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Evaluating high growth entrepreneurs' knowledge of the South African Small  
Medium and Micro Enterprise policy framework and impact of such knowledge  
on business performance

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## DECLARATION

I declare that the thesis *Evaluating high growth entrepreneurs' knowledge of the South African Small Medium and Micro Enterprise policy framework and impact of such knowledge on business performance* is my original work and has not been submitted to any university or published previously. All sources used or quoted have been acknowledged and fully referenced.

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## **ABSTRACT**

Policymakers worldwide are seeking new ways to use their shrinking fiscal budgets to stimulate their economies to grow, attract foreign direct investment, increase job creation, increase their revenue and provide quality products and services—ultimately improving the standard of living for their citizens. It is, therefore, important that governments understand factors that enable the development of a supportive environment for achieving higher economic growth rates and/or mechanisms to foster business growth.

Economic growth literature suggests many factors that influence economic growth rates. These include the environment, culture, education levels and system, property rights, saving propensity and mineral deposits (Bleaney & Nishiyama, 2002:45). Due to the contribution that small and medium enterprises (SMEs) have on the economy, the impact of a regulatory and administrative system on economic growth grabbed the attention of both policymakers and other central role players in recent years (Mabonga & Daniel, 2015:55). After recognising the SME sector's growing potential, many countries rolled out several policies to promote SME growth and development (Yoshino & Hesary, 2016:5). Most Organisation for Economic Co-operation and Development countries have gone further and recognised the need to differentiate traditional SME policies from growth-oriented policies suited to entities with high growth potential.

Research shows that these entities make an important contribution to stimulating innovation and competitiveness within their industries. In most economies, only 6% of SMEs grow and create a large pool of new jobs, and this is exactly why these entities are receiving attention in policy circles. Most research on high growth entities (HGEs) has been conducted in developed countries. This literature review showed differences between developed and developing countries and why the definition of HGEs used in developed economies is not appropriate for emerging economies. The research defined the period of measurement, measurement elements and ultimately, the definition of HGEs to be used in emerging markets. The study's main purpose was to evaluate high-growth entrepreneurs' knowledge of the South African small, medium and micro enterprise policy framework and the impact of such knowledge on business performance.

The unit of investigation was the 120 identified HGEs that participate in the Small Enterprise Development Agency and Transnet high-growth programmes. The questionnaire's reliability was evaluated by computing Cronbach's alpha values—and the researcher acknowledged that the validity of the questionnaire used had already been tested and proven by Moos (2014). Descriptive statistics focussing on personal as well as business venture characteristics were presented. Finally, the researcher provided an outline of inferential statistics used to test the strength of the relationship between the variables using the univariate analysis of variance, Spearman correlation coefficient and Wald logistic regression analysis.

This study showed a correlation between 1) the kind of support provided to SMEs and performance and 2) the number of years in business and performance. This shows that surviving in business for several years will not necessarily catapult the SME into being a HGE if incorrect support (generic support) is provided. The research also proved that there is a correlation between knowledge of the SME policy framework and performance. It is thus important that in order to foster an SME's development, there should be a proper knowledge of the SME framework. SMEs cannot take advantage of the current support if they do not understand government SME policies and procedures meant to provide an enabling environment for them to grow in. It is, therefore, not enough for the government to create an environment conducive to SME development if SMEs do not understand it.

When it comes to policy, given the triple challenge of inequality, poverty and unemployment that faces South Africa and given its shrinking fiscal base, the country cannot continue on its current trajectory and still hope to realise its objectives of lifting the majority of its people out of poverty. South Africa is thus at a stage where it must institute 'meritocratic SME development policies' focussed on various (segregated) stages of business growth.

Areas of future research were outlined, and the study limitations were provided and discussed. Notwithstanding the study's limitations, the researcher believed that this study presented the most compelling case for further research on the impact of high-growth entrepreneurship in South Africa. The researcher concluded that policy initiatives that include characteristics commonly attributed to high-growth entrepreneurship policy (meritocratic policies and

interventions) can deliver significant value and positively impact the economic growth of South Africa.

Keywords: *Developed countries; Emerging economies; Entrepreneurship; High-growth entities; Meritocratic SME development policies; Small businesses; SME policy framework*

## **ABBREVIATIONS, ACRONYMS AND GLOSSARY**

AMP	Austrian Market Process
ANOVA	Analysis of variance
BBBEE	Broad Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
DEDAT	Department of Economic Development and Tourism
DSBD	Department of Small Business Development
dti	Department of Trade and Industry
ECO	Ecology Model
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
HGE	High-Growth Entity
ICT	Information and Communications Technology
IDC	Industrial Development Corporation
IFC	International Finance Corporation
ISP	Incubator Support Programme
NDP	National Development Plan
NEF	National Empowerment Fund
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development

SADC	Southern African Development Community
SARS	South African Revenue Services
SBA	Small Business Administration
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprise
TEA	Total Entrepreneurial Activity
TIA	Technology and Innovation Agency
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America

# 1 CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND TO THE STUDY

Policymakers around the world are seeking new ways to utilise their shrinking fiscal budgets to stimulate their economies to grow, attract foreign direct investment, increase job creation, increase their revenue, and provide quality products and services. They ultimately want to improve the standard of living for their citizens (World Bank, 2016:8). These challenges result in dissatisfaction for most citizens and lack of opportunities and culminate in a backlash against globalisation and technological change, as people see technological advancement as a catalyst for rising unemployment.

Economic growth literature suggests many factors that influence economic growth rates, and these include the environment, culture, education levels and system of education, property rights, saving propensity and mineral deposits (Bleaney & Nishiyama, 2002:50). There is general acceptance by most economists that entrepreneurship is one of the most important contributors to economic development and growth (Ács, Autio & Szerb, 2014:476-494). Despite this widespread acceptance, the difficulties in defining entrepreneurship and measuring the extent of entrepreneurship activities on economic performance obfuscate the measurement of their contribution to economic growth (Carree & Thurik, 2010:559).

The World Bank distinguishes the following as components that repress small and medium enterprises (SMEs) from accomplishing their maximum capacity: administrative and legal regimes (incorporating stringent registration, licencing prerequisites, business legitimacy and administrative systems), access to funding (incorporating collateral, access to property, data imbalance and SME bookkeeping) and SME support services (incorporating business improvement services, access to markets and networking opportunities) (Yoshino & Hesary, 2016:5). A regulation may be defined as an instrument by which governments and their subsidiary bodies set legal force requirements on citizens and businesses (OECD, 2010:9). The term encompasses a wide range of instruments from primary law and secondary regulations to subordinate rules, administrative formalities and decisions that give effect to high-level regulations and standards (OECD, 2010:9). Regulations on SMEs may manifest in

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forms such as regulations over business start-up, labour practices, taxation and foreign trade (Quartey, 2001:8). Scholars have stressed that unstable business policies resulting from frequent changes in government policies can affect SME performance. Unstable government policies have led to the liquidation of many SMEs (Agwu & Emeti, 2014:105).

The regulations' objective is to make improvements by changing individual or entities' behaviour to generate positive results to solve societal and economic challenges (Conglianese, 2012:8). An enabling environment for SME development is created only when a government drifts from the economy's regulations to a market-oriented policy (Munjeyi, 2017:136). Reviewed literature underscores that minimising government controls improves the business climate, empowers entrepreneurs to react rapidly to changing market conditions and advances competitiveness that improves effectiveness and profitability gains (Mutua, 2015:103). Literature suggests that the government assumes the main part in establishing empowering legitimate and administrative conditions that urge SMEs to discover freedoms to grow and fill in gaps in various areas of the economy (Kusi, Opata & Tettey-Wayo, 2015:705-723). The government must, therefore, come up with pro-SME policies and create a business environment conducive to enabling SMEs to grow and drive the economy forward (Mutua, 2015:102-112). However, to justify strategy mediations pointing towards animating business venture creation, there should be evidence of the requirement for additional business visionaries, proof of damage to society from the undersupply of business people, and evidence that arrangement intercessions can address the issue (Acs, Astebro, Audretsch, & Robinson, 2016: 35-51).

Key highlights of an ideal friendly business climate that advance SMEs include security of the legal, political and strategy structure, exposure of standards and laws, clarity and conviction of the legal system, consistency in the use of the law (such as minimising the risks linked to changing explanation, implementation or enforcement of the law), fairness, possibility of legal options and due process (Munjeyi, 2017:134). It is, therefore, important that policymakers understand factors that enable high employment growth by providing conditions conducive to the growth and development of SMEs (World Bank, 2016:1).



## 1.2 PROBLEM STATEMENT

With an unemployment rate of 34,4% in March 2021, South Africa faces more prominent business challenges than the different nations in the Brazil, Russia, India, China and South Africa (BRICS) block of rising economies (Brazil at 11%, Russia at 4,6%, India at 7,2% and China at 3,6%) (Trading Economics, 2021; Stats SA, 2021:2). Joblessness is an emergency that must be tended to through primary changes in the economy, upheld by an interest in and fundamental changes to the institutional and education framework. At 10,8%, South Africa's 2019 total entrepreneurial activity (TEA) rate was below the average of 12,1% for the African region, while the 2019 business discontinuance rate of 4,9% was higher than the established business ownership rate of 3,5%. This is concerning as it implies that more businesses are closing, being sold or otherwise discontinued than businesses are continuing to operate (GEM, 2020:12).

Because of the commitment that SMEs have to the economy, the impacts of legal and administrative structures on the economy recently grabbed the attention of policymakers and other central role players (Mabonga & Daniel, 2015:53-58). The perceived potential of SMEs has spurred many nations to develop various arrangements to promote SME growth and development (Yoshino & Hesary, 2016:5). Most OECD countries have gone further and recognised the need to differentiate traditional SME policies from growth-oriented policies suited to entities with high growth potential. The difference between the two types of policies is outlined in Table 8-1.

South Africa, like other African and developed countries, has accorded a high priority to SMEs and has developed a regulatory framework to make these business ventures suitable and dynamic. These entities have since become significant contributors to gross domestic product (GDP) (Maseko & Manyan, 2011:171-181).

Despite the proven contribution by SMEs to GDP, little is known about the extent to which the legal and regulatory framework (support programmes and government interventions) specific to SME development impacts their performance (Ipinnaiye, Dineen, & Lenihan, 2017:883-911). Given the low graduation rates, it is thus important to understand whether the entrepreneur's knowledge of the current small, medium and micro enterprise (SMME) policy framework impacts business performance.

### 1.3 MOTIVATION FOR RESEARCH TOPIC

Despite the proven contribution by SMEs to GDP, little is known about the extent to which the legal and regulatory framework (support programmes and government interventions), specific to the development of SMEs, impacts their performance (Ipinnaiye *et al.*, 2017:883-911). Moos (2014) conducted a study to evaluate the South African small business policy to determine the need for and nature of the entrepreneurial policy. Moos's evaluation was conducted on a broader SME base, did not target high-growth entities (HGEs) and did not measure the impact of SME policy on business performance. With this backdrop, this study explored the extent to which a legal and regulatory framework affects high-growth SMEs' performance.

The view that is bandied about is that HGEs do not need any support as they are likely to grow, and support should be directed to start-up entities. South Africa's economic growth has been sluggish and has been growing at an average rate of approximately 0,8% over the last five years (to 2019) compared to an average global growth rate of 3,5%. South Africa's economy bounced back in the third quarter of 2020 (July–September), aligning with the easing of Covid-19 lockdown regulations. GDP increased by 13,5%, resulting in an annualised GDP growth rate of 66,1%. This rebound followed a slump of 16,6% (annualised: -51,7%) in the second quarter during the most restrictive months of the lockdown (April, May and June). The surge in economic activity in the third quarter may seem impressive, but it came off the very low base recorded in the second quarter. South African industries still have a long way to go before reaching levels of production seen before the pandemic. Despite the rebound, the economy was still 5,8% smaller than it was at the end of 2019 (Stats SA, 2020).

South Africa's TEA index sharply declined from 10,6 to 6,9 between 2013 and 2016 and recovered to 10,8 in 2020 (GEM, 2020:12). The business discontinuance rate (percentage of the population aged 18 to 65) slightly improved from 3,9% in 2009 to 3,5% in 2020. In order to defeat the triple problem of poverty, unemployment and inequality, the South African economy needs to increase its job creation capacity. It is recognised and accepted that the economy needs to create jobs; however, there is no consensus on how to do it. There is probably no silver bullet to solving this problem, and the answer depends on a complex set of

factors, including human capital, natural resources, capital structure and entrepreneurship (Chadha, 2015:15).

In his research paper in 1979, Birch found that small businesses create most of the new jobs. In 1981, Birch revised his theory, isolating job-creating entities he called 'gazelles'—entities characterised more by rapid expansion than by size—from other entities. These high-growth entities create a significant source of economic growth and prosperity by bringing new products and processes to the market, focussing on production effectiveness while using technology and employing an experienced workforce (Kroslakova, Kubickova, Jurkovičová & Kubiniy, 2015:28).

To foster the growth and development of HGEs, policymakers must understand the determinants of these businesses and the variables that enhance their growth. This research sought to contribute to the study of how knowledge of the SMME policy framework impacts business performance.

#### **1.4 RESEARCH QUESTIONS**

This research sought to answer the following questions:

- What is high-growth entrepreneurs' level of knowledge of the SMME policy framework?
- How does such knowledge impact business performance?

#### **1.5 RESEARCH OBJECTIVES**

This research study had the following two objectives:

- To evaluate high-growth entrepreneurs' knowledge of the SMME policy framework;  
and
- To determine how this knowledge impacts business performance.

## 1.6 LITERATURE REVIEW

### 1.6.1 *Policy instruments that enable growth entrepreneurship*

An entrepreneurial ecosystem must include both public and private-sector institutions, as they are both crucial in promoting the emergence and rapid growth of HGEs (World Economic Forum, 2014:80). An enabling environment that provides appropriate business information, supports networks and skills development and provides access to suitable business finance has proven useful for business growth (Isenberg, 2010:4). Providing an enabling environment and suitable programmes to support HGEs is not easy. However, over the last 20 years, various governments in developed countries have made strides to develop policy and programmes aimed at accelerating SME growth. Countries like Denmark, Scotland, Australia, the Netherlands, Belgium and Germany have not only developed a policy framework to support HGEs but have gone further and developed programmes that identify and support these entities. The implementation of these programmes is at various stages. The OECD undertook a benchmarking exercise in 2013 to identify similarities and differences between these programme structures (OECD, 2013a).

Given that a policy framework aimed at HGE development is relatively young, it is difficult to undertake a comparative analysis of programmes' success rates. Given the limited available data, reviews that have been undertaken in developed countries have been focussed on the structure of the programmes, knowledge sharing amongst entities and interaction between entities and research institutions (Costa, Ribeiro, van der Zee & Deschryvere, 2016:17). When a government decides to develop programmes aimed at supporting business growth, the central question that needs to be asked is 'at what level' the intervention should be targeted. The World Bank (2016:15) has identified four 'levels' of policy intervention, namely:

- Macro-economic conditions—this refers to the aggregate performance of the economy and encompasses factors like economic growth, legislative framework, and social and political stability. Countries use these factors to develop economic development policies. A country's inability to provide an economy and environment conducive to growth or policy certainty undermines investor confidence;

- Framework conditions—these conditions refer to general market conditions, regulatory/legal framework, knowledge creation, entrepreneurial culture and human capital development;
- Generic SME support—this relates to the mainstream policy interventions aimed at promoting the entrepreneurial culture and small business development. These measures include policies and programmes to support entrepreneurial education, entrepreneurial culture, development of entrepreneurship research centres, access to finance and non-financial support and incubation support; and
- Special SME support—this is support targeted at the growth and development of a specific group of entrepreneurs; for example, HGEs, women-owned entities, youth-owned businesses or any marginalised groups within the SME community (Roper, 2013:65). This could be in the form of either financial or non-financial support and is normally provided by the government as the private sector tends to focus on mainstream SME support. In the South African context, this refers to all the SMME policy frameworks that are targeted at previously disadvantaged and vulnerable groups (differently-abled, women and youth).

The Ministry of Trade and Industry in Finland conducted a research study that identified the principles which should govern the policy for HGEs (Autio, Kovalainen & Kronlund, 2007:3). The study found that a policy to support HGEs should be highly selective, consistently support the development of managerial motivation skills, encompass all stakeholders involved in the ecosystem, include both financial and non-financial support and have an extraordinarily strong monitoring and evaluation mechanism.

In the European Union, policies targeted at HGEs can mostly be found in the Nordic countries of Denmark (the former Gazelle Growth Programme and the current Accelerate), Finland (TEKES funding for growth-oriented SMEs, Finnish Growth Company Service, Vigo) and Norway (Incubator Grant, Seed capital scheme, Nyvekst). Other European countries with such policies include Estonia (Estonian Development Fund), France (Programme Gazelles, France Gazelles fund), Ireland (High-tech start-up programme), the Netherlands (Growth Accelerator—Groeiversneller) and Spain (Neotec Fund). Beyond Europe, relevant policies

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were identified in Australia, the United States of America (USA), China, Singapore and South Korea. One of the most prominent and recent national policy activities for high-growth entities is the Startup America initiative by the American Government (Lilischkis, 2011:32).

In addition to the various policy interventions that are implemented by countries to grow SMEs there are other factors that impact the growth of SMEs. These include:

- Age of the entrepreneur: successful entrepreneurs are middle-aged, not young, as is sometimes suggested (Azoulay, Jones, Kim & Miranda (2018:74)
- Geographic location: Audretsch and Dohse (2004:7) found that the prevalence of HGEs is higher in locations abundant in knowledge resources. Greater London, for example, accounts for one-fifth of all HGEs in the United Kingdom
- Years it takes to reach break even point: Various studies estimates that businesses making a new product take at least three years on average to become profitable (Entrepreneur South Africa, 2013).
- Gender of the entrepreneur: There is no performance gap between enterprises owned by women from those owned by men (Mayak, 2020:52).
- Education levels: Education, coaching and mentorship enhance the qualities and competencies necessary for students to spot opportunities and conceptualise a business venture with a reasonable chance of success. These attributes are necessary preconditions for entrepreneurial efficacy, as they equip one to be effective as a business person or in multiple portfolios (Quality Assurance Agency for Higher Education, 2012).

### **1.6.2 Definition of HGE**

Given the varied definitions of HGEs, it would be inappropriate to continue discussing HGEs without defining them. A construct that mostly comes to mind when thinking of high-growth entities is gazelles (Birch, 1981). Birch defines gazelles as "entities that have an annual turnover of at least \$100,000 (roughly \$250,000 today) and sustain 20% annual revenue growth over a four-year period" (Acs & Audretsch, 1987:567-574). For the purposes of this study, in South Africa, HGEs are entities that have a turnover of R1 million, have been in existence for at least two years and have achieved 20% turnover growth for the last two years.

This is the definition adopted by the Small Enterprise Development Agency (SEDA) and Transnet to define HGEs for inclusion in their high-growth programmes. In Chapter 4, the researcher proposes a definition of HGEs in emerging markets.

In his earlier research, Birch (1979) concluded that entities with the greatest potential to generate jobs are not big entities as was always thought, but rather a small proportion of SMEs that display certain characteristics and have higher growth rates. The original proposition by Birch was later replaced by an alternative measurement scale called the Birch Index (Coad *et al.*, 2014:94). The Birch Index is an economic indicator of employment and measures the employment-creation power of different sized entities. It is arrived at by multiplying absolute job growth by relative job growth (Coad *et al.*, 2014:94).

Following Birch's research, Ferrantino, Mukim, Pearson and Snow (2012:2) conducted further research and introduced a new sub-set of gazelle called "gazillas"—large entities with high growth rates and that make sizeable contributions to employment growth.

The OECD-Eurostat Manual on Business Demography Statistics defines a high-growth enterprise as an enterprise with average annualized growth greater than 20 percent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period. (OECD-Eurostat, 2007:82).

According to the OECD, the number of employees and turnover growth are appropriate variables to measure business growth (OECD-Eurostat, 2007:89).

Both the Birch Index and OECD definitions have their unique advantages and disadvantages when thinking about HGEs in a cross-country setting. The absolute definition is relatively easy to apply and guarantees that, at least in one dimension (growth), a set of HGEs in one country is similar to a set of HGEs in another. On the other hand, the exact threshold of what constitutes an HGE is somewhat arbitrary, and particularly in smaller surveys, one runs the risk of identifying too few or no HGEs at all. Moreover, using a definition such as the OECD's that is based on a rate of growth inherently predisposes the sample towards smaller entities that have lower growth rates and do not make a meaningful contribution towards economic growth and net job generation. Although job creation as a measure of growth has been

variable and widely criticised, the definition of HGEs has remained unchanged. However, some variables, including net asset growth, turnover and salaries, have also been considered (Daunfeldt, Elert & Johansson, 2014:9). Table 1-1 presents definitions of HGEs by various researchers.

**Table 1-1: Definitions of HGEs**

Reference	Definition
<b>Barringer &amp; Jones (2004)</b>	Entities with a 3-year compound annual sales growth rate of 80% or higher.
<b>Nicholls-Nixon (2005)</b>	Entities with annual sales growth of 20 percent (or more) over a 4-year period, on a revenue base of least \$100,000.
<b>Barringer et al. (2005)</b>	Entities with a 3-year compound annual sales growth rate of 80%, or above.
<b>Littunen &amp; Virtanen (2006)</b>	Entities that double sales in real terms over the 1990-97 period, and significant size.
<b>Moreno &amp; Casillas (2007)</b>	Entities with a percentage of growth of more than 100% higher than the median of its sector.
<b>Zhang et al. (2008)</b>	Entities with a three-year compound annual growth rate of 40 percent or higher.
<b>Hölzl (2009)</b>	The 10% of entities that display the highest employment growth.

Source: References cited by Hoxha (2013).

The varied definitions of HGEs pose serious challenges when comparing findings from various studies because, as Almus (2002:1499) opines, each entity classified as an HGE depends on the definition used by the country concerned (Hoxha, 2013:61).

The study of HGEs has historically been undertaken in developed countries; the definitions in Table 1-1 above and known characteristics of HGEs are derived from developed countries. The economic fundamentals of developed countries are not the same as those of developing countries, and therefore, special attention should be given to understanding the characteristics of HGEs in such economies. The developing economies are often agrarian countries



transitioning towards modernisation, or their economies are at an embryonic stage and lack policies and resources necessary to catapult them to the next level. Due to the internationalisation and speed with which information can be accessed, the world has become a global village, and this phenomenon has brought about great changes in various aspects of life and the way we do business.

In defining HGEs, both the OECD and the Birch Index adopt a static 20% turnover growth over the measured period. The researcher proposes that, given the rapid economic growth experienced by developing countries, the growth rate used to define HGEs in developing economies must take this rapid growth into account. The measured period, in turn, must be linked to the procurement framework of those countries. This would, for example, be relatively easy to work out in countries that use a tender system to award contracts. In South Africa, for example, the average contracting period for both the public and private sector is between three and five years.

### **1.6.3 Impact of high-growth entities**

An analysis conducted by Birch 1984 of 5,6 million entities in the USA found that HGEs constitute approximately 4% of all entities but contribute between 70% and 100% of all net new jobs. Similar studies conducted in the OECD countries also show similar trends. In the United Kingdom, for example, only 6% of entities employ more than 10 employees, yet these entities contribute over 50% to all new net jobs (Anyadike-Danes, Hart & Du, 2013:15).

A study conducted by the World Bank showed that in most developing and middle-income countries, the contribution to new net jobs by HGEs in these countries may exceed the contribution by HGEs to net new jobs in developed countries. In Brazil, HGEs constituted 8,3% of Brazilian private businesses and generated 57,4% of net new jobs from 2005 to 2008. The trend is the same in the 'transition' countries of Eastern Europe as HGEs made a more significant contribution to job creation than those in the more developed Western European countries (World Bank, 2016:13).

