought to answer the following research questions:

1. Which skills factors are associated with successful SMEs / entrepreneurs?
2. How important are these skills as perceived by SMEs owners in the textile and clothing industry in Johannesburg?
3. How competent do these SME owners view themselves and their teams to be in these skills?
4. In which of the skills has training been received?

1.9 Research aims and objectives

The aim of this study is to establish which skills, as identified in theory, are perceived as affecting (negatively or positively) the success of textile and clothing SMEs in the South African context. The objectives of this study are:

1. To review the literature to determine whether there are any common management competencies that contribute to the success of an SME.
2. To investigate the importance of these skills as perceived by SMEs in the textile and clothing industry in the city of Johannesburg.
3. To compare the levels of competencies between successful and less successful SMEs in the city of Johannesburg.
4. To analyse levels of training of SMEs in the textile and clothing industry in Johannesburg in terms of the skills identified.
5. To suggest areas of improvement in the supporting of SMEs and in the research needed to help bridge the information gap in addressing problems relating to entrepreneurship and SME development in Africa.

1.10 Propositions

The propositions that this study seeks to prove/disprove are:

Key / important skills

- **Proposition 1:** There are some skills that are considered to be key / important for SME success.
- **Proposition 2:** There are some skills that are considered to be supportive business skills.

Technical skills:

- **Proposition 3.1:** Successful SMEs are not likely to consider technical skills to be more important for business than less successful SMEs.
- **Proposition 3.2:** Successful SMEs are not likely to be more competent in technical skills than less success SMEs.
- **Proposition 3.3:** Successful SMEs are likely to have been more trained in technical skills than less successful SMEs.

Personal skills:

- **Proposition 4.1 to 4.4:** Successful SMEs are not likely to consider personal skills to be more important for business than less successful SMEs.
- **Proposition 5.1 to 5.4:** Successful SMEs are not likely to be more competent in personal skills than less successful SMEs.

- **Proposition 6.1 to 6.4:** Successful SMEs are not likely to have been more trained in personal skills compared to less successful SMEs.

Business skills

- **Proposition 7.1 to 7.11:** Successful SMEs are not likely to consider business skills to be more important for business success than less successful SMEs.
- **Proposition 8.1 to 8.11:** Successful SMEs are not likely to be more competent in business skills than less successful SMEs.
- **Proposition 9.1 to 9.11:** Successful SMEs are not likely to have been more trained in business skills compared to less successful SMEs.

Entrepreneurial skills

- **Proposition 10.1 to 10.4:** Successful SMEs are not likely to consider entrepreneurial skills to be more important for business success than less successful SMEs.
- **Proposition 11.1 to 11.4:** Successful SMEs are not likely to be more competent in entrepreneurial skills than less successful SMEs.
- **Proposition 12.1 to 12.4:** Successful SMEs are not likely to have been more trained in entrepreneurial skills compared to less successful SMEs.

Demographics variance

- **Proposition 13 to 20:** Statistically significant variance does not exist between how SMEs (successful / less successful) view the importance of skills / their competence in those skills regarding the following demographics:
    1. Age
    2. Education
    3. Ethnic group
    4. Gender
    5. Work experience
    6. Region
    7. Subsector
    8. Form of business
    9. Place where business is operated

1.11 Research method

The method of study included a literature review, an empirical study, statistical analysis and report writing. The literature review surveyed the key skills said to impact the SME success and the training linked to these skills. The review provided an insight and understanding into the research problem and the necessary context and background to guide the empirical part of the study. The cross-sectional, ex post facto, formal empirical study involved interviewing 570 manufacturing SMEs made up of 197 successful and 373 less successful SMEs. The empirical study ascertained which skills the SME owner/managers in the textile and clothing industry in Johannesburg perceive as important for business success, how they rate their competencies in the said set of competencies and if they had had prior training in those skills.

The instrument used was a structured questionnaire whose questions were developed based on the findings of the literature review. The questionnaire used mainly closed questions, using a yes/no or a 5-point scale Latex and some open questions. Individual demographics were included primarily to control for age, gender, location and sector effects. The statistical analyses included descriptive statistics, frequencies, factor analysis, Cronbach's alpha coefficient, Chi-square; t-test and One-way ANOVA tests. The analysis was concluded by conducting a Scheffe's multiple comparison procedure.