The study conducted by the Global Entrepreneurship Monitor (GEM) revealed that of the 70,000 entities surveyed in over 60 countries (mainly developing countries), most countries'

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HGEs constituted 4% or less of small businesses in those countries yet generated approximately 38% of all net new jobs (World Bank, 2016:13). Research shows that there is more value in supporting the scaling up of an existing business as this creates up to 100% more jobs than supporting the establishment of a new micro-subsistence enterprise (Endeavor, 2017:13). It can be argued that supporting an HGE has more socio-economic benefits as HGEs generally remunerate their employees at higher rates than an average SME, and employees report higher levels of job satisfaction (Chinomona & Dhurup, 2014:3). HGEs also contribute more to the fiscus and are a good tool for structural transformation and macro-level growth (Stofberg, Van Heerden & Bohlmann, 2020:16). It should, however, be mentioned that micro and subsistence enterprises are useful to support and uplift the bottom of the pyramid members of society, and the researcher was not advocating that they be discarded or not supported.

## 1.7 HYPOTHESES

The seven hypotheses outlined in Table 1-2 were formulated for the research objectives.

**Table 1-2: Seven study hypotheses**

<p><b>Null hypothesis (H10)</b></p> <p>The age of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework.</p>	<p><b>Alternative hypothesis (H1a)</b></p> <p>The age of the entrepreneur has a significant effect on their knowledge of the SMME policy framework.</p>
<p><b>Null hypothesis (H20)</b></p> <p>The gender of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework.</p>	<p><b>Alternative hypothesis (H2a)</b></p> <p>The gender of the entrepreneur has a significant effect on their knowledge of the SMME policy framework.</p>
<p><b>Null hypothesis (H30)</b></p> <p>The qualifications of the entrepreneur do not have a material effect on their knowledge of the SMME policy framework.</p>	<p><b>Alternative hypothesis (H3a)</b></p> <p>The qualifications of the entrepreneur have a material effect on their knowledge of the SMME policy framework.</p>

<p><b>Null hypothesis (H40)</b></p> <p>The number of years it takes to reach the break-even point does not have a material impact on the rate of business performance.</p>	<p><b>Alternative hypothesis (H4a)</b></p> <p>The number of years it takes to reach the break-even point has a material impact on the rate of business performance.</p> <p><math>\mu_1 = \mu_2</math></p>
<p><b>Null hypothesis (H50)</b></p> <p>There exist no material statistical differences between the number of years in business and performance.</p>	<p><b>Alternative hypothesis (H5a)</b></p> <p>There exist material statistical differences between the number of years in business and performance.</p>
<p><b>Null hypothesis (H60)</b></p> <p>There exist no material statistical differences between the kind of support received by HGEs during their growth phase and their performance.</p>	<p><b>Alternative hypothesis (H6a)</b></p> <p>There exist material statistical differences between the kind of support received by HGEs during their growth phase and their performance.</p>
<p><b>Null hypothesis (H70)</b></p> <p>There exist no material statistical differences between the knowledge of the SMME policy framework and business performance.</p>	<p><b>Alternative hypothesis (H7a)</b></p> <p>There exist material statistical differences between the knowledge of the SMME policy framework and business performance.</p>

Source: Researcher's construction

## 1.8 RESEARCH METHODOLOGY

### 1.8.1 Research design

The research design is the integrated approach a researcher chooses to pull together the different research study elements in a coordinated manner. This framework includes the plan and methods and procedures applied to ensure research objectives are met and that the research problem is adequately addressed (Zikmund, Babin, Carr, & Griffin, 2013:85).

The research objective was to evaluate high-growth entrepreneurs' level of knowledge of the SMME policy framework and how this knowledge impacts business performance. This study

was an empirical quantitative research study as the researcher collected new data from participants by means of a questionnaire.

A quantitative methodology was thus considered appropriate for this study to generate the findings that enabled the researcher to reach conclusions to either support or reject the hypotheses outlined in Table 1-2. Quantitative research is a structured way of collecting and analysing data obtained from multiple sources and involves the use of numbers and measurement, and computational and statistical methods to derive results (Struwig & Stead, 2001:84). Quantitative researchers' view of the world is that it is an assemblage of discernible events and quantifiable facts (Gorman, Clayton, Rice-Lively & Gorman, 2005:50).

According to Pickard (2007:61), the starting point when designing a quantitative research study is to conduct a literature review in order to establish a theoretical framework. A hypothesis usually emerges from this theoretical framework, and both dependent and independent variables can be developed from the hypothesis. The research problem/question emerges from the analysis of variables, and these cascade into research aims and objectives (primary and secondary objectives).

Data is collected and analysed in order to gather sufficient relevant evidence to either exclude or confirm the hypotheses. Depending on the outcome of the analysis, either generalisations are made or laws are formulated (in the case of experimental studies) (Pickard, 2007:61; Struwig & Stead, 2001:84).

### **1.8.2 Unit of analysis**

In order to select the appropriate unit of analysis, a researcher must first consider what can be concluded about the unit of analysis on completion of the study (Grunbaum, 2007:78-97).

In this study, and bearing in mind the research question, the idea was to infer at the end of the research that the unit of analysis (HGEs) grew because of a knowledge of the SMME policy framework by the unit of observation (the entrepreneur).

The unit of investigation consisted of 120 identified HGEs that participated in the SEDA and Transnet high-growth programmes. This was done by using a structured questionnaire. Key

resources used in developing the study included the researcher, the study supervisor, HGEs, language editors and subject matter experts as required.

The research focussed on measuring high-growth entrepreneurs' level of knowledge of the SMME policy and how such knowledge impacts business performance.

### **1.8.3 Reliability and validity of the questionnaire**

The inherent value of the measurement instrument is heavily influenced by the validity and reliability of the information gathered (Chikamba, 2016:161). Reliability is measured by the extent to which measurement is dependable or the extent to which it produces the same outcome, each time it is used, under identical conditions and with the same subjects. "Internal consistency is the usual gauge for reliability and estimates reliability by grouping questions in a questionnaire that measure the same concept" (Chikamba, 2016:175). In this study, the questionnaire's reliability was evaluated by computing Cronbach's alpha values. These values should surpass the normally accepted values for a scale to be considered reliable (Chikamba, 2016:175).

Validity is the way the questionnaire measures what it proposes to measure and the researcher acknowledges that the validity of the questionnaire used in this research study has already been tested and proven (Moos, 2014). The researcher used the questionnaire developed by Moos, as both studies evaluated the knowledge of the SMME policy framework. The difference between the two studies is that Moos conducted the study on the broader SMME sector while this study focussed on the HGE segment of the SMME market. The researcher added Questions 10 and 16 to 21 to the questionnaire. These questions were all demographic-type questions and did not impact the results of the factor analysis (and resultant eigenvalues) performed by Moos to test the validity of the measuring instrument.

Descriptive statistics focussing on personal and business venture characteristics are presented, and finally, an outline of inferential statistics used to test the strength of the relationship between the variables using analysis of variance (ANOVA), correlations and regression analysis is presented.

#### **1.8.4 Data collection methods**

The data collection tool for primary data was a structured questionnaire, and secondary data was collected from annual reports, available published research material, journals and official internet sites.

As different sampling techniques are used in research, depending on the research question and objectives, the sampling method used plays a crucial role, as the characteristics, composition and scale of the sample give weight to any findings that emerge from the study (Pickard, 2007:59).

Different researchers use different sampling techniques; for instance, McKenzie (2003:19-40) adopted convenience sampling, Foster and Ford (2003:321-340) applied purposive sampling and Foster (2004:228-237) used snowball sampling.

To ensure this study qualified as an HGE study, the researcher collected data from the SEDA and Transnet high-growth programmes (Section 1.8.2), as they adopted the same definition of an HGE and followed the same selection criteria. The programmes define HGEs as entities that have turnover of R1 million, have been in existence for at least two years and have achieved 20% turnover growth for the last two years. It should be noted that there could be other HGEs in South Africa that do not participate in these programmes. The fact that only HGEs in the identified programmes participated in this study means the researcher conducted the study on the accessible population. Given the total number of entities participating in these programmes and possibly having access to them, the researcher concluded that sampling them was not necessary.

The two identified programmes had 120 HGEs between them, and the researcher collected data using a structured questionnaire from the whole population. The effect of their knowledge of the SMME policy framework was assessed against their performance when they first entered the programme.

### **1.8.5 Data analysis**

Data analysis is the technique or procedure used to systematically condense and evaluate data by applying either statistical and/or logical techniques to arrive at a conclusion (Dillard, 2015). Logical conclusions can only be reached by a researcher through analysis and the interpretation of collected data. This is only possible if data integrity is maintained, and the right analytical tools are employed (Butte College, 2016).

In this study, descriptive statistics were used to investigate and summarise the primary data research constructs. Descriptive statistics are techniques used to define the characteristics of a population. Descriptive measures depict the centre, spread and shape of a distribution (Cooper & Schindler, 2014:398).

In research, there are generally two classes of significance tests: parametric and non-parametric. Parametric tests are more powerful than non-parametric tests because their data is derived from interval and ratio measurements. Non-parametric tests test hypotheses with nominal and ordinal data (Cooper & Schindler, 2014:442). In this research, non-parametric tests and descriptive statistics focussing on personal and business characteristics were used, followed by Cronbach's alpha values to determine the reliability of the measuring instrument. An analysis of variance to determine if age, gender and qualifications of high growth entrepreneurs has a significant impact on their understanding of the South African SMME framework followed by the correlation analysis to test the relationship between the independent variables and to determine whether knowledge of the SMME framework has an impact on business performance (turnover and years it took to reach break-even point). Lastly, the regression analysis was performed to predict the relationship between turnover (dependent variable), and support, impact and government support; and profitability (dependent variable) and number of years in business.

Data was sourced from structured questionnaires administered to participating HGEs. Each questionnaire was thoroughly studied to confirm that all questions were responded to and to check error responses.

### **1.8.6 Ethical considerations**

The researcher observed the ethical research path typical of research of this nature. All participants took part in this research of their free will and were all afforded an opportunity to withdraw from this process at any time. All sensitive information and knowledge solicited from participants have been kept confidential, and all gathered information and data will not be used for any other reason beyond this academic research. The ethical clearance protocol for this study is EMS 109/19.

### **1.9 CONTRIBUTION OF THE STUDY**

The study sought to evaluate high-growth entrepreneurs' knowledge of the South African SMME policy framework and the impact of such knowledge on business performance. Although some studies evaluated the knowledge of small business policies by entrepreneurs in South Africa, no similar studies had been performed on HGEs. The contribution of this study to the field of entrepreneurship is outlined below:

- The researcher believes that as the world and the nature of doing business changes, so should the definition of what an entrepreneur is, and entrepreneurship as a concept should also develop. In Section 2.1, the researcher proposes a definition of entrepreneur and entrepreneurship;
- In Chapter 4, the researcher proposes a definition of HGEs for emerging economies; and
- In Chapter 4 the researcher further outlines the impact that HGEs have on job creation whilst Chapter 6 provides an outline of HGEs knowledge of the SME policy framework. This study will assist policymakers gauge high-growth entities' level of knowledge of small business policy and how such knowledge contributes to their performance.

### **1.10 RECOMMENDATIONS**

This study has demonstrated that there is a case to be argued for developing policies and practical interventions to support HGEs in South Africa. Current policies that do not discriminate support interventions provided to different stages of the business growth value chain do not yield the desired results. The researcher proposes the following:

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- South Africa needs a comprehensive review of the SMME policy framework to determine which policies are still relevant and effective, which ones need to be reviewed and retained, and which ones need to be discarded. This review must be done at not only the national level but also the provincial level;
- South Africa must develop a growth-oriented SMME policy framework to support all areas contributing to entrepreneurial development in the country. Table 8-1 distinguishes between the traditional SMME policy and growth SME policy;
- Improve coordination between SMME support agencies and strengthen the ecosystem;
- Foster entrepreneurship as a credible career to, in turn, foster a culture of entrepreneurship, especially amongst the youth at schools and universities. The Department of Small Business Development (DSBD) must work together with the Departments of Education to promote entrepreneurial education, especially in public schools;
- To support service delivery to the small business fraternity, the DSBD must undertake entrepreneurship training for its staff members to improve their entrepreneurial intensity. Their innovative, proactive and risk-taking skills and abilities must be at higher levels to always match their client base; and
- More programmes to support HGEs should be established, with support focussed on elements identified as important by study respondents.

## **1.11 CONCLUSION**

Given that HGEs are diverse in nature, there is no consensus in the literature on whether or not potential HGEs can be identified with any degree of accuracy from the rest of the SMEs. Given that most HGEs display uniquely identifiable characteristics, including the short-lived episodic nature of their growth, it is not always possible to accurately forecast and distinguish entities that have a reasonable chance of success from those that will collapse. It is therefore not justifiable to develop public policy targeted at supporting these types of entities. A suggestion is that policies should be focussed on developing an ecosystem that creates an environment conducive

to supporting the emergence and scaling up of HGEs, not necessarily targeting specific types of entities.

While there is no accurate way to predict business growth, one can use available data from the current cohort of HGEs to make a fair prediction of which entities will succeed and which ones will not. It can however be argued that there are testable models to predict entity growth, and these predictions can be based on the characteristics of either the entrepreneur or the entity. Brown, Mason & Mawson (2014:7) found that HGEs in the United Kingdom are heterogeneous and do not fit any predetermined mould in terms of sector, age or size.

In advocating for support for current SMEs, Brown *et al.* (2014:11) opine that future HGEs naturally emerge from the current cohort of SMEs; therefore, no special attention (from a policy development perspective) should be dedicated to nurturing and supporting new businesses. However, the focus should be on assisting existing SMEs that demonstrate high growth potential. Shane (2009:52), on the other hand, supported by Birch's research, argues that SME policies targeted at the whole SME population are neither efficient nor effective, as only a small proportion of these SMEs will grow to become HGEs and meaningfully contribute to economic development. He further argues that policies should rather focus on creating an enabling environment that promotes the emergence of high-growth entities and the development of proper tools to identify HGEs as they emerge.

Despite divergent views on which types of policies and programmes (wholesale versus targeted) are more effective for SME development, there is general support in developing conditions that nurture the emergence and growth of entities that meaningfully contribute to economic growth (Coad *et al.*, 2014:95). As alluded to in Section 1.1, the regulatory framework within which an SME operates plays a critical role in influencing its survival and performance. It is, therefore, important that SMEs understand this regulatory framework in order for them to perform at optimum levels.

## 2 CHAPTER: 2 ENTREPRENEURSHIP THEORIES

### 2.1 THEORETICAL FRAMEWORK

Entrepreneurship is not a term/concept that has a universally agreed-upon definition. Selecting an appropriate basis for defining and understanding entrepreneurship creates a challenge for academic researchers and writers because different schools of thought view the notion of entrepreneurship from fundamentally different perspectives (Kruger, 2004:3). The term 'entrepreneurship' has been used to indicate various activities within the business environment, including idea generation, starting up, growth, innovation and leadership. Table 2-1 provides different definitions of the term entrepreneurship by various authors.

**Table 2-1: Definitions of entrepreneurship**

Reference	Definition
<b>Dollinger (1999)</b>	Entrepreneurship is the creation of an innovative economy, organization (or network) for gain or growth under conditions of risk and uncertainty.
<b>Rwigema &amp; Venter (2004)</b>	Entrepreneurship is the process of conceptualizing, organizing, launching and through innovation – nurturing a business opportunity into a potential high-growth venture in a complex, unstable environment.
<b>Kuratko &amp; Hodgetts (2007)</b>	Entrepreneurship is a process of innovation and new venture creation through four major dimensions – individual, organisational, environmental, process – that is aided by collaborative network in government, education and institutions. All the macro and micro positions of entrepreneurial thought need to be considered while recognizing and seizing opportunities that can be converted into marketable ideas capable of competing for implementation in today's economy.
<b>Timmons &amp; Spinelli (2009)</b>	Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced for value creation and capture.
<b>Hisrich et al. (2010)</b>	Entrepreneurship is a process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risk and uncertainties and receiving the resultant rewards of monetary and personal satisfaction.

Reference	Definition
<b>Barringer &amp; Ireland (2012)</b>	Entrepreneurship is the process by which an individual pursues opportunities without regard to resources they currently control.
<b>Spinelli &amp; Adams (2012)</b>	Entrepreneurship can be defined as a broader, holistic way of thinking, reasoning, and acting that is opportunity obsessed and leadership balanced.
<b>Nieman &amp; Nieuwenhuizen (2014)</b>	Entrepreneurship is the emergence and growth of new business. Entrepreneurship is also the process that causes change in the economic system through innovation of individuals who respond to opportunities in the market.

Source: References cited by Moos (2014).

Most researchers conclude that, as with entrepreneurship, there is no agreed-upon definition of the term 'entrepreneur' (Grant & Perren, 2002:189). The researcher concurs with Casson (1982) that the most difficult part of studying entrepreneurship is the unit of measurement itself, the entrepreneur. This is complicated by the fact that many elements can be considered when defining what an entrepreneur is (Casson, 1982:8). Cantillon (1755), Say (1803) and Schumpeter (1934) made a significant attempt in defining what an entrepreneur is and what they do—their contributions are discussed in Section 2.1.1 below. Table 2-2 provides the various authors' definitions of the term entrepreneur.

**Table 2-2: Definitions of entrepreneur**

Reference	Definition
<b>Say (1803)</b>	An entrepreneur is an economic agent who unites all means of production—land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market he pays rent of land, wages to labour, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.
<b>Schumpeter (1934)</b>	Entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services.

Reference	Definition
<b>McClelland (1961)</b>	An entrepreneur is a person with a high need for achievement. He is energetic and a moderate risk taker.
<b>Drucker (1964)</b>	An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur; hence, an effective entrepreneur converts a source into a resource.
<b>Shapero (1975)</b>	Entrepreneurs take initiative, accept risk of failure and have an internal locus of control.
<b>Gartner (1985)</b>	Entrepreneur is a person who started a new business where there was none before.
<b>Nieman &amp; Nieuwenhuizen (2014)</b>	An entrepreneur is a person who sees an opportunity in the market, gathers resources, and creates and grow a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with a profit if it succeeds.

Source: Researcher's construction

The National Small Business Act (No. 102 of 1996, 20) defines a 'small business' in South Africa as follows: a business that is privately held, managed and controlled, is not a major player in its industry, has fewer than 50 employees, and an annual turnover not exceeding R5 million.

Hurrington, Kew & Kew (2010:9) define an 'established business' as a venture that is owned and managed by an established business owner and can cover its operating expenses, including monthly remuneration to owners, for more than 3,5 years.

An 'entrepreneurial venture' is defined as one that has gone beyond the start-up phase, is on a growth trajectory, seeks innovation-driven growth and has a well-defined strategic objective (Nieman, 2013:2). Timmons and Spinelli (2009:27) define entrepreneurship as the process of starting a business venture based on a defined or identified opportunity and/or the process of actively growing an existing business. Creativity and growth are the most important elements necessary for entrepreneurship (Trevisan, Grundling & De Jager, 2002:135).

Innovation and growth are often used to define the entrepreneurial process, and despite these concepts often being used interchangeably, they do not necessarily have the same meaning. Innovation is mostly characterised by disrupting the status quo; it can take different forms, such as product innovation and/or process innovation. Quantitative growth is often assessed using variables like growth in company size (turnover and profitability) and shareholder value (Kruger, 2004:2). Qualitative growth is associated with the achievement of measurable objectives, not as goals in themselves, but as considered means to measure the realisation of the growth of the entity (Kruger, 2004:12). The concept of growth is explored further in Chapter 4. It is, however, worth mentioning that growth should not only be measured at the firm or company level; the growth of strategic commercial activities should also be considered, irrespective of their organisational association (Davidsson, Wiklund & Delmar, 2006:9).

For the purpose of this study, the researcher defines entrepreneurship as:

A value chain process that involves the creation or identification of a viable opportunity, the effective and efficient mobilisation and marshalling of the right resources and the assumption of the necessary acceptable commercial risks (financial and reputational) to deliver the desired outcome for reward.

The researcher concurs with Eckhardt and Shane (2003:340) that the value chain process can be assumed and/or led by a single person, or the various stages of the value chain process can be assumed and/or led by different people. In his definition of the entrepreneurship process, the researcher has introduced and emphasised "effective and efficient mobilisation and marshalling of the right resources". The Oxford Dictionary (2018) defines efficient and effective as follows:

- Efficient: "Achieving maximum productivity with minimum wasted effort or expense.";
- and
- Effective: "Successful in producing a desired or intended result."

The researcher asserts that given today's level of competition and scarcity of resources, it is mainly those opportunities that are pursued with some degree of efficient and effective utilisation of resources that have a greater chance of success. The question needs to be asked: to what extent should someone be effective and efficient in their quest to bring an entrepreneurial venture to fruition before they are considered entrepreneurs? Or: is someone measured by their success rate or the number of attempts to start an entrepreneurial venture? The researcher contends that what differentiates a small business from an entrepreneurial venture is growth, and this can only be measured over time.

The researcher asserts that the term entrepreneur should only be bestowed upon a person who has contributed meaningfully to the growth of an enterprise. The researcher, therefore, does not agree with the general view that a person who has started various businesses and failed is a serial entrepreneur. The researcher defines a serial entrepreneur as a person who has started multiple ventures and was able to grow them. Another related question is: for how long should a business venture operate before one can accurately assess whether it is an entrepreneurial venture? The researcher proposes that a venture be defined as an entrepreneurial venture when it has reached the growth phase; otherwise, it must be classified as a small business.

Research reveals that entrepreneurship is a multifaceted activity which involves a complex set of elements, such as economic, human, technical, professional and entrepreneurial activities, and requires a varied skillset to pull together to achieve maximum performance. Entrepreneurs play a central role in the entrepreneurial process (mainly coordination), and the success of an entrepreneurial venture mainly depends on their performance (Filion, 2011:9). The researcher contends that in today's competitive environment, it is no longer enough for employees to only do what is expected of them: they are expected to, at worst, be innovative and, at best, be entrepreneurial in how they execute their duties. This is in line with the researcher's assertion that entrepreneurs significantly contribute to the growth of the business venture. The definition of an entrepreneur must include those employees who have played an entrepreneurial role in growing the business.

The entrepreneur's motivation for establishing an enterprise varies and includes freedom and independence, source of pride, social impact, profit, job creation and self-discovery (Urevig, 2014). While the definitions outlined in Table 2-2 are simple and provide an accurate description of what an entrepreneur is, they fail to explain the phenomenon of entrepreneurship itself. Over the long history of entrepreneurship, researchers have proposed various theories that seek to explain the phenomenon. Several theories have been advanced to explain the antecedents of entrepreneurial values (Simpeh, 2011:1). These theories fall under six broad categories (Simpeh, 2011:1):

- Economic entrepreneurship theories;
- Resource-based entrepreneurship theories;
- Psychological entrepreneurship theories;
- Sociological entrepreneurship theories;
- Opportunity-based entrepreneurship theory; and
- Political entrepreneurship theory.

There are also variations of these broad categories, including socio-economic based entrepreneurship theory and socio-political based entrepreneurship theory. However, for this study, the researcher focussed on these six categories.

### **2.1.1 Economic entrepreneurship theories**

Cantillon (1755) was the first researcher to introduce the economic theory of entrepreneurship. He identified entrepreneurs as people who take risks for rewards (Dontigne, 2018). There are three sub-sets of the economic entrepreneurship theory: classic theory, neo-classic theory and Austrian Market Process (AMP).

These three sub-theories seek to provide clarity for entrepreneurship that focusses on economic factors and the opportunities they create or exploit. These theories assert that only economic factors drive entrepreneurship and, in the process, fail to recognise the vibrant nature of the market structures, ignore the unique nature of entrepreneurial activity and



downplay all the environmental factors inherent in the environment in which entrepreneurship takes place.

### **2.1.1.1 Classic theory**

Say (1803) identifies the central role played by founders in the management and growth of a business. Say extends the entrepreneur's role as defined by Cantillon (1755) and gives a very prominent place to the entrepreneur in the entire production and consumption system. The classic theory promotes the free market economy, specialisation, and healthy competition (Ricardo, 1817:20). Classical scholars enunciated three forms of production: land, capital and labour. The main shortcoming of this theory is that it fails to explain the market disruption introduced by entrepreneurs of the industrial age (Murphy, Liao & Welsch, 2006:11). The classic theory assumes that access to the three forms of production mentioned above would automatically lead to success. In today's competitive environment, more is needed to succeed—this includes process innovation, product innovation, market intelligence and entrepreneur traits.

### **2.1.1.2 Neo-classic theory**

The neo-classical theory emerged as a result of persistent criticism levelled against the classical theory. It was an attempt to consider the human element of an organisation and the social needs of employees. This theory affirms that commercial activity is based on instances of the exchange of goods and services, reflects an optimal ratio and occurs in a closed market environment (Simeh, 2011:1-8). The economic system consists of market players (entrepreneurs), exchange transactions (sale of good and services), and the impact of results of the exchange on other market participants (achievement of objectives). The importance of exchange, coupled with diminishing marginal utility, created enough impetus for entrepreneurship in the neo-classical movement (Murphy *et al.*, 2006:9).

The neo-classical model assumes that all players have all the information necessary to make investment decisions and have their economic objectives set out. Entities are then able to easily choose profit-maximising production opportunities, given their production capabilities. In choosing production input levels, the firm determines its equilibrium point for variables

involved in the production process, and these values constitute the profit-maximising business decision (van Praag, 2005:12).

The following criticisms are levelled against the neo-classic theory:

- The assertion that the whole market has the same information ignores the exclusive nature of individual-level entrepreneurial activity;
- The assumption about perfect resource allocation ignores the intricate nature of open-market economic systems;
- The assumption about perfect market information and attainment of perfect equilibrium level ignores novelty and varying inputs;
- Assumed perfect end results and perfect knowledge availability ignores market uncertainty. Perfect competition stifles novelty and entrepreneurial activity;
- It is not always possible to track all inputs and outputs in a market system; and
- Entrepreneurial activity disrupts the status quo.

The researcher concurs with Simpeh (2011): it is incorrect to assume that all entrepreneurs have perfect information and have their economic objectives clearly stated. In this fast-paced information-driven era, where information has become a key determining factor of success, it is not always possible to have all the variables at your disposal when making business decisions. The irony is that as access to information has become relatively easier (through the internet and other electronic sources), it has become difficult to make decisions based on such information as its reliability is sometimes questionable. One must continually cross-reference information before reliance can be placed on information sources, which takes time and effort. The economic objectives, especially at the SME level, are not always clear to the entrepreneur as they are often dictated by market conditions. The entrepreneur might have the broad aims and objectives for his entrepreneurial venture, but sometimes they are not clearly articulated at the granular level. As demonstrated in the Austrian theory below, circumstances are not always repeatable, and even if they are repeated, they do not always lead to the same outcomes.

### 2.1.1.3 Austrian market process

The earlier neo-classical theory assumed perfect market competition, a closed-economic system and the ability to trace input and output in the economic system, and inferred that repeatable events resulted in the same outcomes. The challenges of the neo-classical model resulted in the development of the AMP theory, led by Schumpeter (1934).

The AMP negates the assumption that repeatable events always deliver the same outcomes in an economic system. It holds the view that entrepreneurs are always looking for new innovative ways to generate economic value (Simpeh, 2011:2). Schumpeter (1934) describes the entrepreneurship process as the main driver of market-based systems. His view is that the main thrust of an enterprise is to disrupt the current market conditions and create something new, resulting in new processes and/products that serve as a catalyst for market growth (Murphy *et al.*, 2006:10). Schumpeter thus ascribes boldness and resolve as key characteristics of an entrepreneur that spur them on to innovate, notwithstanding inherent market resistance and uncertainty (Schumpeter, 1934).

The researcher postulates that the main purpose of the Schumpeterian entrepreneur is to introduce disruptive innovation of either the product or process that upsets the existing market equilibrium point, with the main objective of deriving a defined benefit in the form of profit. Kirzner (1999:5-17) asserts that the main ingredient to the entrepreneurial activity is vision and not courage, self-assurance and resolve, as Schumpeter asserts. Kirzner, however, admits that a clear entrepreneurial perception that provides such a high level of certainty is virtually impossible in practice. Kirzner appears to contradict himself as boldness is required if one undertakes a task that does not have a guaranteed measure of success. Kirzner points out that the introduction of automobiles did not disrupt the existing market equilibrium; the market was at a severe imbalance when automobiles were introduced, as too many resources were allocated to the obsolete horse-carriage industry (Mamyrbayeva, 2012:6). The researcher postulates that both the Schumpeterian innovation and Kirzner's alertness theories are necessary for making a successful entrepreneur. Alertness to an opportunity without the necessary action does not achieve the desired result, and unguided boldness, self-confidence and courage (which lacks vision) can be dangerous.

### **2.1.2 Resource-based entrepreneurship theories**

The resource-based theory is the most prominent and most cited entrepreneurial theory and seeks to explain the internal resources that give the firm a sustained competitive advantage over its competitors (Kraaejenbrink, Spender & Groen, 2010:349-372).

This theory argues that the important predictor of opportunity-driven entrepreneurship and business growth is the entrepreneurs' access to resources (Alvarez & Busenitz, 2001:760). The theory further assumes that the firm's competitive advantage and subsequent performance depends on the resources and capabilities the firm controls (Newbert, 2007:131). Resources are inputs into the entity's production process to enable it to function effectively (Beard & Summer, 2004:134). Capability is the ability of the pooled resources to perform at an optimum level and while the firm's capabilities are determined by available resources, capabilities are the critical input in determining the company's competitive advantage (Hitt & Ireland, 1986:401-416).

The resource-based theory outlines three main resource classes: financial capital, human capital and social capital (Aldrich & Ruef, 2006:201). The level of access to these resources advances the entrepreneur's capacity to discover and realise new opportunities (Davidsson & Honig, 2003:301-331). The role played by the three classes of resources is discussed below.

#### **2.1.2.1 Financial capital**

Research has shown that new venture creation is enhanced when entrepreneurs have access to financial resources (Blanchflower, Oswald, & Stutzer, 2001:680-691). This suggests that people with access to finance are more able to mobilise other resources necessary to realise new opportunities (Simeh, 2011:5).

Other studies, however, do not support this theory and suggest that most entrepreneurial ventures are started without much capital and that access to financial resources is not a determining factor in being a nascent entrepreneur (Kim, Aldrich & Keister, 2006:5-22). Research on growth entrepreneurship finds that access to capital is a crucial conjecture of new venture growth but does not play a key role in establishing a new venture (Hurst & Lusardi, 2004:112). In addition to access to funding, entrepreneurs have individual-specific

resources (information, vision and determination) that help them recognise new opportunities and assemble resources necessary to start a business (Alvarez & Busenitz, 2001:755-775).

### **2.1.2.2 Human capital**

Knowledge enhances people's perceptive abilities, resulting in increased productive and efficient potential activity (Becker, 1975:23). In theory, if there are new profitable opportunities for new economic activities in the market, people with higher, more developed human capital should be better suited at perceiving them. When engaged in entrepreneurial activities, such individuals should also have a better chance of making a success of those opportunities.

Prior knowledge enhances intellectual performance. Prior knowledge facilitates the assimilation and accretion of new knowledge, as well as integrating and adjusting to new environments (Weick, 1996:307). In psychology, knowledge is defined as either tacit or explicit (Polanyi, 1974:282). Tacit knowledge refers to 'know-how', the mostly non-classified elements of an activity. Explicit knowledge or 'know-what' refers to expressed knowledge material, normally delivered through processes, procedures and formal written documents. Resolving intricate problems, as is often the case in business, requires the integration of tacit and explicit knowledge, and thorough knowledge and understanding of sociological structures within which the business operates (Davidsson & Honig, 2003:301-331). This means everyone's level of knowledge may be enhanced by formal education, such as tertiary education; informal education, such as work experiential learning; and non-formal education, such as adult education (Davidsson, Achtenhagen & Naldi, 2015:72).

The two main factors that underpin human capital are education and experience (Becker, 1975:34). Human capital signifies a resource that is unevenly spread across people and is instrumental in understanding differences in opportunity recognition and exploitation (Anderson & Miller, 2003:17-36). Research has shown that human capital factors are positively associated with the ability to become a nascent entrepreneur, increase opportunity identification and ultimately succeed in the entrepreneurial process (Davidsson & Honig, 2003:301-331).

From a resource-based perspective, human capital is considered an important, scarce resource, which is often (depending on the specificity of knowledge and skills needed by the firm) unmatched and not easily replaceable (Barney, 1991:97). Entrepreneurial human capital relates to growth and financial performance, but the mechanics that lead to increased performance in entrepreneurial entities remain unclear (Unger, 2011:343). Human capital is of great relevance to knowledge-intensive processes such as innovation. During the discovery stage of the innovation process, entrepreneurial human capital ought to lead to greater outcomes in terms of opportunity recognition and creation (Wright, Ucbasaran & Westhead, 2008:163).

Some research studies determine a positive correlation between human capital and entrepreneurial activity (Shane & Venkataraman, 2000:220). However, some studies found that entrepreneurial activity is a complex phenomenon and may be confounded by several factors; for example, it has been found that the relationship between determination and education is often non-linear, and while an increase in human capital leads to enhanced performance, it does not necessarily increase persistence (Gimeno, Folta, Coope, & Woo, 1997:754). It should also be noted that different stages of the entrepreneurial process demand different performance levels and, ultimately, different types of human capital.

### **2.1.2.3 Social capital**

Social capital has been defined as networks of relationships within a defined community and mutually beneficial resources that can be sourced through these networks (Nahapiet & Sumantra, 1998:249). The concept of social capital, therefore, refers to a mix of networks, beliefs, norms and standards, and trade-offs amongst members of a specific community, and a set of social relationships with individuals, organisations, societies and business units (Marin, Gelcich, Castilla, & Berkes, 2012:13).

Entrepreneurs are part of society and are entrenched in a larger social network structure that forms a large portion of their opportunity structure. Though individuals may recognise a business opportunity, they might not be able to convert it into a viable business if they lack access to a larger social network (Shane & Eckhardt, 2003:239). Social capital provides the following advantages: networks are a base for acquiring and exploiting new knowledge

necessary for innovation; for example, collaboration combines new knowledge with existing knowledge (Yli-Renko, Autio, & Sapienza, 2001:589). Social capital also provides direct access to complementary resources required to pursue innovation; for example, co-operation reduces the risk inherent to innovation by sharing research and development (R&D) investments or leveraging existing resources (Rauch & Brinckmann, 2012:4).

It is therefore important for nascent entrepreneurs to be part of a circle of like-minded entrepreneurs as the capabilities these entrepreneurs possess represent a kind of cultural capital that they can draw from to access other opportunities and learn how to grow their existing business ventures (Gartner, Shaver, Carter, & Reynolds, 2004:4).

The researcher concurs with (Davidsson et. al, 2015:89) that access to resources enhances the individual's ability to discover and convert these opportunities into viable businesses. However, the researcher does not support Barney's (1991) view that in order to achieve sustainable competitive advantages and, consequently, above-normal profits, the resources employed should be valuable, scarce, inimitable and non-substitutable. In the current information age, these resources, though valuable, are abundant and substitutable. The entrepreneur has to constantly stay alert, innovate and be on top of current trends. This necessitates a constant re-evaluation of existing resources and implementing changes necessary to maximise opportunities in the current environment.

### **2.1.3 Psychological entrepreneurship theories**

These theories focus on an individual's perceptual or emotional elements that help foster the development of the entrepreneurial spirit. Behavioural traits are established qualities or characteristics displayed by an individual in most situations. Behavioural academics assert that certain specific qualities are distinctive of entrepreneurs (Coon, 2004:420). These qualities, however, can only be understood by making inferences from the entrepreneur's conduct and performance (Simeh, 2011:1-8).

Characteristics most often displayed by entrepreneurs are a need for achievement, being self-driven and curiosity. Entrepreneurs are curious and enthusiastic in nature, and their passion and emotional elasticity stimulate their hard-work attitude, deep commitment and

determination to succeed. They are mostly unhappy with the existing state of affairs and always desire to win—while exercising integrity and having visionary minds (Abaho, Slyvia, Ntayi, & Kisubi, 2016:105-125).

This theory associates the need for achievement with the toughness of tasks and the individual's need to accomplish these tasks with high standards of excellence (McClelland, 1961:512). High standards and toughness are thus the distinguishing features between routine and 'normal' tasks (Abaho *et al.*, 2016:105-125). This means that a person must have the willingness and ability to go beyond the ordinary to realise their goals in such instances. While some entrepreneurs exhibit a moderate risk appetite, driven by the need to succeed and the promise of rewards, some are willing to accept higher than moderate risks (Eisenhauer, 1995:5). Because entrepreneurs are the most active players in the entrepreneurial process (more active than general employees and managers), they must be the starting and central point when developing entrepreneurship theories (Frese, 2009:480).

People with a strong internal locus of control believe their actions can influence the external environment, and the research shows that this trait, coupled with resilience and optimism, drives entrepreneurial behaviour (Dontigne, 2018). In support of this view, research conducted in a student sample proved that internal locus of control was positively linked with entrepreneurial aspirations (Bonnett & Furnham, 1991:465-478). The degree of innovation, competitive behaviour and self-sufficiency was also found to be higher in observed entrepreneurs (Utsch, Rauch, Rothfuss, & Frese, 1999:35).

However, social learning theory renounces that formal learning inspires behavioural change and claims that while a noticeable change in behaviour is the most common proof of formal learning, it is not always necessary (Abaho *et al.*, 2016:105-125). This is because people mostly learn through observation; however, their formal learning may not necessarily be reflected in their behavioural change (Abaho *et al.*, 2016:105-125).



#### **2.1.4 Sociological entrepreneurial theories**

Sociological entrepreneurial theories focus on the societal setting of entrepreneurs. In analysing entrepreneurs' behaviour, the sociological theory asserts that the level of analysis is the society. This model locates entrepreneurship within the society's belief system (its culture) and observes how socio-cultural factors drive the perception of entrepreneurship and entrepreneurs' behaviours. The theory suggests that an entrepreneur is unlikely to succeed if they start a business venture without considering the social and cultural context (Landstrom, 1998:17). Reynolds (1991:56) suggests four social perspectives that should be considered before launching an entrepreneurial venture:

- Social networks—it is important that the entrepreneur forges long-lasting, mutually beneficial relationships with members of the society and not take advantage of the community. They should, therefore, not abuse the trust they enjoy with people; entrepreneurs' success comes from keeping faith with people and growing with them;
- Life-course stage context—people's life experiences have a significant influence on their thoughts and actions. People generally want to better their lives and, in so doing, analyse the life experiences of people they perceive to be successful;
- Ethnic identification—a person's sociological circumstances is a factor that propels them to be successful. Marginalised groups, for example, tend to violate all obstacles in their quest for success, inspired by their background to make life better for themselves and future generations. People's attitudes and behaviour are affected by their ethnicity, and culture reflects the ethnic, social, economic, ecological and political complexities in individuals (Mitchel, Smith, Morse, Seawright, Peredo & Mckenzie, 2002:9-32); and
- Socio-cultural theory (the Hoselitz theory)—suggests that all people are gifted with social and cultural authority (Chetty, 2016). Chetty further posits that entrepreneurs emerge from socio-culturally advanced societies. This section of the population most inspires entrepreneurial activity and economic development (Hofstede, 1993:81-94). Examples of marginal groups include the Jews in medieval Europe, Chinese in South

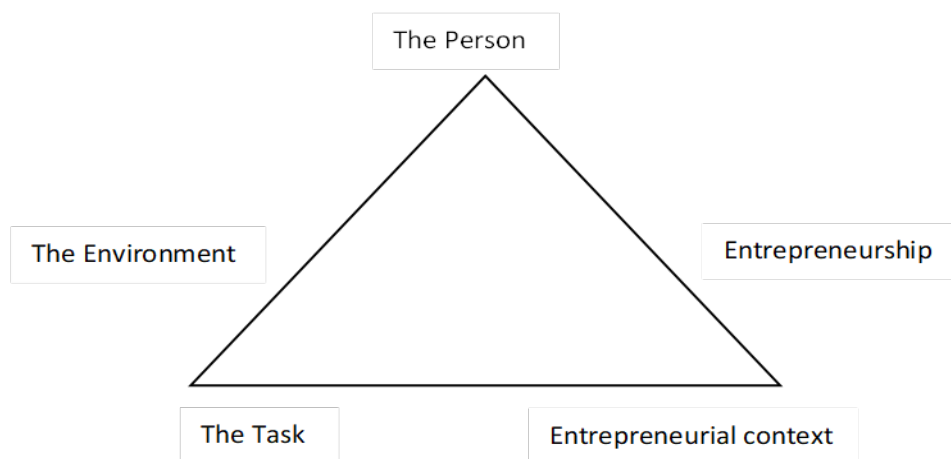
Africa and Indians in East Africa (Lounsbury & Glynn, 2001:545-564). The Hoselitz theory is based on the following:

- The marginal men hypothesis—these people are a reservoir for the development of entrepreneurs. They can adapt to different environments despite their uncertain social and cultural standing in society and, in the process, transform their social behaviour to fit the environment (Chetty, 2016);
- The importance of managerial and leadership skills—a characteristic of entrepreneurs is their leadership and managerial skills, which enable them to mobilise and marshal resources to achieve profits. The Hoselitz theory stresses the importance of managerial and leadership skills as they are not only important for their organisations to succeed but also inspire others to perform at their best (Lounsbury & Glynn, 2001:545-564);
- Involvement of specific social classes—every society has an abundance of relevant talent and expertise; however, it is those people that are rooted in one another's cultural beliefs and understand the norms of that society that have the greatest chance of success. The leading social class in the arena of Indian entrepreneurs, the Marwaris and the Parsis, are prime examples (Hofstede, 1993:81-94). The theory seeks to explain why immigrants are more likely to succeed in entrepreneurship than indigenous people. Immigrants' credentials are often not respected, their skillsets are undervalued, and their qualifications are not trusted or considered inferior. This is exacerbated by language and cultural differences, making it more difficult for immigrants to integrate and find lucrative employment (Kahn, La Mattina, & MacGarvie, 2017:533-557). These differences make it difficult for immigrants to enter the workforce as salaried employees in their areas of expertise, and as a result, they pursue entrepreneurship as an alternative to working in low paying jobs outside their fields (Laplume, 2017); and
- Population ecology—this suggests that ecological factors play a crucial role in the growth and development of entrepreneurial ventures. The political and market system, government legislation, customers, employees and competition

are important environmental factors that impact the survival of new ventures or the success of the entrepreneur (Reynolds, 1991:56).

Entrepreneurship and creativity flourish when there is a healthy relationship between the person (entrepreneur or employees) and the task and organisational context (Ecology (ECO) Model) (Dacin, Dacin & Matear, 2010:42). The Eco model is premised on the following three pillars

- The person plays a central role in the model as new ideas must be executed upon by well-resourced people. Personal traits necessary for efficient execution include skills, motivation, experience and psychological factors (He, Nazarib, Zhang & Cai, 2020:20)
- The task involves opportunity identification, resource management and exercising leadership and managerial talents (Chetty, 2016); and
- The entity's organisational structure also plays a key role as this affects the entrepreneurial environment and, by extension, the success of the business (Chetty, 2016).



ECO analysis framework (source: Priya Chetty, 2016)

**Figure 2-1: ECO Model**

Source: Chetty (2016)

The sociological entrepreneurship theory places too much emphasis on the individual and ignores economic and other resources necessary for the success of the business (Amolo & Migiyo, 2014:832-841). Despite this shortcoming, the researcher concurs that the social and cultural context is important in the development and success of entrepreneurs. The factors of production (economic factors) emphasised by the economic theories reside with, and belong to the communities. In order to be a successful entrepreneur in the long term, the entrepreneur or entity must be seen as a socially responsible citizen. This is more so during the time of global warming where people, profits and the environment need to be balanced when conducting business. The rise of social entrepreneurship bears testimony to the fact that there is a direct relationship between the community within which the business operates and its ability to source its economic resources, talent and ease of trading successfully.

### ***2.1.5 Opportunity-based entrepreneurship theory***

Drucker (1985:62) puts forward the opportunity-based theory and claims that entrepreneurs do not necessarily disrupt the status quo but take advantage of the opportunities brought about by technological changes and changes in consumer behaviour. Put differently, Drucker's theory is that entrepreneurs possess excellent skills and abilities to discover and take advantage of possibilities created by changes in the environment. Stevenson and Harmeling (1990:9) expand on Drucker's theory by introducing resourcefulness and conclude that the driving force of entrepreneurial activity is the pursuit of opportunity without regard for resources at the entrepreneur's disposal.

The debate on whether opportunity is discovered or created dates back a long time and originated in the differences between the views of Schumpeter and Kirzner. Schumpeter accepts that external stuns such as mechanical, technological, segment and social changes disturb market effectiveness, and entrepreneurs use their initial admittance to such data to introduce new goods or processes to the market (Hang, Garnsey & Ruan, 2013:7). Kirzner believes that market disequilibrium endures because of idiosyncratic and incomplete information held by individuals.

Entrepreneurship literature better addresses Kirznerian theorists (or the opportunity revelation stream) (Shane & Venkataraman., 2000:222). Specialists in this stream centre around the 'search' interaction to improve market failure set off by data and information incongruence. They attribute the ability to recognise such information and overcome knowledge asymmetry to personal factors such as personality traits (Rauch & Frese, 2007:4), prior years' experience (Shane, 2000:452), motivation (Locke & Baum, 2007:120) and cognitions (Busenitz & Barney, 1997:9-30). This theory, therefore, concludes that opportunities are in abundance in the current environment, and their identification relies mainly on the entrepreneur's perceptive abilities.

The Schumpeterian stream indicates that entrepreneurs identify and act on opportunities presented by technological, political, regulatory, social and demographic changes (Baker & Nelson, 2005:329-366). Entrepreneurs, therefore, have the skills and experience necessary to discover a market need and transform it into effective demands for their innovation. They then recruit all the necessary resources, mainly from their current social network, to turn this opportunity into a viable business (Hang *et al.*, 2013:7).

The opportunity discovery stream indicates that the entrepreneur subjects their discovered opportunity to a risk assessment to determine the acceptable risk tolerance level, given that information is available for prediction and risk control, thereby making it possible to anticipate the resource requirements. However, the entrepreneur is aware that once information about their discovered opportunity reaches the public domain, competitive imitation will soon follow. In order to protect a new business idea, the entrepreneur needs to achieve speed to market, maintain secrecy and erect other entry barriers. The opportunity-based entrepreneurship theory assumes there is no pre-existing marketing model—this emerges as part of the opportunity creation process. The entrepreneur's competitive advantage lies in creating a unique hard-to-imitate business and speed to market, sustained by tacit knowledge and path-dependent learning. This theory assumes there is no pre-existing market inefficiency to be remedied (Hang *et al.*, 2013:8).