The study concludes by making recommendations on SME interventions, highlighting potential shortcomings of the study and suggesting further research.

1.12 Benefits of the study

The study, being a critical analysis of skills, contributes the following:

- The study presents an extensive literature review that integrates eight models from authors namely Glancey (1998), Vuuren & Nieman (1999), Erikson (2002), Wickham (1998), Man et al (2002), Ucbasaran et al (2004), Darroch & Clover (2005) and Perks & Struwig (2005) into an integrated and more versatile model. By focusing on the set of skills that are likely to influence success of SMEs, the study presents an objective evaluation of a set of skills that could lead to the survival and growth of small businesses. This facilitates the synthesis of existing research and helps to address the gaps existing in theories. This could have significant benefits for entrepreneurship

education, entrepreneurial learning, entrepreneurial support, public policy and the entrepreneurship practice itself.

- The study tests the integrated model by applying it to a specific industry (T&C) at a specific geographic location (Johannesburg). It offers concrete guidance on the combination of skill factors that make some people more successful as SME owners and entrepreneurs than others in the same sector.
- This study investigates whether competence in the said skills is associated with specific prior training in that industry. This will facilitate the construction of relevant skills development plans for these SMEs and the provision of more appropriate training programmes as it allows the for existing programs to check their content against the presented model.
- This study contributes to the extensive and ongoing research gathering of reliable and accurate information about SMEs in South Africa.

1.13 Outline of the study

The rest of the document is organized as follows:

- Chapter 2 is a literature analysis, which starts by reviewing past local and international research and academic literature on success and failure factors for SMEs. It proceeds to focus on the skills that enhance or constrain SME survival, success and growth. This chapter also reviews entrepreneurial performance models and develops an extended conceptual model linking components of skills to business success. This chapter describes the key aspects of the SME screening questionnaire.
- Chapter 3 is literature analysis of the entrepreneurial process; the skills required in each stage of this process. The literature reviews in chapters 2 and 3 provide the background to and the rationale for the study.
- Chapter 4 investigates the different methods of entrepreneurial learning including training and mentor mentoring as key method of skills transfer. This adds the linking of training with skills development and acquiring to the conceptual model presented in Chapter 2 and 3 above.
- Chapter 5 outlines the research methodology which describes the survey, the sampling procedure, the collection instruments, data collection and the survey respondent profile.
- Chapter 6 details the data collected, estimation methods and empirical analyses of how the factors reported by the SMEs owners/managers may affect business

performance and success. It describes how the venture screening questionnaire was used to analyse the SME respondents and gives the profile of the respondents. This chapter tabulates results from the analysis and exploration of the data and discusses these findings. It ranks and discusses the skills reported by the SME interviewed.

- Chapter 7 revisits the key findings of the literature review, the objectives and the propositions and presents a model that link skills, training and business success. It states the conclusions drawn from the results and makes recommendations on the type of training that third-party funders should commit to in supporting the acquisition of skills for SME success, as implications of the study. This chapter also outlines the limitations of the study and offers some suggestions for future research.

1.14 The reference technique

The reference technique that is used here is the Harvard Reference Technique.

1.15 Conclusion

This chapter highlighted the importance of SME and entrepreneurship development to especially developing economies. This importance justifies the path undertaken by the South African government to prioritize SME development as alternative source of employment and poverty alleviation in the light of globalization and the shrinkage of traditional industries in South Africa.

While the SMEs have a huge potential to create employment, the problem was highlighted as being the high SME closure rate implying that SMEs may be limited in their ability to create long-term sustainable employment and may also be responsible for the greatest number of job and wealth losses. To prevent this, SMEs could be assisted to reach steady growth path and become entrepreneurial. In order to assist SMEs in this regard, factors affecting SME success must be identified and addressed.

Thus the purpose of this study is described by this chapter as to identify skills that are internal factors that contribute to SME success and to investigate if these skills apply to the textile and clothing sector in Johannesburg as well as whether these skills were acquired through training. The chapter also described all constructs and definitions to be used in this study and closed with an outline of the research report to guide the reader through the study done and presented.