Alveraz and Barney (2007:16) contend that the two types of exploration vary in their essential presumptions and yield various ramifications for opportunity identification and extraction. The

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main differences between the two theories are the nature of opportunities, the nature of entrepreneurs and the nature of decision-making (Hang *et al.*, 2013:8). The dichotomous approaches to entrepreneurship are presented in Table 2-3 below:

**Table 2-3: Dichotomous approaches to entrepreneurship**

<b>Authors</b>	<b>Opportunity discovery (Kirznerian view)</b>	<b>Opportunity creation (Shumpeterian view)</b>
<b>Sarasvathy (2001)</b>	Classic (causation-based) entrepreneurship: rational means used to achieve predetermined end.	Effectuation: use of given means to achieve flexible ends.
<b>Shah and Tripsas (2007)</b>	Classic entrepreneurship: Rational means used to achieve predetermined ends.	User entrepreneurship: collective creativity, experimentation and adaption of ideas.
<b>Eckhardt and Shane (2003)</b>	Entrepreneurial Opportunities	Involve new means, means ends, or means ends relationships.
<b>Stevenson and Jarillo (2001); Stevenson (2006)</b>	Rational corporate planning: select and secure appropriate means to achieve approved ends.	Entrepreneurship improvisation to secure resources unavailable during initial pursuit of opportunity.
<b>Penrose (1959, 1960, 1971)</b>	Corporate planning: select means to achieve approved ends.	Entrepreneurs engage in creative matching of resources (means) to market opportunities.
<b>Freeman (1982)</b>	Freeman disputes that innovation results are <i>exclusive</i> from technology <i>or</i> market impetus.	Entrepreneurial innovation via matching of technology means to market opportunities.

Source: References cited by Hang *et al.* (2013)

The researcher does not agree with Drucker (1985) that entrepreneurs do not cause change but merely exploit the opportunities introduced by technological and consumer behaviour changes. Technological changes are mainly introduced by entrepreneurs who are always looking for new ways to better their customers' experiences. This invariably leads to changes in customer preferences. Entrepreneurs, therefore, influence consumer behaviour and their preferences. The debate about whether opportunities are discovered or created is redundant; in this era of rapid product development and information overload, the two are not mutually exclusive. As new products are developed to address gaps in the market, the speed with which these products are brought to the market is key (the first-mover advantage). In the process of establishing an early market presence, some entrepreneurs focus on identifying shortcomings inherent to those products and develop better-performing products as substitutes. So, in the process of discovery to address identified gaps, innovation inevitably creeps in to enhance the already developed products.

### **2.1.6 Political entrepreneurship theory**

Political entrepreneurship is defined as the process of directing coercively attained resources by the state towards a defined production process which would not otherwise have occurred in an open market (McCaffrey & Salerno, 2011:553).

Political entrepreneurs are resourceful and innovative individuals who come up with new ideas and emerge as new players in the field of politics (Meydani, 2008:301-312). Political entrepreneurs are often people within the political ecosystem, such as politicians and administrators, or sometimes individuals or groups outside the system, such as entrepreneurs and lobbyists. They seek to constantly advance the science and art of politics through constructive disruption. Ideological originators such as the chartists, suffragettes, capitalists, Marxists, futurists and Luddites were all political entrepreneurs (Nyhlén, 2012).

There are three schools of thought in the field of political entrepreneurship (Klein, Mahoney, McGahan, & Pitelis, 2010:1-15). The first is found in the public choice literature. It focusses largely on the rent-seeking aspects of political activity: the stifling of competition through legal barriers to entry, lobbying and special interest practices, legislation brokering, coalition-

building, etc. (McCaffrey & Salerno, 2011:552). The second school of thought focusses on the entrepreneurial more than the political element and is grounded in the entrepreneurial theory of Kirzner (1999), which emphasises alertness and discovery as the key elements in entrepreneurial behaviour. This theory states that entrepreneurship is a metaphor for entrepreneurial behaviour which exists in all human beings. Political entrepreneurs are, therefore, individuals alert to opportunities to profit from the political system (Salerno, 2008:203). The third theory emphasises the role of political entrepreneurs in shaping, changing and consolidating political institutions (Sheingate, 2003:189).

Unlike most entrepreneurial theories, the analysis of political entrepreneurship is not an easy phenomenon to pin down. The usual definitions of entrepreneurship focus mainly on the free market system, and the objectives of the entrepreneur are mostly well defined and include the satisfaction of identified consumer needs, the need for achievement and recognition and profit maximisation. Governments, however, are driven by different objectives, and the goal of political entrepreneurship is often not strictly determinable. The objective of political entrepreneurship might be either public good or private good, the satisfaction of consumer (broader society) wants (the imitation of market entrepreneurship), or it could be directed towards the satisfaction of interest groups (McCaffrey & Salerno, 2011:552-560).

In order for political entrepreneurship to flourish, there has to be a clear commitment of resources; otherwise, as in most governments, all revenue is consumed (McCaffrey & Salerno, 2011:552-560). Nyhlén (2012) distinguishes a political entrepreneur and an entrepreneurial politician in Table 2-4:



**Table 2-4: Political entrepreneurs and entrepreneurial politicians**

	<b>Political Entrepreneur</b>	<b>Entrepreneurial Politicians</b>
<b>Institutions in not in equilibrium</b>	Exploits the instability of the institutions to maximise their influence in the political arena.	Act upon a threat to the community. The risks they take are perceived as minor compared to the risks they consider taking if they do not act.
<b>Breaking boundaries</b>	Influences the political arena by defining potential threats and defines the actions to take to solve the problems.	Defines problems and threats and decides about political actions to solve them. Can turn a vision into political action.
<b>Driving force</b>	The desire to work and live at the location.	Desires to create possibilities for people (themselves and others) to work and live at the location.
<b>Profit</b>	Affects the political arena to create opportunities to live and work at the location.	Makes decisions that create a development that enables people to work and live at the location.

Source: Nyhlén (2012)

A political entrepreneur has a high internal locus of control, which is a strong sense of being able to influence. The entrepreneur has courage, is willing to take risks and has a vision but is willing to change them if they prove impossible to implement. The political entrepreneur is energetic and can challenge the existing structures. An entrepreneurial politician is an energetic politician who is visible, appears honest and competent, wants to stay in power but has a vision and is willing to take risks to enforce important issues and changes. The entrepreneurial politician's behaviour can challenge the existing structures Nyhlén (2012).

## 2.2 CRITICAL ANALYSIS OF ENTREPRENEURSHIP THEORIES

### 2.2.1 *Economic entrepreneurship theories*

The economic (classic, neo-classical and Austrian) entrepreneurship theories are mainly concerned with how the market system operates and how entrepreneurship uses and/or influences the existing market system to maximise profit. These theories assume perfect competition and market self-regulation. This assumption may be true of developed countries but would fail in emerging economies as their governments play a greater role in balancing market forces (profit vs social impact). Also, in developed economies, the government plays a greater role in ensuring that profit maximisation is not achieved to the detriment of the environment.

Both Schumpeter (1934) and Kirzner (1999) place the entrepreneur at the centre of the commercial activity in a purely capitalistic economy. The assumption is that the entrepreneur (whether innovator according to Schumpeter or alert entrepreneur according to Kirzner) operates in a perfect capitalist economic system and can pursue opportunities unhindered, thus assuming no or very little regulation or intervention from the state. Firstly, there is no perfect capitalist economy, and secondly, both theories would fail dismally in other economic systems. The economic theories also assume that the population is homogenous with regard to culture, standard of education, etc., and everyone has an equal chance of being an entrepreneur. This is very often not the case.

### 2.2.2 *Psychological entrepreneurship theories*

Psychological entrepreneurship theories (psychology and sociological theories of entrepreneurship) arose in the 1990s because of the shortcomings of the prevailing economic theories. These theories contend that entrepreneurship is based more on societal cultures and norms and the need for personal achievement. In most developing countries, the need for personal achievement is not emphasised and is sometimes frowned upon as most people still find value in the togetherness of their communities; hence, the term *Ubuntu* (I am because you are) in South Africa. The need for personal achievement is mostly associated with

Western culture, where individual achievement denotes success. Most societies, especially in developing countries, measure success by how much the society progresses (Kali, 2017).

The researcher opines that the second element emphasised by these theories is that the entrepreneur is in control of their destiny (locus of control). Most religious communities believe in a higher power and, as a result, believe that their destiny is in the hands of their creator. They, therefore, do not ascribe their success/failure to their individual actions but because of the wishes of their creator. In line with the discussion above, in most Western countries, and because of the need for personal achievement, entrepreneurs believe that their destiny is in their own hands. Both extremes have blind spots, as no one is in absolute control of all the factors that influence their success (for example, climatic conditions, infrastructural development and the political environment). The opposite is also true: one must put in effort and cannot rely solely on the outside environment to dictate one's success.

Some cultures measure success and growth by only tangible outputs, and this is mostly linked to the standard of education. They believe that only civilised nations are successful. Other communities, mainly in the developing world, measure success by how the community is developing versus individual growth. Measures of success are, therefore, not necessarily the same, nor mean the same thing. Nations that value community development tend to focus more on social entrepreneurship, while Western countries (which emphasise personal development) seem to measure success by the level of development of economic entrepreneurship.

Another criticism often levelled against these theories is that they place too much emphasis on the development associated with levels of formal education. Much emphasis is often placed on industrial expertise and ignores the inherent natural leadership and entrepreneurial experience. This view could not be further from the truth as demonstrated by traditional African leaders like Inkosi uShaka Zulu (founder of the Zulu nation), who had no formal education but whose leadership skills and qualities were instrumental in building the Zulu nation, the biggest nation in South Africa.

## 2.3 CONCLUSION

None of these theories is complete on its own, and none can claim to be an exact science. Entrepreneurship theories are inter-disciplinary and are influenced by a multitude of factors. It is the assimilation of the external environment, motivation to succeed, locus of control, aptitude and determination that is the main determinant of whether an individual becomes an entrepreneur (Karan & Gulshanpreet, 2015). As indicated in Section 2.1, entrepreneurship is a multifaceted phenomenon that is not easy to describe and is affected and influenced by a multiplicity of factors. Therefore, the entrepreneurship theories discussed above cannot account for all the possible factors that influence entrepreneurship. These factors include the abundance or scarcity of resources, an unstable political environment, political interventions in the economy, different education levels (and education standards) in various countries, geo-coefficient levels and unstable currencies (which may cause hyper-inflation).

As this study dealt with the government's SME regulatory framework, the political entrepreneurship theory was used as the underpinning theory to explain the effects of the regulatory framework on SME performance. As all resources and influence used by the state must in the end be under the direction of some individual or group, the administrative and legislative environment of a particular state (e.g. pure democracy, constitutional monarchy, etc.) will determine who exactly the ultimate resource owners are. The theory maintains that political and legal systems can create adequate infrastructure, conducive financial laws, favourable taxation systems and procedures and proffer incentives, subsidies and flexible customs and port regulations to inspire people towards entrepreneurship and to foster the growth of existing SMEs (Nyarku & Oduro, 2017:209).

## **3 CHAPTER 3: REGULATORY FRAMEWORK AND ECONOMIC GROWTH**

### **3.1 OVERVIEW**

It can be argued that for SMEs to live up to expectation and drive entrepreneurship development, there must be an enabling business climate to support them (Bouazza, Ardjouman & Abada, 2015:101-121). Clement and Ang (2004:347-363) highlight that a government's enactment of a good regulatory framework is indispensable for job creation, poverty reduction and the economic development of its people. The legal and regulatory environment of a firm plays a critical role in influencing its survival and growth potentials (Khan, 2014:89-94). Government regulations produce two environments for businesses: an atmosphere to grow or an atmosphere to crumble (Luiz, 2011:99-107).

Despite proven benefits to accelerate growth and transform an economy, SMEs still face many challenges, such as the availability of talented labour, access to finance, a variety of administrative requirements, a domineering working climate, data lopsidedness, taxes, over-focus on one market, lack of proper accounting records isolating business and family or individual finances, failure to recognise income and benefit, failure to secure the correct plant and hardware, cut-throat competition, lack of succession plan, high utility tariffs, infrastructure, competitions, high interest rates and prohibitive collateral (Agwu & Emeti, 2014:111).

Because of the commitment that SMEs have to the economy, the impact of lawful and administrative structures on economic growth has lately grabbed the attention of policymakers and other central role players (Mabonga & Daniel 2015:53-58). Subsequent to perceiving the developing potential in the SME area, numerous nations developed a regulatory framework to promote SMEs growth and development (Yoshino & Hesary, 2016:5). South Africa, as other countries in Africa and other developed nations, accords a high priority to SMEs and rolled out policies designed to support these entities to grow and be self-sustaining in order to meaningfully contribute to GDP (Maseko & Manyan, 2011:171-181). However, despite the proven contribution of SMEs to the GDP, little is known about the extent to which the legal and regulatory framework (support programmes and government interventions), specific to SME development, impacts their performance (Munjeji, 2017:134). It is within this background that this study

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explored the extent to which legal and regulatory frameworks directed at SMEs affect their performance.

A regulation may be defined as an instrument by which governments and their subsidiary bodies set legal force requirements on citizens and businesses (OECD, 2010:9). The term encompasses a wide range of instruments from primary law and secondary regulations to subordinate rules, administrative formalities and decisions that give effect to high-level regulations and standards (OECD, 2010:9). Regulation usually involves the way a government controls or regulates the actions and economic activity of individuals and entities (King & Levine, 1993:513-542). SME regulation may manifest as regulations regarding business start-up, labour practices, taxation and foreign trade (Quartey, 2001:8). Scholars have stressed that unstable government policies resulting from frequent changes to those policies can have a material affect on SMEs' activities such as entrepreneurship development. Unstable government policies have led to the liquidation of many SMEs (Agwu & Emeti, 2014:105).

The reviewed literature suggests that guidelines force people (both legal and natural persons) to change or screen certain conduct to limit possible harm or abuse to the environment and different organisations (Conglianese, 2012:8). Guidelines start with public concerns about the effect of at least one organisations' activities on workers, clients, other businesses or associations and the environment (Dixon, Gates, Kapur, Seabury, and Tailey, 2006:6). An ideal social corporate obligation requires that businesses seek their business goals while reacting to stipulated social guidelines and other environmental imperatives (OECD, 2010:44). Regulations encourage companies' entrance and exit alongside moderately-open exchange approaches and add greater levels of fulfilment, have lower costs and facilitate better decisions for customers (Fatoko, 2014:151-158). Guidelines restrict the capacity of private business to hurt or exploit different associations, individuals or the climate (regardless of purposefully or unexpectedly) during the period the company conducts business (Dixon et al., 2006:1).

An empowering climate for SME advancement is established when a government moves away from economic-regulation policies to market-centred policies (Munjeyi, 2017:136). The reviewed literature indicates that reducing government controls and involvement improves the business climate and empowers business people to react rapidly to advertise openings and advance

competitiveness that improves proficiency and profitability gains (Mutua, 2015:102-112). The literature shows that the government assumes the main part in establishing empowering administrative conditions that urge SMEs to discover freedoms to conduct business (Kusi et al., 2015:705-723). The government should, therefore, introduce policies and regulations that favour SMEs, thereby creating a friendly business climate that allows them to flourish (Mutua, 2015:109).

Key highlights of an ideal, well-disposed business climate that advances SMEs include: steadiness of the legal, political and policy structure; public awareness of the guidelines and laws; lucidity and conviction of the legal system; consistency in the use of the law and reasonableness; plausibility of legitimate choices and fair treatment (Munjeyi, 2017:137).

## **3.2 SOUTH AFRICAN SME POLICY FRAMEWORK**

### ***3.2.1 Institutional framework***

The South African unemployment rate is amongst the highest in the world at 32,6% (74,7% amongst the youth), while its GDP growth rate is a meagre 0,65% and has a Gini coefficient score of 63, the highest inequalities in the world (Stats SA, 2021:26). Approximately 50% of South Africans live on less than \$250 per month, and unless South Africa improves its GDP growth rate and reduces unemployment, there is a real risk that in the medium to long term, the relative stability of the country will be compromised, as people are becoming impatient with high poverty levels and unemployment (Stats SA, 2020:8). South Africa's slow growth rate is particularly interesting, given that it has good policies, largely 'first-world' infrastructure and a relatively good entrepreneurial ecosystem compared to other developing countries.

The 1995 White Paper on SMME development was the first policy document to document South Africa's SMME policy framework. This was followed by the Integrated Small Business Development Strategy, whose main focus was outlining financial and non-financial support mechanisms, lessening regulatory and compliance burden, and opening markets and stimulating demand for products and services (dti, 2005:46).

In order to implement this strategy, the government established various institutions as its delivery channels (dti, 2005:5):

- The Small Enterprise Development Agency (SEDA) was mandated to develop and coordinate an effective national network to support SMMEs and integrate all state-funded SMME non-financial support;
- The Small Enterprise Finance Agency (SEFA) was mandated to provide financial support services of up to R5 million to SMMEs across the country;
- The National Youth Development Agency (NYDA) was established to assist young entrepreneurs (18 to 35 years old) with either start-up or expansion capital;
- The Technology and Innovation Agency was formed to provide financial support to innovative technology-driven ventures, including providing support to improve the global competitiveness of South African businesses;
- The National Empowerment Fund (NEF) was established to focus on addressing historical racial imbalances by providing finance necessary to enable Black entrepreneurs to enter the mainstream economy;
- The Industrial Development Corporation (IDC), a national development finance institution, was established in 1940 to promote economic growth and industrial development;
- The Department of Trade and Industry (dti) was established to facilitate the transformation of the economy and promote industrial development, investment, competitiveness and employment creation by building mutually beneficial regional and global relations;
- The Department of Economic Development and Tourism (DEDAT) was established to create opportunities for businesses and citizens to grow the economy and employment; and
- The Department of Small Business Development (DSBD) was established in 2014 to coordinate and promote the establishment and development of sustainable and competitive entrepreneurs, small businesses and co-operatives, thereby meaningfully contributing to job creation and economic growth.

Table 3-1 shows the effectiveness of government agencies in assisting small businesses in South Africa in 2019 (as a percentage of the adult population).

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**Table 3-1: Effectiveness of government agencies in assisting South African SMEs in 2019**

Agency	Used		Effectiveness				
	Yes (%)	No (%)	Completely ineffective (%)	Somewhat ineffective (%)	Average (%)	Somewhat effective (%)	Very effective (%)
<b>NYDA</b>	20,1	79,9	20,6	6,9	32,9	10,6	28,9
<b>SEFA</b>	22,0	78,0	17,9	10,5	24,7	23,2	23,7
<b>SEDA</b>	21,4	79,3	19,5	15,2	21,0	11,6	32,7
<b>IDC</b>	18,1	81,9	15,2	19,2	25,6	13,2	26,8
<b>TIA</b>	20,8	79,2	16,7	13,6	31,6	13,1	25,0
<b>NEF</b>	17,7	82,3	11,4	22,1	33,0	17,4	16,1
<b>dti</b>	20,7	79,3	10,2	8,3	31,0	7,6	42,9
<b>DEDAT</b>	16,1	83,9	12,5	23,2	20,2	1,4	42,7
<b>Other</b>	39,8	60,2	20,0	0,0	36,4	11,4	32,2

Source: GEM (2020)

Note: The DSBD is not included in the table above as SEDA and SEFA are its service delivery agencies

Over the last 13 years, South Africa has been battling extremely high poverty levels, stubborn income disparity and unemployment. In order to deal with these challenges, the government has to make a strong commitment to putting various measures and programmes in place to grow the economy. The starting point is, therefore, to develop and/or implement policies and programmes that are geared towards SMME growth (GEM, 2020:1).

### **3.2.2 Policy framework**

An SMME policy framework is a government's policy instrument to deliver interventions that support SMMEs. SMMEs are seen as a vehicle to promote job creation, thereby improving economic redistribution and enhancing competitiveness, and the needs of the SMME economy set the context for an infrastructure of institutional and policy support (Rogerson, 2015:175). Based on these principles, the government's policy approach towards SMME development focusses on identifying bottlenecks hindering SMME participation in the economy and developing interventions to address them. These interventions cover six broad

themes (Rogerson, 2015:174):

- Accessing finance and credit;
- Improving business infrastructure and service provision;
- Skills development and training;
- Addressing biases made by metropolitan land markets and a divided spatial economy;
- Reducing obstructions to passage for new contestants emerging from the over-absorption of economic activity by a minority of large organisations and state-owned enterprises; and
- Advancing linkages between the value chains of big entities and SMMEs, using preferential business procurement to create subcontracting opportunities.

When considering this institutional environment, it is important to consider all aspects thereof that may affect SMMEs. Amongst these additional considerations is the effectiveness of government agencies and departments in their interactions with SMMEs. One measure of the effectiveness of these interactions is government responsiveness. With regard to SMME development policies in South Africa, the government considers promoting SMMEs to be a shared task, involving a wide range of different national and provincial departments, municipalities, non-governmental organisations and the private sector (dti, 2005:56).

Therefore, SMME policies are designed to fit within the national policy ecosystem, taking into account the broader policy environment.

In particular, South Africa's SMME policy environment has been informed by the macro-economic policies listed below:

- National Strategy for the Development and Promotion of Franchising in South Africa (released in 2000);
- The Microeconomic Reform Strategy (released in 2002);
- The Broad-Based Black Economic Empowerment (BBBEE) Act 53 of 2003;
- The Accelerated and Shared Growth Initiative for South Africa (released in 2006);

- Industrial Policy Action Plan (released in 2007);
- The National Industrial Policy Framework (released in 2007);
- The New Growth Path (released in 2010); and
- The National Development Plan (NDP) 2030 (released in 2011).

Table 3-2 outlines the most prominent policies and acts for each policy category.

Table 3-2: Prominent policies and acts for each policy category

Foundational Policies	Sector-Based Policies	Programmatic Incentive Schemes
The National Strategy on the Development and Promotion of Small Business in South Africa (1995)	Co-operative Development Policy (2004)	The Black Business Supplier Development Programme (2002)
National Small Business Act 102 of 1996 (revised 2004)	Co-operatives Act (No. 14 of 2005)	The Co-operative Incentive Programme (2004/2005)
Integrated Small Business Development Strategy (2004–2014)	Integrated Strategy on the Development and Promotion of Co-operatives (2012)	The Amended Black Business Supplier Development Programme (2010)
The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005)	National Informal Business Upliftment Strategy (2014)	The Informal and Micro Enterprise Development Programme (2014)
	Youth Enterprise Development Strategy 2013-2023 (2014)	The Shared Economic Infrastructure Facility (2016)

Source: DSBD (2016:24)

Foundational policies define the structure of the SMME support ecosystem by setting the outcomes for the SMME sector (such as job creation, economic activity and poverty alleviation), defining interventions (such as scope, approach and delivery mechanisms) and assigning institutions responsible for implementing these interventions. Sector-based strategies take into account the specific requirements of different sectors and size categories within the SMME space. These focus primarily on co-operatives and vulnerable groups within the SMME context. These strategies apply the same principles as foundational policies but attempt to refine the

principles to the specific sector in which they apply. Programmatic incentive schemes are designed based on sector-based policies and have a tightly defined scope (DSBD, 2016:25).

Figure 3-1 reflects the rating of aspects of the government’s entrepreneurial support policies.

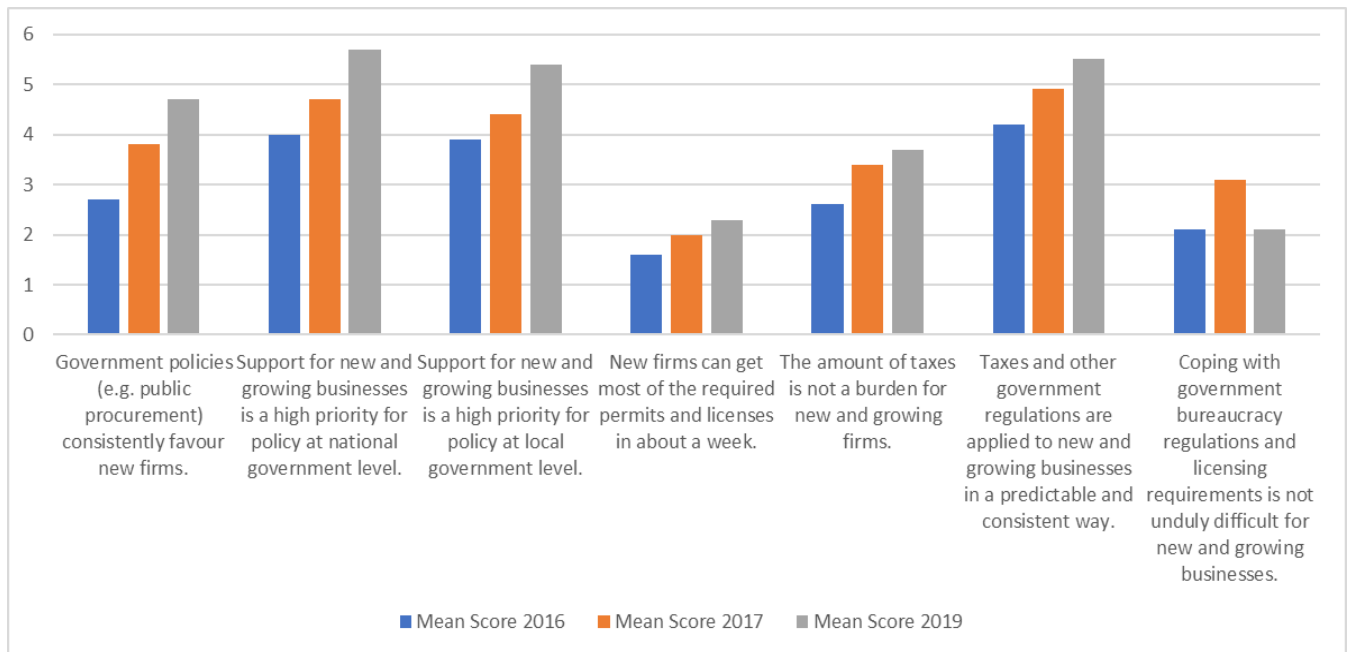
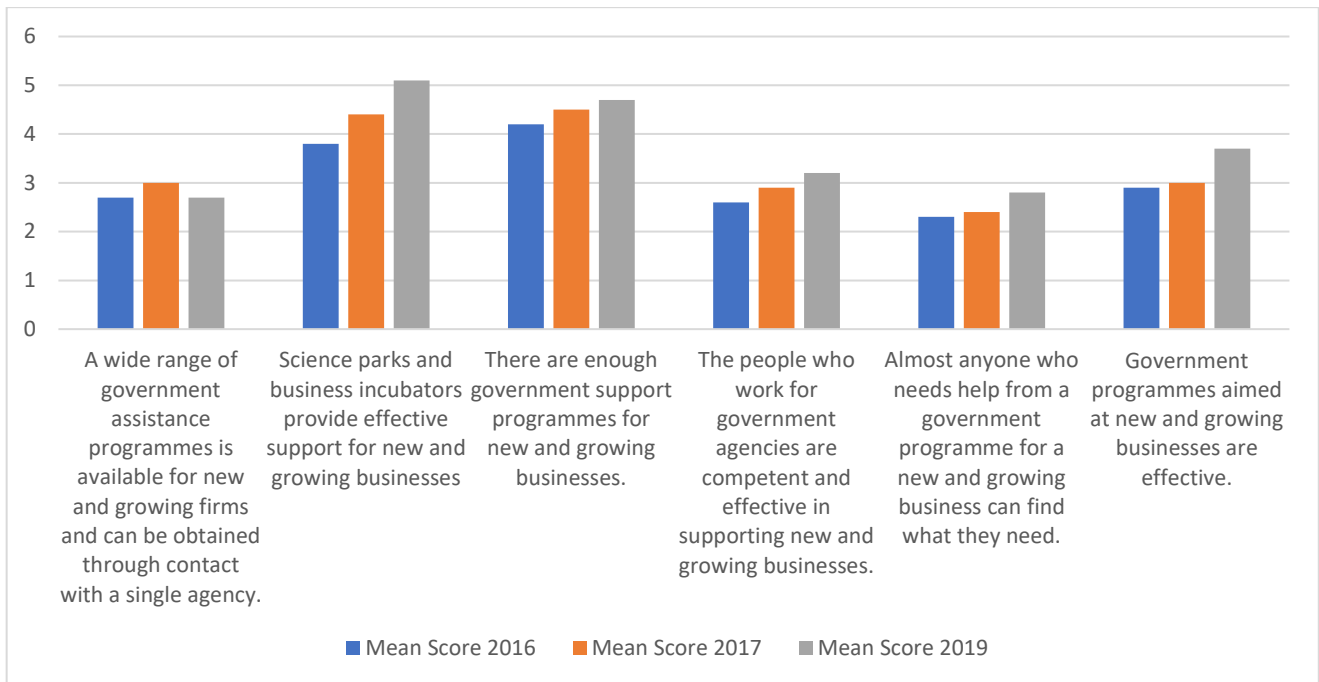


Figure 3-1: Rating of aspects of the government’s entrepreneurial support policies in 2016–2019 (weighted average: 0 = highly insufficient, 10 = highly sufficient)

Source: GEM (2020)

Figure 3-2 below reflects the rating of aspects of the government’s entrepreneurial support policies.



**Figure 3-2: Ratings of seven aspects of government programmes in 2016–2019 (weighted average: 0 = highly insufficient, 10 = highly sufficient)**

Source: GEM (2020)

Although there is a general consensus in many developing countries that small businesses are the biggest contributors to job creation and the reduction of income disparity amongst citizens, some research does not support this theory, as demonstrated in Table 3-3 and Table 3-4 below (Small Business Institute, 2019:3). However, in most developing countries, most SMME development initiatives are focussed on developing start-up businesses, thereby increasing the number of SMMEs when the real potential is evident in certain types of entities that already exist: the gazelles (OECD, 2017:5). Their innovation first leads to the creation of new technologies that catapult their growth and that of their industry, then to a general improvement in the quality of goods and services and finally, increased demand for goods and services, leading to new jobs. These entities are globally competitive and can spot opportunities in their respective industries and contribute to building sustainable industries and economies (OECD, 2017:15). The latest number of companies in South Africa is demonstrated in Table 3-3 (Small Business Institute, 2019:3).

**Table 3-3: Number of companies in South Africa**

Number of companies: Measured by size of firm											
Classification	2011	% Change	2012	% Change	2013	% Change	2014	% Change	2015	% Change	2016
Micro	169 986	0,3%	170 509	0,3%	171 060	1,3%	173 267	1,2%	175 264	0,6%	176 333
Small	63 864	1,6%	64 876	3,1%	66 876	0,4%	67 137	1,3%	67 977	0,8%	68 494
Medium	15 257	3,3%	15 753	4,4%	16 442	2,1%	16 790	2,4%	17 197	1,2%	17 397
Large	5 144	3,1%	5 304	4,0%	5 517	1,6%	5 603	2,0%	5 713	0,4%	5 735

Source: SBI Report 2019

**Table 3-4: Employment numbers in South Africa**

Employment figures: measured by size of firm											
Classification	2011	% Change	2012	% Change	2013	% Change	2014	% Change	2015	% Change	2016
Micro	658 333	1,2%	666 078	0,7%	670 906	1,2%	678 680	1,0%	685 544	0,0%	685 264
Small	1 434 918	1,6%	1 457 779	2,6%	1 495 092	1,6%	1 518 610	1,2%	1 537 180	0,8%	1 549 411
Medium	1 426 006	2,6%	1 463 427	5,1%	1 537 806	2,0%	1 568 034	3,0%	1 615 652	0,8%	1 628 429
Large	8 453 986	3,5%	8 747 449	5,4%	9 223 595	3,5%	9 543 214	2,6%	9 790 224	-0,9%	9 702 416

Source: SBI Report 2019

It should be noted that while formal SMMEs in South Africa constitute over 98% of total companies in the economy, they contribute just over 28% to formal jobs. According to international standards and trends, this figure should be between 60% and 70% (Small Business Institute, 2019:3).

Given South Africa's level of development, it is expected that a higher proportion of South African entrepreneurs would have higher levels of technology orientation. Contributing factors to the lower levels of technology orientation include the high cost of technology and low levels of science and technology skills amongst the majority of South Africans. Table 3-5 shows the level of access to information and communications technology (ICT) in households in South Africa. The decrease in the number of desktops and laptops is due to an increase in smartphones.

**Table 3-5: ICT access in South Africa**

	2008	2012	2017
Household with fixed landline	18%	18%	8%
Household with a television	71%	78%	80%
Household with radio	78%	62%	68%
Household with desktop	14%	24%	9%
Household with laptop	14%	24%	17%
Household with tablet	5%	20%	15%
Household with Internet	5%	20%	11%

Source: RIA ICT Access and Use Surveys (2017)

The 2019 OECD review acknowledges that even in the more developed economies, SMEs face ongoing challenges as they establish a heterogeneous populace with contrasts and are impacted by the economy's size, market designs, organisations and guidelines, overarching business climate and different variables (OECD, 2019:3).

### 3.3 IMPORTANCE OF KNOWLEDGE OF THE SME POLICY FRAMEWORK

SME policy can support business performance by encouraging a unique business climate that encourages business venture and empowers entities, all things considered, to arrive at their maximum capacity (Inter-American Development Bank, 2016:3). Policies directed at SME growth must be viable against the setting of sound system conditions as SMEs are more dependent than larger entities on their business ecosystems (OECD, 2018:16). Due to their internal constraints, SMEs are more vulnerable to market failures, policy inefficiencies and inconsistencies which may arise as a result of the interaction of regulatory and policy approaches across different areas (Calvino, Criscuolo, & Menon, 2016:8). Even though regulation is a catalyst in providing stable trading conditions and developing levels of business trust which benefit SME development, lack of access to information puts SMEs at a disadvantage compared to larger entities that have resources (Akinboade & Kinpack, 2012:940).

Cases of successful SME development in the West show that government policy was a key determining factor (Kauffmann, 2006:14). In contrast to the case of Western economies, SMEs across Africa fail mainly because of inadequate growth-oriented SME policies (El Kalak & Hudson, 2016:135-145). Countries require the process of evaluation that reveals the results of the investment they have committed to improving regulatory outcomes (OECD, 2014:17). Policy evaluation is thus an integral part of the policy implementation process which shows whether or not the desired outcome for which the policy was designed has been achieved (Storey, 2008:1).

Due to their limited size, many SMEs have difficulty accessing capabilities and resources that would make them more productive, including talented individuals who can take advantage of the SME policy framework available to them. As policymakers provide a conducive environment by developing policies aimed at fostering growth and development of SMEs, it is important that entrepreneurs understand the SME policy framework as it has a direct impact on their business performance. SMEs that do not understand the SME policy framework will always be at a disadvantage as they cannot fully capitalise on the favourable trading environment made available by their governments.

This study will assist policymakers to gauge high-growth entities' level of knowledge of small business. This is important as, more often than not, policies do not fail because they are bad but because they are not correctly implemented. Either the beneficiaries of those policy interventions do not understand the government's objectives, or the government does not present interventions that beneficiaries need. It can be ascertained from the research findings that the support needed by HGEs to scale up their business is different from the support needed by small business in general, as outlined by Moos's (2014) research report. The researcher hopes that the research findings will enable policymakers to give disaggregate support to SMMEs and design specialists support for each phase of business growth.

In South Africa, the various elements of the entrepreneurial ecosystems are well developed. Unfortunately, these elements work in silos and do not work together to form a well-coordinated ecosystem. As will be seen from this study, effective ecosystems are dynamic and evolve; thus, in the beginning, the focus should be on start-ups and then evolve to more



complex support as the ecosystem matures, for example, human resource development, internationalisation and access to growth capital. This study has demonstrated that the South African ecosystem also needs to provide growth-oriented support to SMEs.

Monitoring and evaluation are necessary to establish whether SME and entrepreneurship policies are successful in meeting their objectives and to identify how they can be improved. Evaluation needs to be robust and systematic, making use of control groups and allowing comparison across programmes (OECD, 2007). Paragraph 3.4 below provides factors to be considered when evaluating a policy framework.

### **3.4 EVALUATION OF THE SME POLICY FRAMEWORK**

The OECD (2007) asserts that an evaluation of the SME policy framework is an integral part of the policy implementation process and is undertaken for the following reasons:

- To establish the impact of policies and programmes;
- To make informed decisions about the allocation of funds;
- To show the taxpayer and business community whether the programme is a cost-effective use of public funds;
- To stimulate informed debate; and
- To achieve continued improvements in the design and administration of programmes.

The bedrock of good evaluation comprises:

- The programme has to have clearly specified objectives from which it is possible to determine whether or not it succeeded;
- The evaluation has to be set in progress and data collection begun as, or even before, the programme is implemented; and
- The evaluation has to lead to policy change.

## **3.5 SMME GROWTH CONSTRAINTS IN SOUTH AFRICA**

### **3.5.1 Background**

Despite various policies and programmes aimed at stimulating economic growth, the current environment remains difficult and risky, and the failure rate remains stubbornly high. In its 2013 year-end report, the dti acknowledged that the failure rate amongst start-up businesses in South Africa is high (dti, 2013) — 70% fail within the first year (OECD, 2020:3), whereas in the USA only about 30% of small businesses close down within the first two years of establishment (Munjeyi, 2017:134).

Despite this high failure rate, South Africa's business environment has shown positive results in other areas. In 2014, the World Bank ranked South Africa 41st (out of 189 countries) for ease of doing business and 64th for the length of time it takes to start a business (World Bank, 2014:32). While this rating is lower than that of most Group 8 nations, South Africa's ranking is higher than that of most economies in the African region and its performance better than most developing countries. South Africa continues to look for ways to simplify its business environment, and in 2013, a customs modernisation programme was introduced. This has reduced the time and documents required for imports and exports. In 2014, a dividend tax regime was introduced, replacing the secondary tax on companies and making it easier for them to pay taxes (Parliamentary Liaison, 2014:3).

Though various mechanisms have been introduced to ease doing business in South Africa, research shows that 71% of entrepreneurs believe that the business environment remains difficult and unfavourable to their operations, while only 9% acknowledge the improvements (SBP Research, 2014:16). Most entrepreneurs cite the following factors as growth constraints: difficult local economic conditions, lack of skilled labour, highly regulated labour environment, lack of capital finance, red tape and regulatory burden (SBP Research, 2014:58).

### **3.5.2 The National Development Plan 2030 and future goals**

The Government of South Africa has laid out the NDP 2030, which sets out a very aggressive economic growth strategy. One of the goals of the NDP is to reduce unemployment to 6% by

2030. SMMEs are important for employment creation, but this target cannot be met with such low levels of SMME growth. In order to reduce the high unemployment rate, South Africa needs to achieve a real annual GDP rate of 5,3% and generate 11 million new jobs by 2030 (National Development Plan, 2014:29). South Africa achieved a GDP growth rate of 0,8% in 2018, and the International Monetary Fund predicted a growth rate of 0,9% for 2019 (Stats SA, 2020).

With low economic growth and high unemployment levels of 30,8%, SMME development is crucial for rejuvenating the economy and for job creation. With a high SMME failure rate of 70% in the first 12 months, South Africa must focus on policies and support that foster growth within the current cohort of SMMEs rather than starting new ones (Stats SA, 2020). At current growth rates, the NDP target appears unrealistic, given that South Africa's TEA index is declining. In addition, most developing countries' early-stage entrepreneurial rate is double that of South Africa. Another challenge with the targets and proposals set out in the NDP is that they are outlined at a high level, and no specific proposals and recommendation on how to achieve these targets are outlined. The NDP sets out a greater need for access to finance, reduction in the regulatory burden and improvement of the skills base; it, however, does not go far enough to suggest what specific initiatives need to be undertaken for this to happen. For South Africa to increase its SMME development outcomes, it has to learn from better-performing countries.

### **3.6 WHAT OTHER COUNTRIES ARE DOING TO FOSTER SMME DEVELOPMENT**

#### **3.6.1 *The USA***

Birch (1979) was the first economist to argue that high-growth SMMEs are a key driver of employment creation in the USA. During a period of 15 years, which ended in 2011, small entities—defined as businesses that employ fewer than 500 people—in the USA created 64% (11,8 million) new jobs in real terms (Small Business Administration, 2012:1).

The American Government has long realised the importance of SMME development and in 1953, their Small Business Administration (SBA) was formed and mandated to nurture the growth and development of small businesses by providing both financial and non-financial support. The SBA has undertaken various initiatives to foster SMME development by reducing

the bureaucratic burden on SMMEs, increasing access to finance, simplifying application procedures and improving access to information and education for entrepreneurs (Parliamentary Liaison, 2014:4). Despite the SBA's SMME support policies having been in existence for an exceptionally long time and having proved successful in the USA, they may not apply to the South African environment, given the diverse economic and social conditions of both countries. For example, entities defined as SMMEs in the USA are considered large entities in South Africa. However, developing economies like Chile and Mexico better compare to South Africa as they all fall within the BRICS bloc of countries, and most of these countries have taken active steps to increase support for SMMEs.

### **3.6.2 India**

India has robust policies and programmes to encourage its growth and development, and SMME's contribution to economic growth is significant. The SMME sector in India is responsible for 69 million jobs across all industries and has made a stable annual contribution of 11,5% to the GDP, far above the country's GDP growth of 8% (IFC, 2013:96). In 1999, the Ministry of Small-Scale Industries was established, and in 2007, the Ministry of Small Medium and Micro Enterprises was established to expand SMME support.

In 2006, the Micro, Small and Medium Enterprises Development Act was enacted, which empowers governments of the various states to promote the development of SMMEs in their respective jurisdictions, while the national government plays a monitoring and supporting role to the various states. Specific programmes to support SMMEs include ensuring sufficient access to finance, supporting new technologies and enhancing access to information and educational opportunities for business entrepreneurs and their employees. In spite of all these efforts, there is still room for improvement as 40% to 70% of SMME demand for financing remains unmet. This gap is ascribed to both the demand and supply side of finance. India has complicated and onerous legal structures that are difficult to understand, and the supply gap is due to limited investment funds dedicated to SMME funding (IFC, 2013:87). This requires holistic fiscal support and enabling policies to foster SMME growth and development.

### **3.6.3 Brazil**

In order to revive its SMME sector, Brazil passed legislation in 1999 that improved access to capital, removed the regulatory burden on exports and facilitated the easier payment of taxes. Since then, the Brazilian government has introduced various policies and programmes that help create an SMME-friendly environment, including offering reduced tax rates for SMMEs (5% per annum) (World Bank, 2014:4).

In addition, the National Incubation Support Programme was introduced as a means to increase incubation facilities for early-stage businesses. These incubators provide financial and non-financial support, including financial, legal, strategic, and mentorship and coaching support. This programme is a vehicle that coordinates the support of various government agencies focussed on SMME support and improves efficiencies and financial institutional frameworks for SMMEs (EY G20, 2013:22).

The streamlined SMME entrepreneurial ecosystem in Brazil shows good results as the SMME sector constitutes 98% of all formal entities in the country and is responsible for 54% of formal jobs (United Nations, 2020:2). The 2014 GEM study found that entrepreneurship is highly valued, and most people (80%) aspire to start their own businesses. This desire is ranked third, where the first is the desire for residential property ownership and second, the desire to travel (Leme, 2014). This is a commendable achievement given that the business atmosphere in Brazil still needs substantial improvement. In 2014, Brazil ranked 134th out of 189 countries for business friendliness, 109th for access to funding and 159th for ease of paying taxes (World Bank, 2014:32).

### **3.6.4 SME high-growth acceleration programmes of various countries**

Table 3-6 outlines the various countries' programmes targeted at identifying and accelerating HGEs.

**Table 3-6: Country programmes targeted at identifying and accelerating HGEs**

<b>Country</b>	<b>Programme Name</b>	<b>Selection Criteria</b>
Denmark	Growth Houses	The five regional Growth Houses have a nationwide outreach and target new and small businesses with growth ambitions and growth potential. A growth start-up is defined as a business that is maximum five years old and through the first two years employs minimum five employees.
Scotland	Scale-up	This is an 18-month cohort-based programme aimed at entities with annual revenues over £1 million, with the potential to grow sales beyond £20 million to £30 million. Entities must have a minimum of 10 employees, excluding the founder.
The Netherlands	Growth Accelerator	The programme targets entities with an annual turnover of between €3 million and €5 million to reach an annual turnover of €20 million within five years.
Belgium	Flanders Gazelle Jump	Target entities must have a turnover of between €1 million to €8 million and must demonstrate the potential to reach an annual turnover of €20 million in five years.
Germany	High-tech Grunderfonds	The programme targets high-tech start-ups from the fields of digital tech, industrial technology, life sciences, chemistry or a related business area. The company must not be older than three years (since commercial registration) and must not have received more than €500,000 in equity capital, silent partnerships or convertible loans from other investors.
Australia	Commercialisation Australia	The target company must have no less than \$20 million turnover for each of the three preceding financial years. In addition, it must have ownership, access or beneficial use of any intellectual property one needs to undertake the commercialisation project and provide evidence of the ability to fund at least 50% of the eligible project expenditure

Country	Programme Name	Selection Criteria
England	Growth Accelerator	The target company must have no fewer than 250 employees with a turnover of less than £40 million. The company must have consistent and proven high-growth performance or, if a start-up, demonstrate high growth potential (projecting a 20% turnover growth year on year or, if a start-up, aiming for a £1 million turnover within three years).

Source: Researchers' compilation

As can be seen from Table 3-6, the selection criteria to participate in the high-growth programme varies from country to country, and the structure and kind of support provided differs from programme to programme. In South Africa, HGEs are entities that have a turnover of R1 million, have been in existence for at least two years and have achieved 20% turnover growth for the last two years. The criteria are determined by various factors, including the stage of development of each economy, citizens' perceptions of entrepreneurship, ease of doing business, the state of entrepreneurship and the SME regulatory framework.

### 3.7 SMME CONSTRAINTS IN SOUTH AFRICA

One of the biggest challenges that one faces when trying to track the growth and overall performance of SMMEs in South Africa is that, unlike in most emerging economies, South Africa does not conduct regular censuses or surveys that track SMME performance, and there is no agency or department tasked with this function. The lack of reliable statistics on SMME performance has resulted in widespread estimates on the number of SMMEs and their categorisation and overall contribution to job creation and GDP (Small Business Institute, 2019:6).

There are several reasons why SMME growth in South Africa is hampered, and concerted efforts need to be made to address them if the country is to achieve its NDP goals. The majority of these factors fall under the ambit of the DSBD while some remain other government

departments' responsibility; however, there is a general view that SMME development is the domain and responsibility of the DSBD alone. As SMME development cuts across all spheres of the government and the private sector, the researcher hypothesises that the DSBD should play a coordinating role. The major challenges that stifle SMME development in South Africa are given below.

### **3.7.1 Excessive complexity**

The current SMME landscape and general business environment are complex and difficult to traverse. The DSBD is mistakenly seen by most as the panacea for all SMME problems in the country. If this notion is allowed to persist, the coordinating role of the DSBD is not properly explained, and the DSBD does not coordinate well with provincial departments and agencies tasked with SMME support, it could spell disaster for SMMEs as they would not know whom to approach for help (Parliamentary Liaison, 2014:6).

There are various stakeholders from both the private and public sector that promote entrepreneurship development in South Africa. For example, the dti, SEDA and First National Bank-Endeavor provide non-financial support; SEFA, NEF and Business Partners offer financial and non-financial support, and institutions of higher learning such as the Universities of Cape Town, Witwatersrand and Pretoria offer skills. These institutions are all part of the ecosystem that fosters the growth and development of SMMEs (First National Bank & Endeavor South Africa, 2012:3). While South Africa is fortunate to have many stakeholders involved in the entrepreneurial ecosystem, it lacks the coordination and ability to scale up these partnerships (Blecher, 2019). This fractured approach does not bode well for SMME development, and efforts should be made to coordinate these support structures. Properly structured and capacitated, the DSBD could play the critical role of coordinating all the SMME stakeholders, thereby making it easier for SMMEs to access the much-needed support.



### **3.7.2 Early-stage support**

Research shows that in South Africa, approximately 70%-80% of SMMEs do not survive the first year of operation (OECD, 2020:3). This is a powerful signal that current SMME support programmes are not effective, and more needs to be done to support more early-stage businesses (Friedrich, 2016). The Incubation Support Programme (ISP) is one of many programmes undertaken by the government to support early-stage businesses. This programme is a partnership between the government and the private sector and seeks to establish privately managed incubator facilities in identified sectors that provide financial assistance to SMMEs. Programmes of this nature have been implemented successfully in developed countries such as the USA and the United Kingdom.

Business incubation is more successful in instances where there is a symbiotic relationship between the public and private sector to promote entrepreneurship. For the public sector, business incubators help overcome market failures, promote regional and local economic development—generating jobs, revenue and taxes—and serve as a demonstration of the political commitment to developing and supporting small businesses (Khuzwayo, 2015:82).

Many South African business incubators appear to focus on the provision of physical space and hard infrastructure. They neglect the essential soft services, such as training, human development, networking and facilitation, that SMMEs require for growth and development (Khuzwayo, 2015:85).

### **3.7.3 Access to capital**

There is no shortage of financial institutions that offer SMME funding in South Africa, but somehow SMMEs cannot access the funds necessary to finance their growth. More often than not, there is a mismatch between the funding needs and the financial instruments available from the market. Most lenders need collateral in order to finance growth, while SMMEs, in most cases, do not have such collateral (Parliamentary Liaison, 2014:6). SMMEs' inability to generate profits does not inspire confidence from financiers, which leads to more business failures (Bushe, 2019:10). What is required is out-of-the-box thinking on the part of the funders and the provision of bespoke financing arrangements, such as securitisation, invoice

discounting and debtor factoring. Typical reasons for lack of access to finance by SMMEs include lack of adequate collateral, a bad credit record by the entrepreneur, unrealistic business plans, the inability to prove market access and lack of information (IFC, 2016:15).

#### **3.7.4 Education**

South Africa has the most unequal school system in the world and the gap in test scores between the top 20% of schools and the rest is larger than in any other country. Of the 200 African students who start school, only one student has a real chance to perform well enough to study engineering at an institution of higher learning. Ten white children can anticipate a similar outcome (The Economist, 2017).

In a 2018 study conducted by the World Economic Forum, South Africa's maths and science education ranked 128th out of 137 countries in terms of quality, and the country ranked 99th out of 128 countries measured for overall quality of tertiary education (World Economic Forum, 2018:524). This, unfortunately, doesn't bode well for entrepreneurship, as research shows that most sustainable HGEs are founded and managed by entrepreneurs with tertiary education (Mthimkhulu & Aziakpono, 2016:72). Entrepreneurial education, coaching and mentorship enhance the qualities and competencies necessary for students to spot opportunities and conceptualise a business venture with a reasonable chance of success. These attributes are necessary preconditions for entrepreneurial efficacy, as they equip one to be effective as a business person or in multiple portfolios (Quality Assurance Agency for Higher Education, 2012).

#### **3.7.5 Labour legislation**

For economic growth to occur, the conditions must be such that an employee and employer are free to negotiate and conclude fair and reasonable working conditions and compensation. While any country's basic conditions of employment should protect the employees from intimidation and fear of unjust termination, employers should also be entitled to justly terminate employment contracts when a person is no longer performing at the required competency levels or when economic conditions have declined and retrenchment is the only available option to save the entity (Parliamentary Liaison, 2014:10). Employers are also encouraged to provide more

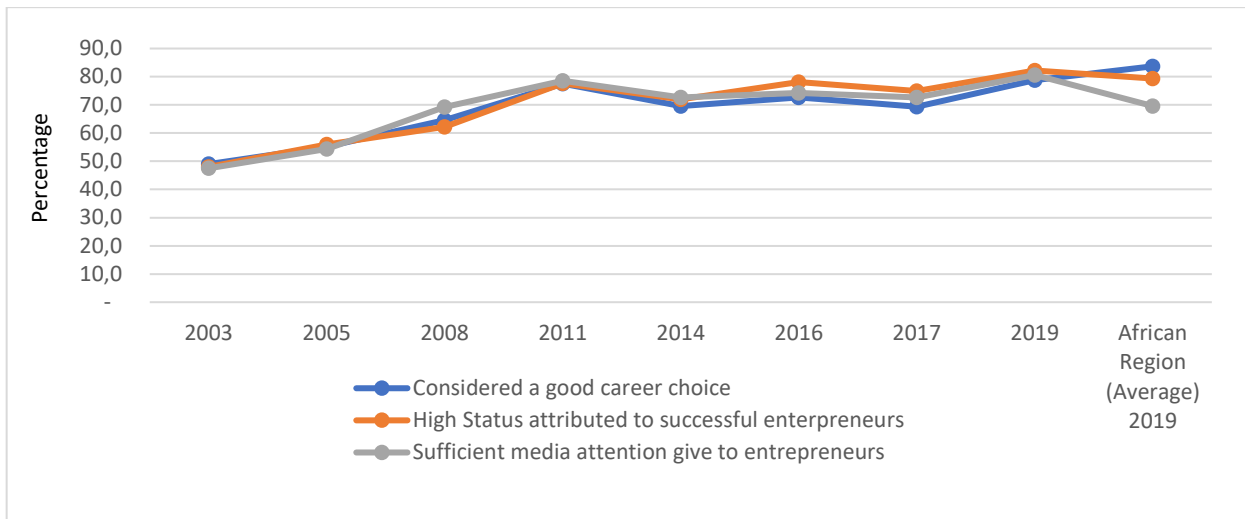
employment when the cost of termination is not prohibitive; this, therefore, calls for a balanced labour regime where the rights of both employee and employer are protected.

The World Economic Forum Report (2018:525) shows that of the 148 countries examined, South Africa ranked 136th in co-operation in labour-employer relations. The unbalanced South African labour regulatory framework (skewed in favour of employees) is a deterrent for labour-intensive business expansion, as SMMEs prefer to quickly automate their processes to avoid the administrative and legal implications that come with employing staff. Credit rating agencies in South Africa have expressed concern about the stringent labour conditions as they constrain business growth. In November 2020, South Africa fell deeper into junk territory after Moody's Investors Service joined Fitch Ratings in lowering the country's credit ratings. Moody's cut the nation's foreign- and local-currency ratings to Ba2, two levels below investment grade, from Ba1 and outlook remained negative. Fitch Ratings cut the nation's foreign- and local-currency ratings to from BB to BB-, three levels below investment grade, also with a negative outlook (Bloomberg, 2020).

### ***3.7.6 Attitudes and perceptions towards entrepreneurship***

The way in which society views entrepreneurs is an important component of creating an environment conducive to their thriving, as it either ignites or dampens peoples' attitudes towards entrepreneurship. In 2019, 78% of individuals surveyed viewed entrepreneurship as a good career choice compared to 69,4% in 2017. Overall, African regions score higher on the social-value dimension, and various factors, including media attention, drive these scores (GEM, 2020:9).

Figure 3-3 depicts social attitudes towards entrepreneurship in South Africa.



**Figure 3-3: Social attitudes towards entrepreneurship in South Africa**

Source: GEM (2020)

South African remains a dual economy, and approximately 33% of working-class citizens are, unfortunately, excluded from participating in the formal economy. Most working-class citizens are historically disadvantaged Black people, and most of them lack critical infrastructure and financial resources, and therefore, their communities lack basic service delivery. The current market structure does not easily allow new entrants and small businesses, as they face structural barriers to market access, contributing to their failure (SAB Foundation & Allan Gray Orbis Foundation, 2017:1). In order for South Africa to grow its economy, there must be increased awareness of available opportunities, especially amongst the previously disadvantaged section of the population (Parliamentary Liaison, 2014:8).

### **3.8 RESEARCHER'S CONTRIBUTION AND RECOMMENDATIONS TO ENHANCE ENTREPRENEURSHIP IN SOUTH AFRICA**

The NDP is markedly clear about the important role that SMMEs play in stimulating the economy. Unfortunately, the current environment is not conducive to SMME development, and the current SMME policy framework is not delivering the desired results and needs reform. The DSBD needs to play its coordinating role and work together with the dti, Department of Higher Education, Research, Science and Technology, Department of Basic Education and provincial

agencies tasked with SMME development. In order to improve SMME performance, the following recommendations are proposed.

### **3.8.1 Reduce complexity**

Although there are various initiatives aimed at SMME development and support, access to these resources is sometimes difficult and complex. The DSBD should work in unison with the above-mentioned departments and present a unified solution to SMMEs. The USA established a 'no wrong door' philosophy whereby all government departments in the economic cluster are tasked with SMME development, ensuring that SMMEs are not turned away unassisted (OECD, 2008).

There appears to be an overlap between the functions of the DSBD and provincial SMME development agencies. This needs to be streamlined to make it easy for SMMEs to access services. If the DSBD plays a coordinating role as suggested, local government agencies can then be empowered to provide the necessary support while the DSBD provides monitoring and evaluation. Co-location by various government agencies supporting SMMEs could also assist with access to SMME-g geared government programmes (Parliamentary Liaison, 2014:9). There appears to be duplication between the provincial and national SMME support agencies, and SMMEs are, at times, confused as to which agency provides which services.

Most businesses find it difficult to navigate the current business and legal framework and incur huge penalties for non-compliance. On average, SMMEs spend approximately 8,3% of their turnover on compliance-related costs, while big businesses spend approximately 0,2%. It is, therefore, critical that the current business environment be simplified and red tape be removed in order for SMMEs to thrive (Human Resources Development Council, 2014:162).

### **3.8.2 Promote entrepreneurship as a career option**

As mentioned in Section 3.7.6, although entrepreneurs show highly positive attitudes towards entrepreneurship, entrepreneurial perceptions are low and declining. In other developing economies, such as Brazil, Mexico, Chile and India, SMEs, specifically high-growth innovative SMEs, drive the country's economies, and unfortunately, this is not happening in South Africa. (Parliamentary Liaison, 2014:8). One of the tragedies in the education sector during South

Africa's shift to democracy was the prioritising of university education and qualifications over other post-matric education paths, resulting in artisan schools closing or merging with technical vocational education and training colleges or universities, creating massive artisan skills shortages. Craftsmanship skills are amongst the most helpful abilities for being self-employed: plumbing, carpentry, culinary etc. The craftsman industry is the second biggest employer in developing economies, only second to agriculture (Unéné, 2018).

For South Africa to grow its SMMEs, it must inculcate an entrepreneurial culture in its citizens, especially the youth. It must capitalise on the existing positive entrepreneurial attitudes, generate excitement in young children and expose them to role models and successful entrepreneurs. Both the government and private sector must thus increase awareness of the entrepreneurial programmes they offer and showcase successful entrepreneurs who are the product of such programmes.

The fact that most South Africans do not perceive entrepreneurship as a successful career does not necessarily mean they do not have creative business ideas that can become successful ventures. They mainly see it as risky, given the current low economic growth and high start-up failure rate. Showcasing success stories will enable potential entrepreneurs to recognise that given the right support, they also have a reasonable chance of creating a successful business venture (Parliamentary Liaison, 2014:8).

### ***3.8.3 Expand incubation and mentorship programmes***

Similar to most incubators around the world, incubators in South Africa offer coaching and mentorship, tax and accounting advice and general business guidance, and help nurture early-stage businesses to attain sustainability. The ISP is a good initiative by the government, but it is primarily focussed on the Gauteng Province. In order to reach more businesses and generate greater impact, it needs to be expanded and implemented in other provinces as well. More sector-focussed incubators would provide greater options for start-ups. The dti should consider expanding the ISP programme by collaborating with more private-sector players and increasing its investment. In line with the much-talked-about revival of the township and rural economy, incubators under the ISP programme should increase their geographic footprint and reach more entrepreneurs in townships and rural areas.

However, the focus should be on scalable early-stage businesses that have the potential for job creation. This model of focussing on incubating HGEs has been very successful in Malaysia, Chile and Brazil (Trade and Industrial Policy Strategies, 2012:9).

Business incubators should stop providing generic interventions that inconvenience SMMEs. They should rather provide interventions that are tailor-made for the different types of SMMEs. Business incubators should provide more marketing or advertising for SMMEs (Khuzwayo, 2015:89).

### **3.8.4 Enhanced financing options**

With regard to access to finance, SMMEs face greater challenges than established entities. They generally have less access to finance due to the high financial costs associated with higher risk premiums (Beck & Demirguc-Kun, 2006:2935). In developing countries, approximately 15% of SMMEs are underfunded, while approximately 70% have not been able to access finance from external funders. The SMME funding gap is approximately \$2 trillion, equivalent to 14% of the total developing economy GDP (Peer, Tony & Robert, 2010:4).

For most entrepreneurs and SMMEs, an adverse credit rating is a major contributing factor to the lack of access to finances as traditional financial institutions, such as banks, generally use entrepreneurs' credit reports to determine the creditworthiness of the business (Beck & Demirguc-Kun, 2006:2931-2943). The World Bank suggests the following ways to improve access to finance for SMMEs: improve borrower identification when it comes to SMMEs, provide lending on the strength of the SMMEs' potential and not necessarily on the entrepreneur's risk profile, facilitate the comprehensive delivery of financial information and adopt credit assessment criteria relevant for SMMEs (World Bank, 2018:8).

It is generally easier for SMMEs to access funding when they can demonstrate access to markets. The current procurement framework (Public Finance Management Act No.1 of 1999 and its regulations) favours established businesses, and SMMEs struggle to compete with these businesses on price. Until this framework is changed in favour of SMMEs and set-asides are put in place for them, coupled with timeous payments and other incentives, the objectives set out in the NDP will not be realised.

### **3.8.5 Labour law reform**

The current rigid labour framework needs to undergo some reform for current SMMEs to attract further investment and for new entities to be developed. The current environment is excessively obstructive to SMME development, favours employees and places heavy financial burdens on the very same SMMEs expected to create jobs. Unless there is a fair balance between employee and employer rights, job creation will continue to suffer. A balanced legislative environment provides security and creates trust for both employer and employee as employees are protected from victimisation and unfair dismissal. Employers can hire based on their business needs and justly terminate employee services when their performance falls below minimum acceptable levels (Faulkner, Loewald, & Makrelov, 2013:1303).

### **3.8.6 Investment in underdeveloped areas**

South Africa is a developing country with 'first-world' infrastructure. The downside, however, is that most of its infrastructure is concentrated in major metropolitan cities such as Cape Town, Johannesburg, Durban and Pretoria. The highest unemployment rates are reported in rural areas, townships and informal settlements, and unfortunately, these areas lack the infrastructure necessary to support business growth. The lack of development and job opportunities in these underdeveloped areas has necessitated the labour force's migration to developed urban centres.

This migration—mainly undertaken by unskilled and semi-skilled labour—has resulted in overpopulation in urban centres, particularly in informal settlements and townships. Due to the workers' low level of skills, they are mainly needed for occasional work that does not translate into long-term jobs. Unfortunately, short-term employment does not lead to real economic development, and the government must invest in resources required for local businesses to thrive. In order for production to increase, leading to local economic development, it needs resources like electricity, machinery, raw material and labour—and these resources are not always present in most parts of the country.



### 3.9 CONCLUSION

The 2020 GEM report findings show that South Africa's performance on key entrepreneurship activity drivers was once again disappointing. In 2019, the country ranked 49th out of 54 economies on GEM's National Entrepreneurship Context Index, 60th out of 141 economies on the Global Competitiveness Index, and 84th out of 190 economies in the *Doing Business 2020* study (World Bank, 2020:4). Unfortunately, South Africa has not shown much progress (and in some instances has regressed) from the 2017 metrics that measure entrepreneurial activity. As can be seen in Figure 4-14, at a GDP growth rate of 0,2% in 2019, South Africa does not feature in the top 10 fastest growing economies in Africa.

If South Africa is to improve its standing on the global stage in so far as economic activity and entrepreneurship are concerned, the country needs to implement measures geared towards improving the effectiveness of its SME development agencies and develop and implement policies geared towards fostering high-growth entrepreneurship. South Africa, through its national and provincial SME development agencies, has provided physical infrastructure and incubation facilities to SMEs. However, the quality of services offered at these facilities is geared towards start-up entities and does not support high-growth entrepreneurship.

In order to address the critical success factors relating to the business environment that small businesses operate in, political, economic, socio-cultural, technological, legal and regulatory environmental are the main aspects of the business environment impinging upon SMEs' success. A further conclusion is that SMEs' success is a multidimensional phenomenon, where both firm-internal and firm-external factors need to be simultaneously optimal (Lampadarios, Kyriakidou, & Smit, 2017:194-232). The current SME framework that seeks to provide support to all SMEs has proved ineffective. It is time that South Africa develops policies geared towards high-growth entrepreneurship.

## 4 CHAPTER 4: CONCEPT OF GROWTH AND DETERMINANTS OF HGEs

### 4.1 THE IMPORTANCE OF ENTREPRENEURSHIP TO ECONOMIC GROWTH

Economic growth literature suggests many factors influence economic growth rates, such as the environment, culture, education system and levels, property rights, saving propensity and mineral deposits (Bleaney & Nishiyama, 2002:54). The importance of entrepreneurship as an economic growth variable had been absent in mainstream (theoretical) economics until the GEM studies recognised its contribution (van Stel, Carree & Thurik, 2005:4). Entrepreneurship activity influences economic growth in many ways. Entrepreneurs:

- Introduce valuable novel ideas and enter markets with new products or production methods (Acs & Audretsch, 2005:1-49);
- Spur productivity by introducing and boosting competition (Nickel, Nicolitsas & Dryden, 1997:789);
- Improve understanding of consumer needs, products and services targeted at specific market segments (Audretsch & Keilbach, 2004:949-959);
- Introduce efficient use of resources within current businesses by challenging current market positions (Fritsch, 2008:1-14);
- Innovate, thereby accelerating the rate of creative destruction (Doran, McCarthy, & O'Connor, 2016:122);
- Create demand for new capital by increasing production capacity, which leads to the mobilisation of idle public savings, value addition and equitable wealth distribution (Sudha, 2015:195); and
- Contribute to large-scale employment (Doran *et al.*, 2016:123).

There is general acceptance by most economists that entrepreneurship is one of the most important contributors to economic development and growth (Ács *et al.*, 2016:40). Despite this widespread acceptance, the difficulties in defining entrepreneurship and measuring the extent of entrepreneurship activities on economic performance obfuscate the measurement of their contribution to economic growth (Carree & Thurik, 2010:561). For a long time, entrepreneurship

has been measured quantitatively using factors such as growth in self-employment or the number of new entities created (Doran, McCarthy & O'Connor, 2016:3). While this approach may be justifiable as an entrepreneur will often start a new business venture, it is not a comprehensive measure for the following reasons (Fritsch, 2008:1-14):

- Entrepreneurship sometimes takes place within an existing business, for example, innovation in production methods and systems—it is not only limited to new start-ups;
- The reasons for starting a new business vary from person to person and are not limited to the need to exploit a new idea; and
- The establishment of new entities as a measure of entrepreneurship may be an overly crude elucidation of entrepreneurship.

The use of a new entity's establishment ratio as a measure of entrepreneurship has been driven by limitations in obtaining the appropriate measure of the business venture at a public level reasonable for econometric examination, which can be used together with a measure of economic growth at a national level (Wong, Ho & Autio, 2005:342). Such measures include GDP, wealth or productivity.

Given the limitations of using a new entity's establishment ratio as a measure for entrepreneurship, a more distinct measure could be a more thorough analysis of the impact of entrepreneurship on economic growth (Doran *et al.*, 2016:121). The GEM introduced the TEA ratio as an alternative to using a new firm's formation as a measure. TEA has been generally accepted and is now commonly used to measure entrepreneurship (Doran, *et al.*, 2016:3). Although TEA is a useful measure, it focussed on the quantity of existing or nascent businesses. Because entrepreneurship is multifaceted and multidimensional, the current measures, such as new venture creation or TEA, do not encapsulate the full impact of entrepreneurship (Doran, McCarthy & O'Connor, 2016:3). The GEM has realised these limitations and has since revised its measurement tools to include entrepreneurial attitudes, activity and aspirations (Bosma, 2013:152).

Entrepreneurial attitudes indicate a society's common outlook or stance towards entrepreneurship. Entrepreneurial activity generally refers to the rate of new venture creation.

Entrepreneurial aspirations are important because they may affect the economic impact of entrepreneurial activities—if realised. These include aspirations related to innovation and business growth (Hessels, van Gelderen & Thurik, 2008:325). The GEM data has gone a long way to plugging the gap by providing a comprehensive definition of entrepreneurship. There is wide acceptance that the new model provides a measure appropriate for analysis (Wong *et al.*, 2005:348). However, despite all these measures, empirical evidence still does not provide conclusive evidence on how entrepreneurship contributes to economic growth. While some enquiries conclude that the impact of entrepreneurial activity on economic growth is greater in more developed countries (Sternberg & Wennekers, 2005:195; van Stel *et al.*, 2005:5), other studies conclude that entrepreneurship does not directly affect economic growth in high-income countries but does so in poor countries (Stam & Van Stel, 2011:7).

A study of individuals in 28 countries found that perceptual variables are important in explaining an individual's decision to become an entrepreneur (Arenius & Minniti, 2005:233-247). This study found that an individual's ability to spot opportunities, determination to succeed, self-worth and ability to learn from others (role models) are valuable for entrepreneurship, which ultimately leads to higher levels of GDP (Arenius & Minniti, 2005:233-247). The results support the view that intangible elements of entrepreneurship matter. Nurturing attitudes that promote alertness to opportunity and self-efficacy are crucial, as is exposure to successful entrepreneurial activity, thus reducing the consequences of entrepreneurial failure (Doran *et al.*, 2018:9). This suggests that culture and institutions matter. The positive correlation between attitudes and economic growth in developed countries (not observed in middle or low-income countries) may be attributed to positive attitudes towards entrepreneurship. Developed countries place more emphasis on entrepreneurship as a means of driving economic growth, and their government agencies provide support to entrepreneurial activities to ensure they succeed (Doran *et al.*, 2018:9). These discoveries uphold past research which recommends that entrepreneurship has a material impact on economic growth (Olaison & Meier Sørensen, 2014:204).

Although there is a general acceptance that entrepreneurship contributes to economic growth, there is a lack of consensus on the impact of various entrepreneurship indicators on GDP. Doran *et al.* (2018:9) opine that entrepreneurial activity that mainly includes indicators of new

venture creation and necessity-based entrepreneurship does not have a positive impact on development in middle or low-income economies. Nevertheless, the literature suggests that entrepreneurial attitudes (perceptions, intentions and role models) positively impact GDP in high-income countries.

These results prove that entrepreneurial variables contribute differently to economic growth in different countries. It is, therefore, important that each country identifies measurement variables that are likely to have a positive contribution to its economic growth. For example, attitudes are a significant and important measurement variable for high-income economies but insignificant in explaining economic growth in middle/low-income economies. Entrepreneurs in developed economies tend to be more internationalised, innovative and growth-focussed than entrepreneurs in developing economies (Doran *et al.*, 2018:8).

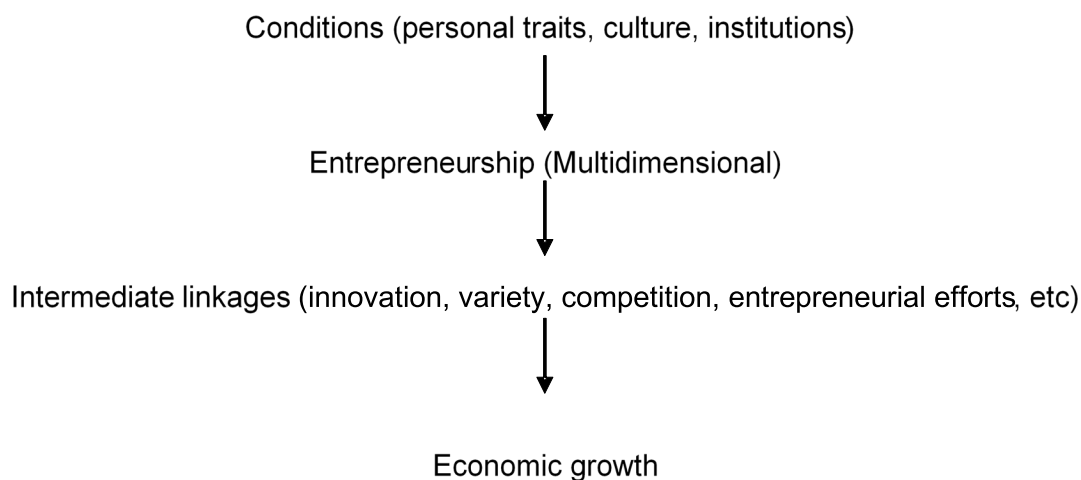
The existing literature highlights the increased prevalence of necessity entrepreneurship in developing economies compared to developed economies (Ács, Desai & Hessels, 2008:219-234). Necessity entrepreneurship, characteristically borne from a lack of alternative employment options, is prevalent in middle and low-income countries (Ács *et al.*, 2008:4). If this is indeed the case, then there is a need to stimulate economic activity in those economies to higher levels, leading to higher levels of entrepreneurship. In most high-income countries, the support given to entrepreneurs is mainly in the form of business development training and education through universities, other training systems and government grants, and through established funding institutions, such as banks and venture capital funds (Doran *et al.*, 2018:6). Most developed countries have shifted their budgets and are spending more on entrepreneurship (specifically, entrepreneurial education and support). The United Kingdom, for example, spends more on entrepreneurial support than on the police force or universities (Storey, 2008:3).

The researcher acknowledges that alleviating poverty and financial and institutional constraints present in developing countries is not easy. However, evidence suggests that it is a necessary challenge to undertake. Entrepreneurial policies and programmes focussed on promoting a new firm's formation (as is mostly the case in developing economies) may not be sufficient to promote growth. There needs to be a policy shift from increasing the number of entrepreneurs to focussing on the quality of the entrepreneurs (for example, growth aspirations). Developing

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economies need programmes that educate individuals about the importance of entrepreneurship and cultivate a positive view of entrepreneurship. This could incorporate strategies that intend to expand openness to innovation and role modelling (for example, networking) and diminish the results of pioneering disappointment (Aligica & Florian, 2008:28-38).

Governments, therefore, need to highlight the role of entrepreneurship and education, including the promotion of entrepreneurial skills and entrepreneurship as a career (Aligica & Florian, 2008:28-38). While entrepreneurial activity is undertaken by individuals, economic growth is measured at firm, regional, industrial and country level. Thus, linking entrepreneurship activity to economic growth means linking individual activity to aggregate levels (Audretsch & Fritsch, 2002:113-124). Figure 4-1 explains how various intermediate variables/linkages influence economic growth.



**Figure 4-1: Entrepreneurship and economic growth**

Source: Wennekers & Thurik (1999:30)

Many scholars generally accept that SMMEs are a foundation of national economic development and the key to growth, dynamics and flexibility, in both the most developed, industrialised countries and emerging markets (Zvonk, Vutika & Divna, 2015:46). Most forms of business in most economies are SMMEs, accounting for 95% to 99% of total businesses

employing between 60% and 70% of the total working population (Zvonk et al., 2015:46). SMMEs potentially constitute the most dynamic entities in the emerging market economies (Pissarides, 1999:521).

Ayyagari, Demirgüç-Kunt and Maksimovic (2011:2) conducted a study on the role played by SMMEs in job creation and found that SMMEs with fewer than 250 employees were the engine of growth in many countries. The National Bureau of Statistics of China shows that SMMEs constituted 99,4% of all entities in China in 2012 and contributed 59% to China's GDP, accounting for 60% of total sales (Wang, 2016:172). In OECD countries, over 99% of businesses are SMMEs, employing 70% of the working population and contributing up to 60% to the GDP. In developing countries, SMMEs constitute up to 45% of total employment and 33% of the GDP (OECD, 2017a:6). South Africa is misaligned with international norms regarding employment creation by SMMEs, raising questions about possible policy and regulatory failure. The Small Business Institute and the Small Business Project conducted a study and found that South Africa has only 250,000 formal SMMEs (significantly lower than the previously indicated figures of two million and six million). These SMMEs account for 98,5% of all businesses yet account for only 28% of employees in formal employment (Small Business Institute, 2019:4).

The NDP projects that SMMEs will contribute 90% to job growth by 2030 (NDP, 2011:95). What is more concerning is that the contribution of South African SMMEs to job growth is declining, resulting in large entities making a much bigger and faster contribution to job growth than small businesses. South Africa's 1 000 biggest employers, including the government, provide 56% of the country's jobs (Vumba, 2019). Table 4-1 below shows SMME contribution to employment and GDP in various African countries.

**Table 4-1: Selected African countries' SMME contributions to employment and GDP**

<b>Countries</b>	<b>Contribution to GDP (%)</b>	<b>Contribution to employment (%)</b>	<b>References</b>
<b>Ethiopia</b>	3,4%	90%	Central Statistics Agency (2003); Gebrehiwot (2006)
<b>Ghana</b>	70%	49%	Ghana Bank Doing Business Report (2013); World Bank (2006); Abor & Quartery (2010)
<b>Kenya</b>	40-50%	80%	Mwarari & Ngugi (2013)
<b>Nigeria</b>	50%	70%	Ariyo 2011; Kolasiński (2012)

Countries	Contribution to GDP (%)	Contribution to employment (%)	References
Rwanda	20,5%	60%	Mukamuganga (2011)
South Africa	52%	28%	Cape Town Graduate School of Business (2017)
Tanzania	60%	20%	Echengreen & Tong 2005; Ngasongwa 2002
Uganda	18%	90%	Uganda Ministry of Trade, Industry and Cooperatives (2015)
Zambia	8%	30%	Mbuta (2007)
Zimbabwe	40%	15%	Katua (2014); Zwinoira (2015)

Source: Researcher's compilation

The SMME contribution correlates strongly with a country's GDP (Ayyagari *et al.*, 2011:3). In countries with healthier and better GDP rates, SMMEs show a greater contribution to the national economy (Harris & Gibson, 2006:39-45). However, this relationship has not been fully identified in developing countries, although it can be derived that in struggling economies, as found in Africa, there are high levels of unemployment, which trigger a large number of informal SMMEs that may insignificantly contribute to the GDP (Kamunge, Njeru & Tirimba, 2014:1-20).

Economic development can only be realised if the right business environment is created. In most developed countries, SMMEs contribute 60% to GDP, whereas in most African countries, SMMEs (mostly informal) contribute only 20% (Fjose, Grunfeld & Green, 2010:1-28). This means that the role of SMMEs in terms of economic development is only realised when a country starts showing signs of developmental growth, indicating that as long as no development agenda has been put in place, the number of SMMEs will not result in economic development (Muriithi, 2017:5).

## 4.2 THE CASE FOR HGES

Birch (1979) was the first economist to bring forth the idea that small businesses create the most new employment. While some new venture creation policies elevated entry, it was soon realised that the formation of new organisations is not useful if they are of low quality (Shane, 2009:52). In 1994, Birch revised his theory, differentiating job-creating entities he called gazelles—entities characterised more by rapid expansion than by size—from other organisations. These high-



growth entities create a significant source of economic growth and prosperity by bringing new products and processes to the market, focussing on production effectiveness while using technology and employing an experienced workforce (Kroslakova *et al.*, 2015:28). This is corroborated by Cirera, Fattal, Jaef and Gonne (2017:2), who confirm that entities that manage to expand at a substantially higher rate than a typical business contribute disproportionately to employment growth.

Even though entrepreneurship has been at the centre of policy development for a long time, the unequivocal concentration on high-growth entrepreneurship business is relatively recent (Shane, 2009:120). In the European Union, the Gazelles Expert Group of the Europe Innova initiative presented its last report in 2008 (Autio & Rannikko, 2016:45). The main policy activities encouraging high-growth new SMEs were introduced in the EU around a similar time, and scholastic work on high-growth SME strategies remains nascent (Mason & Brown, 2013a:211-225). Despite the fact that there is no single meaning of HGEs, their key performance measures are employment creation and turnover growth over a specified period (Audretsch, 2012:4).

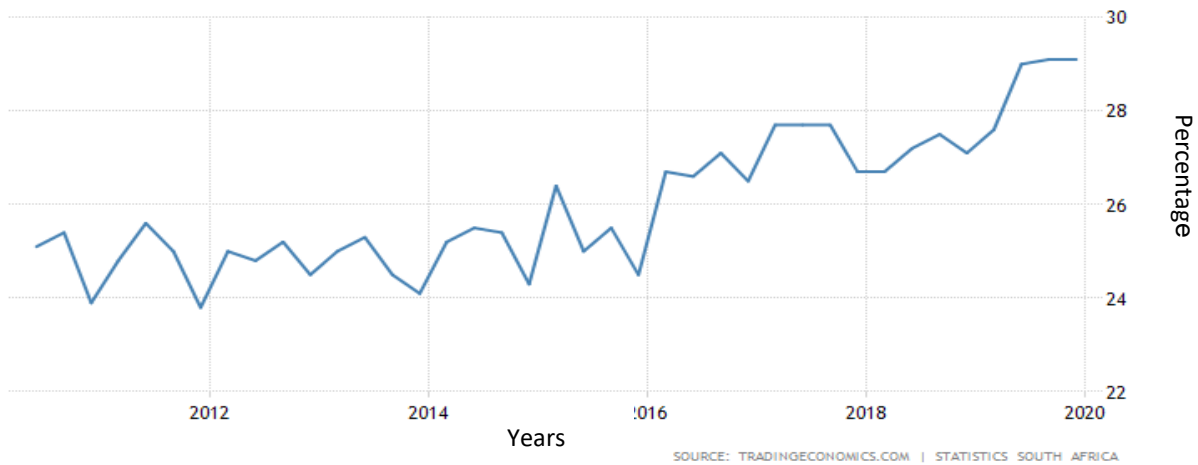
HGEs provide various countries with job creation, knowledge spill-over, economic multipliers, innovation drivers and many other positive externalities (ICF GHK, 2014:64). Henrekson and Johansson (2010:227-244) suggest that a small group of HGEs, not necessarily small in size but relatively young, is critical to economic renewal and the bulk of new jobs.

Employment growth is one of the policymakers' most pressing concerns. Understanding the sources and dynamics of structural job creation, therefore, attracts considerable attention (Cirera *et al.*, 2017:4). In the United Kingdom, for example, half of the new jobs created from 2002 to 2008 were attributable to only 6% of all entities (NESTA, 2009:2). In the USA, 2% to 3% of entities accounted for almost all of the private-sector employment growth between 2002 and 2006 (Acs & Mueller, 2008:85-100). In Sweden, 6% of entities generated 42% of the jobs between 2005 and 2008 (Dunfeldt & Halvarsson, 2015:337-365). While young entities do not necessarily employ the largest number of people, they contribute most of the new jobs across country income groups. Ayyagari *et al.* (2011:5) found that amongst countries with net positive job creation, small entities with fewer than 20 employees generated 45% of the jobs, while these entities contributed 36,54% to job creation in countries that had an aggregate net job loss.

These studies are corroborated by a 2018 study conducted in 11 developing countries which confirms that, just as in high-income countries, high-growth entities—whether defined by absolute growth thresholds or relative top performers and whether using employment or revenue as the main variable of interest—consist a small group of entities (Goswami, Medvedev & Olafsen, 2019:1). These entities ranged between 3% and 20%, similar to the range observed in high-income countries. However, the diversity in size, growth and overall level of development across the developing countries' economies was well above that of the high-income countries. This suggests that high-growth firm incidence may be more akin to a statistical regularity in the distribution of entities' growth rates rather than a function of per capita incomes, sectoral growth rates or a measure of market concentration (Goswami *et al.*, 2019:1).

These findings have proved to be very influential in shaping various government policies aimed at fostering entrepreneurship and employment creation and growth. Growth accelerators and other business incubation initiatives have become the central tenet of economic policies that channel great public-sector support (OECD, 2013b:68).

This has led most governments to realise that not all new entities contribute equally to the economy, bringing high-growth entrepreneurship into sharp focus. This realisation has contributed to an increased interest in policy initiatives specifically targeted at facilitating high-growth entrepreneurial activity (Autio & Rannikko, 2016:42-55). In South Africa, there is continued insistence that SMMEs create jobs. The analysis of tables and figures below show that this is not the case. As illustrated in Table 3-4 and Table 3-4, the number of entities and jobs created has increased since 2011. However, this increase has not impacted the rising unemployment rate, as demonstrated in Figure 4-2.



**Figure 4-2: The unemployment rate in South Africa**

Source: Stats SA (2020)

The probable cause for job creation not catching up with the rising unemployment rate is that the young SMME fatality rate in South Africa is much higher than the rate at which new businesses start, as demonstrated in Table 4-2.

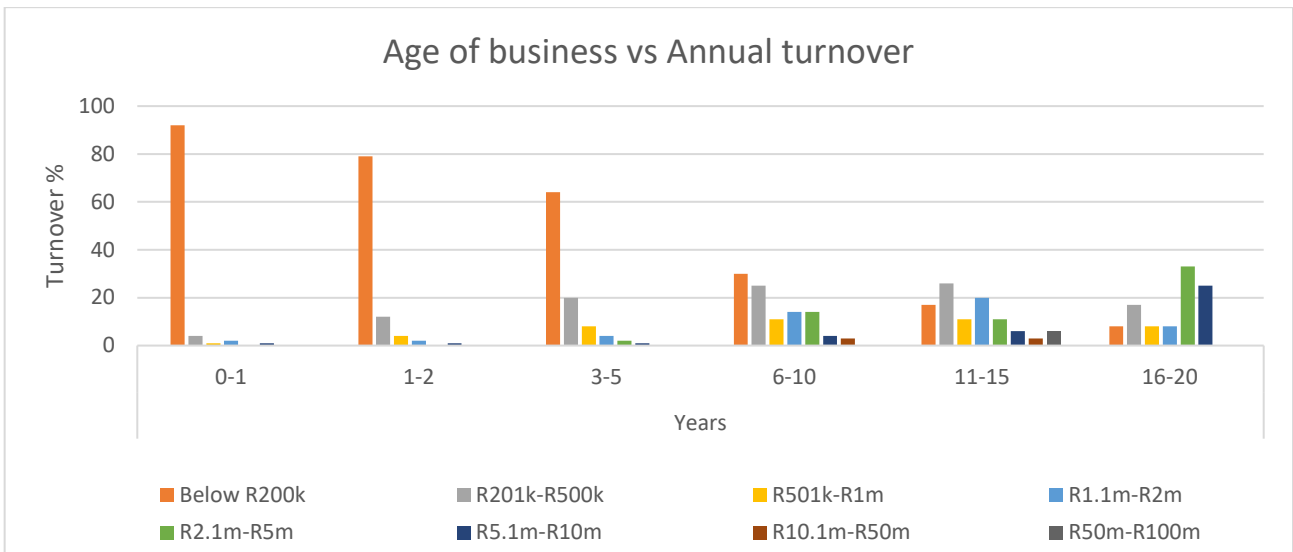
**Table 4-2: Business discontinuance rate**

	2005*	2016
Nascent entrepreneurial rate	3,6	3,9
New business ownership rate	1,7	3,3
Established business ownership rate	1,3	2,5
Business discontinuance	2,9	4,5

Source: GEM (2017:38)

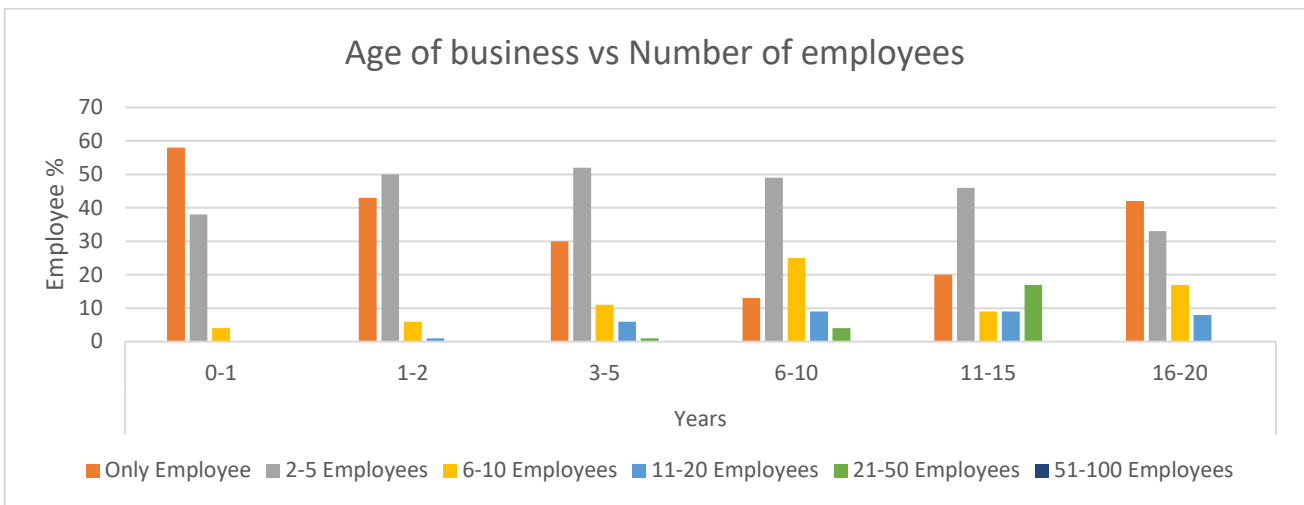
\*2005 was used as no data on business discontinuance was available for 2004.

Figure 4-3 and Figure 4-4 show that the age of the business is intricately linked to its revenue and employee numbers. The potential for job creation increases as a small business matures. This paints a positive picture of SMMEs' role in job creation and demonstrates the importance of ensuring that SMMEs receive the right support early on in their life cycle to quickly mature to a stage where they can significantly contribute to creating jobs.



**Figure 4-3: Age of business vs annual turnover**

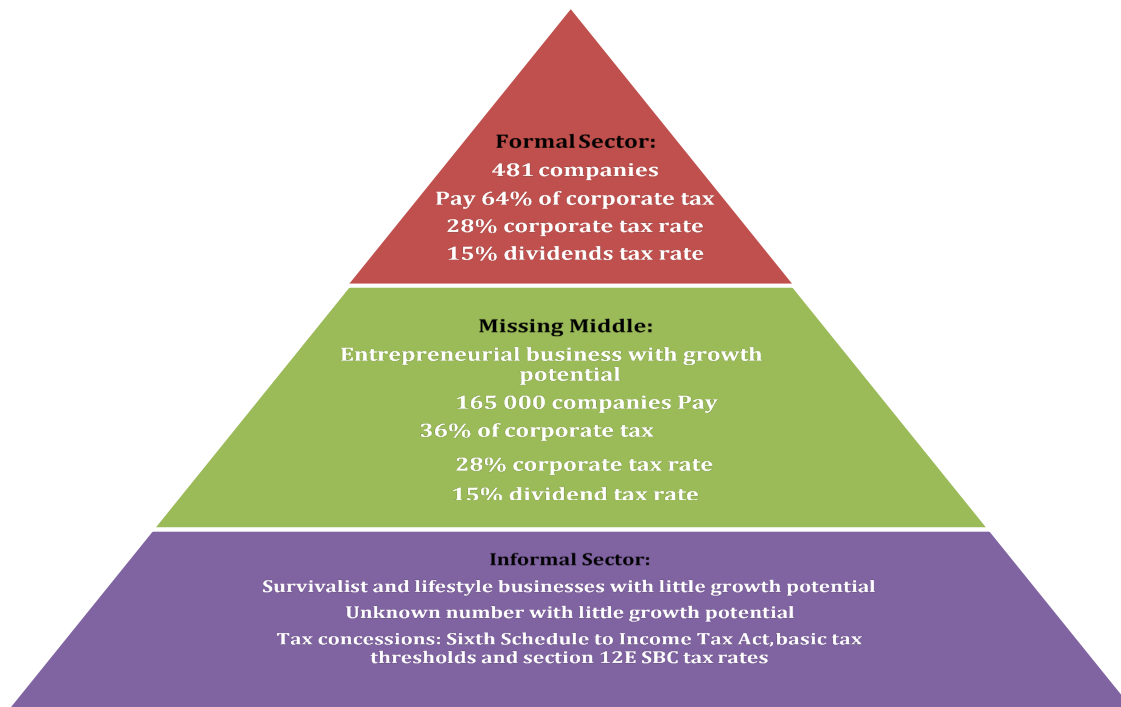
Source: SME South Africa Report (2018)



**Figure 4-4: Age of business vs number of employees**

Source: SME South Africa Report (2018)

The 2014 research undertaken by the South African Revenue Services (SARS) reinforces that South Africa has disturbingly low levels of SMME sector growth, notwithstanding the extensive institutional and organisational infrastructure established by the government for SMME financing and development (Davis Tax Committee, 2014:9). The SARS report refers to this gap as the ‘missing middle’ as illustrated in Figure 4-5.



**Figure 4-5: SARS classification of SMMEs**

Source: Davis Tax Committee (2014:9)

In Figure 4-5, the concept of the missing middle is employed to mean entrepreneurial businesses with growth potential. The very thrust of the NDP (2011) is predicated on the assumption that small and expanding entities must become more prominent and generate the most new jobs. The SARS report concludes that the tax system's focus should be the promotion of SMMEs, which will lead to the realisation of the NDP goal of creating 11 million jobs by 2030. This could be achieved by, amongst other strategies, ensuring the cost of compliance does not retard growth in the SMME sector.

It is evident from Figure 4-5 that SMMEs are in the informal sector with little prospect for growth. In order to increase the tax base, South Africa needs to increase the number of SMEs that have the potential to grow. As demonstrated in Chapter 3, SMEs are unlikely to take advantage of the existing SME framework if they do not understand it.

## 4.3 DEFINING HGES

### 4.3.1 Background

Although the OECD and Birch Index definitions of HGEs are the most commonly used, other scholars have proposed various measures that define HGEs, and as a result, there is presently no single adopted definition used to identify HGEs (Acs & Mueller :2008:85-100). The lack of a common definition hampers the degree to which empirical results in the literature may be compared (Delmar, 1997:16). Furthermore, methodological differences have implications on what policymakers can draw from the research on HGEs (Mamburu, 2017:107).

An analysis of different SMMEs definitions reveals that it is difficult to arrive at a common definition of what an SMME is in the first instance. Depending on the country, industry, business size, assets and products, the definitions will vary. For instance, Canada and the USA define SMEs as businesses with fewer than 500 employees. In Belgium, an SME has a limit of 100 employees, while in Germany, the limit is 250 employees (Katua, 2014:461-472).

For developing countries (the whole of Africa included), a business with more than 100 employees is considered large, while a small business could have one to five employees. The most-used definitions are generally quantitative in nature, focussing mostly on the number of employees, assets, size and revenue. Nevertheless, the most recently agreed definition from numerous research studies defines SMEs as businesses with fewer than 250 employees; very small businesses may have fewer than 50 employees, while micro enterprises have between 5 and 10 employees. It is observed that more than 50% of businesses in low and lower-middle-income countries have fewer than 100 employees (Beck & Cull, 2014:1).

This variation in the definition of SMMEs leads to difficulties in comparing the empirical evidence because the probability of being a fast-growing entity depends on the different definitions (Hoxha, 2013:61). No matter how important young entities are for employment creation, the unavoidable evidence is that not all entrepreneurial entities are high growth as most new entities do not grow, and the death rate amongst entrants is high (Coad *et al.*, 2014:92). Therefore, beyond the essential assertion that HGEs create the most new jobs, an important research

agenda focusses on identifying the intrinsic attributes of businesses that disproportionately contribute to economic growth (Cirera *et al.*, 2017:2).

Various definitions of HGEs were outlined in Table 1-1. These definitions of HGEs can be classified into three broad sets (Goswami *et al.*, 2019:2):

- Firm definitions such as the Birch and OECD definitions. These are the most popular definitions and set a minimum absolute rate and duration for growth;
- Comparative definitions. These categorise HGEs as those in the top percentiles of entities using either revenue or employment growth (Haltiwanger, Jarmin, Kulick & Miranda, 2017:23); and
- The distributional definitions combine certain features of the firm and comparative definitions. Distributional definitions are computationally concentrated and difficult to apply.

#### **4.3.2 Characteristics of HGEs**

The ability of a company to scale up and perform at high levels depends on a variety of factors such as business strategy, internal resources and know-how, leadership and management practices and macro-economic factors such as availability of workforce, market efficiency, capital market presence and efficiency, tax regime, intellectual property and innovation safeguards and the environment (Moreno & Casillas, 2000:7). Fast growth is often a result of establishing a new venture that uses innovations of a technological-marketing nature in seizing market opportunities not identified by the competition and/or an existing company, introducing new strategies, procedures and processes.

Because of their agile nature, HGEs adapt various strategies to survive and scale up. Their most important strategy is the ability to take lessons from the previous growth phase and apply them in the next growth phase. Conversely, the use of an inappropriate strategy mix has proven to be the biggest single barrier to business growth. A study of HGEs in Germany revealed that high-growth entrepreneurs think about growth in the planning stages of their businesses (Dautzenberg, Ehrlinspiel, Gude, Käser-Erdtracht, Till Schultz, Tenoroth, Tscherncke M & Wallau, 2012:9). With regard to growth objectives, all entities in this study indicated that growth was arranged deliberately or firmly connected to their plan of action, including 'organisational

development or withdrawal', since the economic conditions required a certain organisational size for it to be fruitful. The analysis of HGEs shows that their growth does not always occur in a continuous linear fashion; it is characterised by booms and plunges but follows an upward trajectory in the long term (Dautzenberg *et al.*, 2012:12). Results of empirical studies of fast-growing SMEs indicate several common characteristics of HGEs surpassing the limited structure of the homogenous pointer, for example, multi-year interminable development, and they present extra markers in the methodological system (Zvonk *et al.*, 2015:47). Some of the characteristics of high growth are described in the following sub-section.

#### **4.3.2.1 Firm characteristics**

##### *4.3.2.1.1 HGEs are young but not necessarily small*

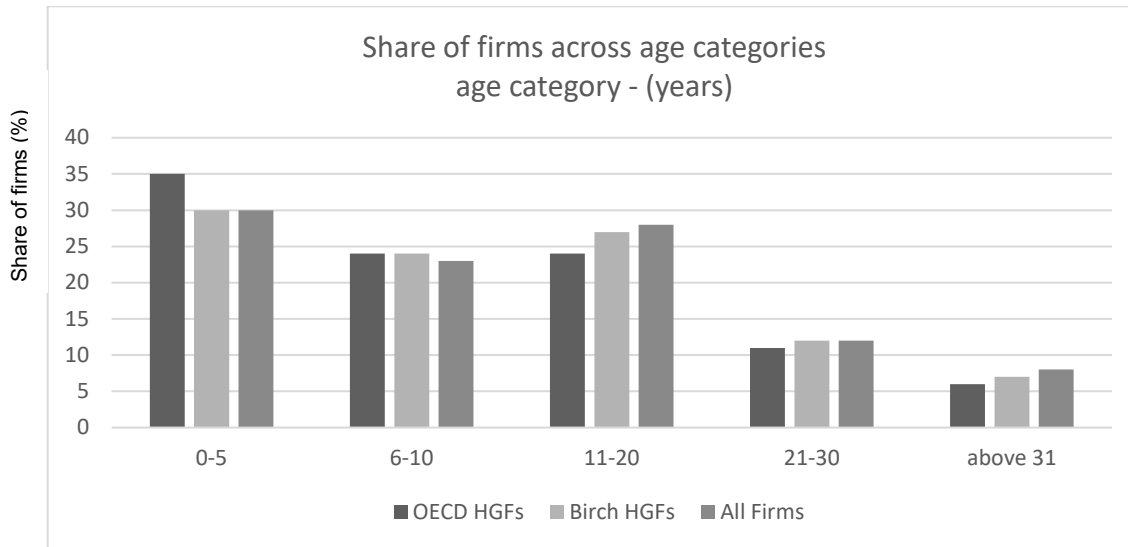
Irrespective of the definition used, research shows that HGEs are generally younger than an average firm, and for many of them, the high-growth episode starts soon after the start-up phase. Research also confirms that in developing economies, HGEs are also young but not necessarily small. Larger HGEs tend to make a bigger contribution to employment growth than smaller HGEs (Goswami *et al.*, 2019:31).

Following the research conducted by Birch (1979, 1981), which indicated that SMMEs in the USA accounted for the majority of job creation in the early 1970s, many academic and policy efforts shifted to identify SMMEs with the greatest growth potential. This focus has been bolstered by studies conducted in the OECD countries that confirm that SMMEs are responsible for two-thirds of permanent, full-time employment—the same as in developing countries (IFC, 2013:80). Other reasons why young firms are more likely to grow faster could be due to the possibility that older firms use older capital vintages, making them less productive than younger firms that invest in more advanced technology (Luttmer, 2007:1103-1144). Because younger firms are agile, they can modify their strategies and practices more frequently than older firms, enabling surviving young firms to grow more rapidly than older firms (Arkolakis, Doxiadis & Galenianos, 2017).

It is important to note that although the majority of HGEs in many jurisdictions are young, they are not necessarily start-ups. Using the OECD definition of HGEs, research shows that for HGEs that fall in the zero to five years category, firms that begin a high-growth episode within two years



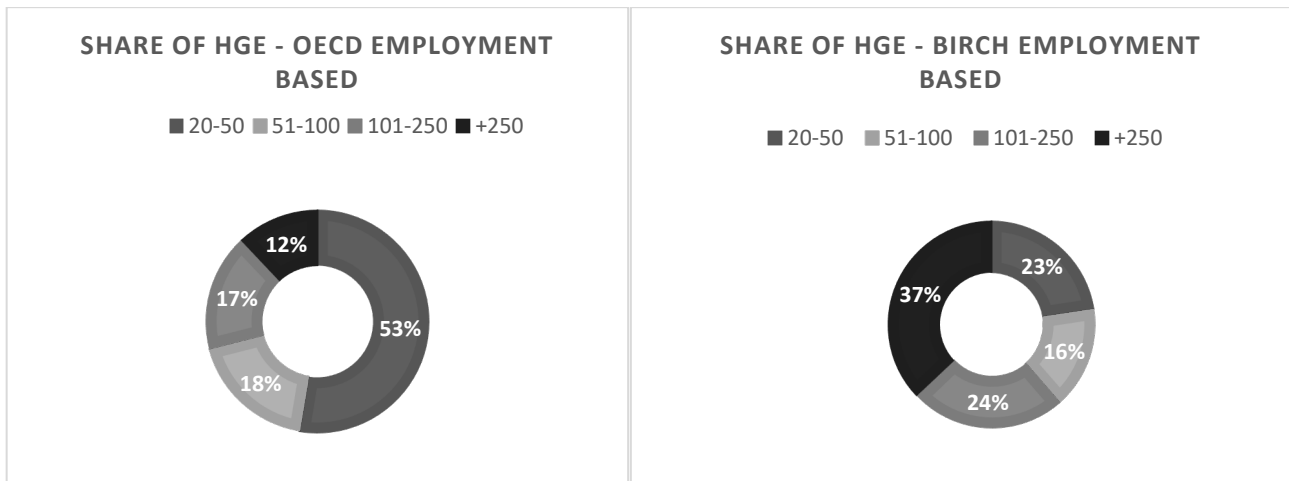
of birth account for about 40% of all HGEs in Brazil, Côte d'Ivoire, Ethiopia and Hungary, and about 30% in Indonesia. Those that first experience high growth three to five years after entering the market (young but not start-ups) account for the remaining 60%. When the Birch definition of HGEs is applied, the share of start-ups is even lower and ranges from 13% in Indonesia to 26% in Hungary and 35% in Brazil (Goswami *et al.*, 2019:34). See Figure 4-6.



**Figure 4-6: HGEs are young entities**

Source: Goswami *et al.*, 2019

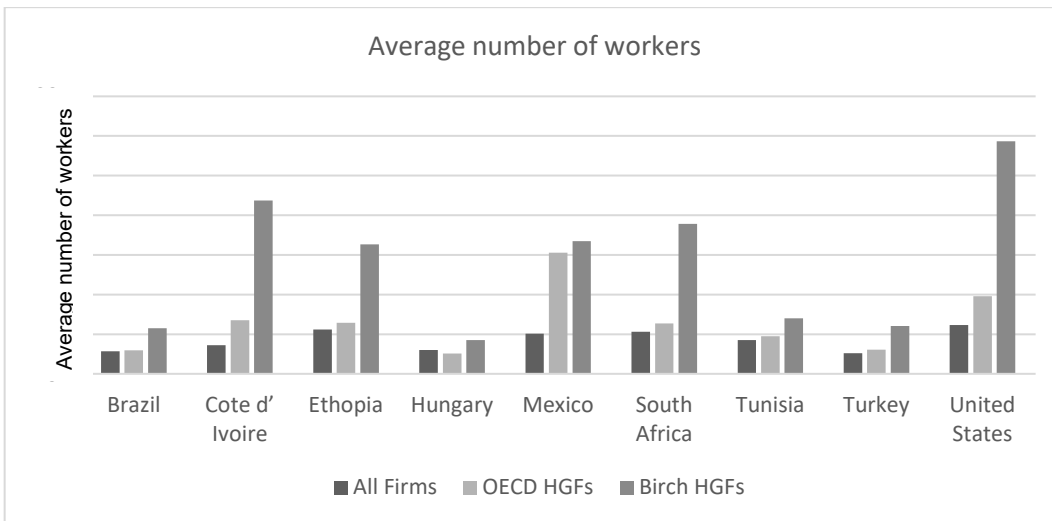
However, the fact that young firms are generally more likely to undergo a high-growth episode does not necessarily mean that most HGEs are small, as evidence suggests that HGEs are found across all size categories. See Figure 4-7.



**Figure 4-7: HGEs in Indonesia are medium to large entities**

Source: Goswami *et al.*, 2019

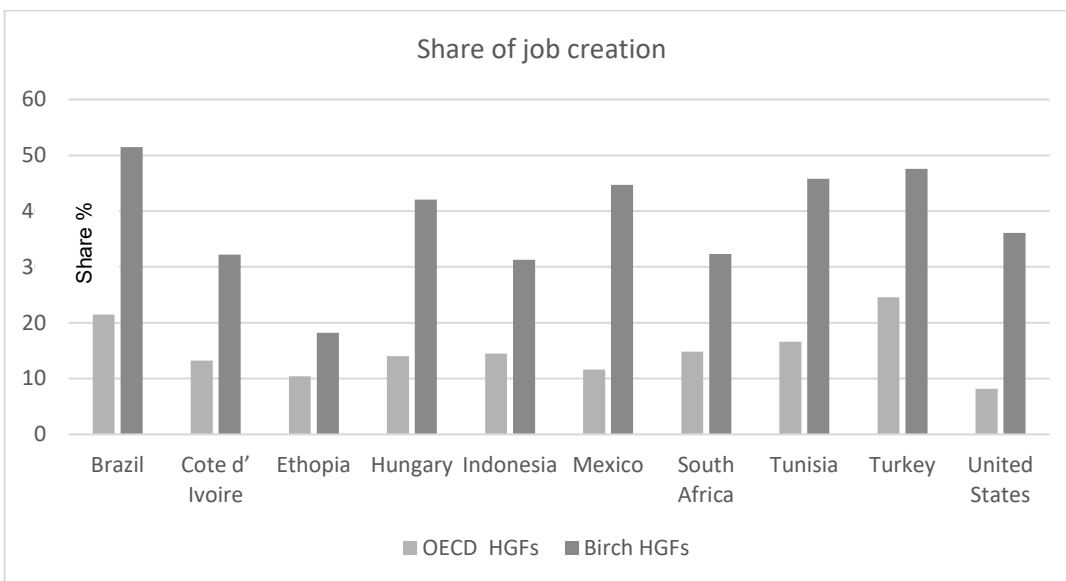
As can be seen in Figure 4-7, HGEs are generally larger than the average SMME at the beginning of the high-growth episode. It is, therefore, to be expected that most HGEs end up being larger than an average SMME at the end of the high-growth episode. Figure 4-8 shows that in all cases, except Hungary and South Africa, HGEs are at least 4% larger than the average firm, whereas Birch-defined HGEs are anywhere from 42% to 600% larger than the average firm and, consequently, accounts for a larger share of total jobs (Goswami *et al.*, 2019:36).



**Figure 4-8: HGE tend to be larger than other entities**

Source: Goswami *et al.* (2019)

Figure 4-9 depicts HGEs' share of job creation.



**Figure 4-9: HGEs' share of job creation**

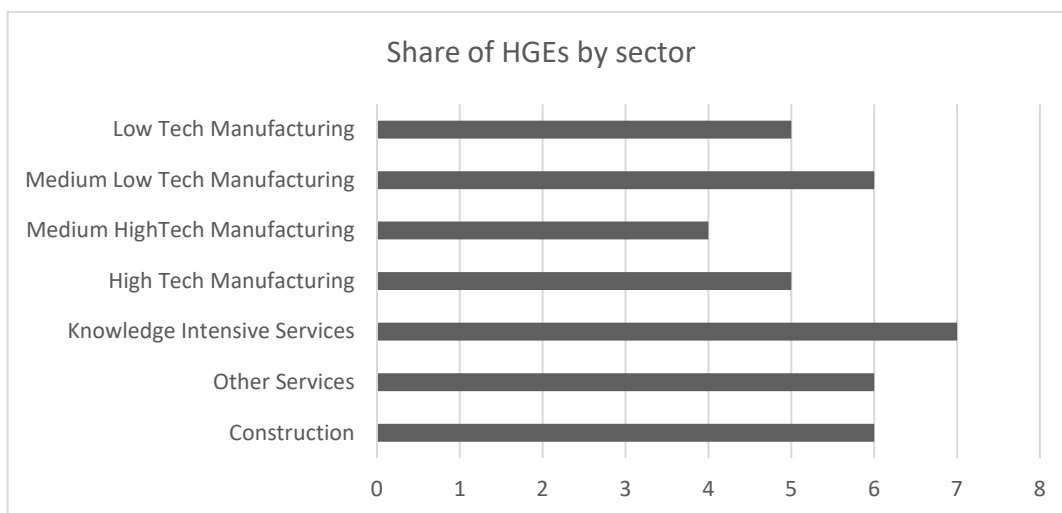
Source: Researcher's compilation using Goswami *et al.* (2019).

#### 4.3.2.1.2 HGEs are found in all types of sectors and locations

There is a general belief that HGEs are only found in high-tech industries. Research shows that HGEs are found across all sectors and areas of economic activity and in many jurisdictions

(Goswami *et al.*, 2019:40). However, given that an entrepreneur’s alertness to opportunities is a crucial factor for high growth, naturally, entrepreneurs prefer sectors that present the best opportunities and offer the highest value for money (Hurst & Pugsley, 2011:32). Having said this, it does not necessarily follow that high growth always coincides with high technological sectors; therefore, the view that HGEs are found in technology-intensive sectors is not entirely borne out in empirical analysis (Wyrwich, 2010:259).

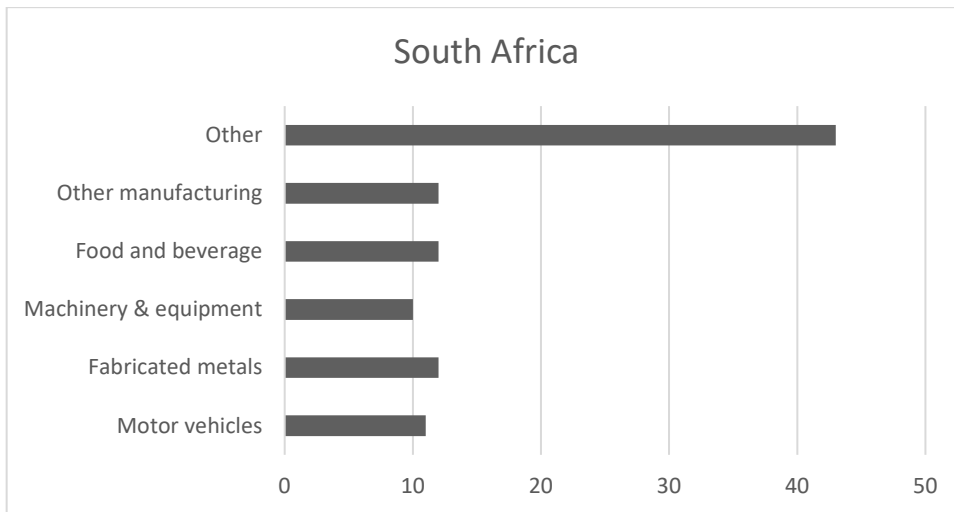
Although research confirms that technology or more knowledge-intensive sectors often offer a higher-than-average prevalence of HGEs because of the higher returns they exhibit, HGEs are also found in other, substantially less high-tech sectors. This shows no obvious pattern across various jurisdictions that indicate a set of ‘target’ sectors with a greater chance of observing HGEs (Goswami *et al.*, 2019:40). Figure 4-10 shows that HGEs in Hungary are mainly found in knowledge-intensive services.



**Figure 4-10: HGEs in knowledge-intensive sectors in Hungary**

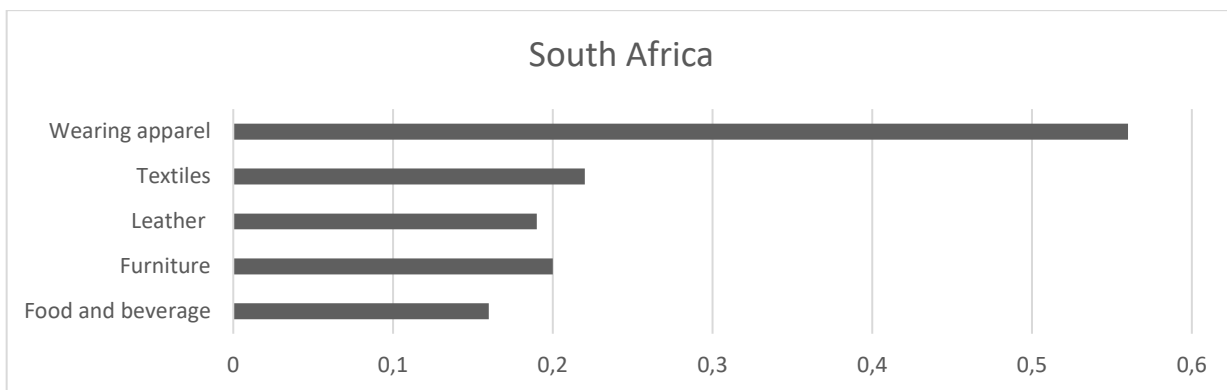
Source: Muraközy, de Nicola & Tan (2018)

Figure 4-11 and Figure 4-12 show that in South Africa, HGEs are found in low-tech and high-tech sectors.



**Figure 4-11: HGEs found in high-tech and low-tech sectors in South Africa**

Source: Muraközy, de Nicola & Tan (2018)



**Figure 4-12: HGEs found in both high-tech and low-tech industries in South Africa**

Source: Goswami (2019)

Audretsch and Dohse (2004:7) found that the prevalence of HGEs is higher in locations abundant in knowledge resources. Greater London, for example, accounts for one-fifth of all HGEs in the United Kingdom (Anyadike-Danes, Bonner & Hart, 2013:21). In the Netherlands, HGEs are found mostly in highly developed metropolitan areas and accessible rural areas, and the chances of them emerging from remote rural areas are reduced (Stam, 2005:124). In some cases, however, HGEs are found in semi-remote, sparsely populated, rural areas. In the USA, HGEs are found in almost every county, with nearly one-quarter of them located in rural areas outside of a metropolitan area (Acs, Parsons & Tracy, 2008:2).

It should be noted that the availability of suitable physical infrastructure is one of the key determining factors for HGEs' choice of location, as they need a reliable connection with their markets (Datta, 2011:12). In India, upgrades conducted in the 1990s and 2000s as part of the large-scale Golden Quadrilateral project significantly improved the efficiency levels of HGEs as they are now closer to bigger, more efficient suppliers. This has resulted in reduced average input costs, increased productivity and faster growth of formal manufacturing (Ghani, Goswami & Kerr, 2015:317-357).

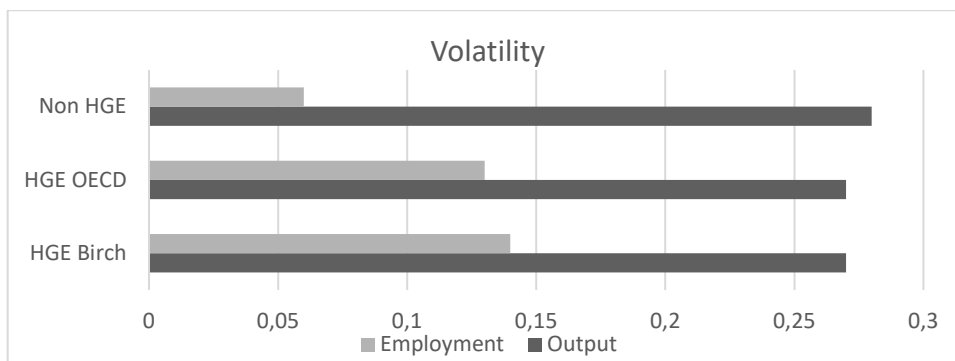
#### *4.3.2.1.3 High firm growth is short-lived and episodic*

In the literature, it is acknowledged that enterprise growth is sometimes unstable and highly irregular, and this volatility is, in most part, driven by prevailing market conditions (Brown *et al.*, 2014:16). This is reflected in the research done by Sedláček and Sterk (2017:3192) which found that various American start-ups declined by 30% in 2009 from pre-crisis levels in 2006. It is also interesting to note that businesses founded during economic upswings perform much better than those started during economic downturns, as these businesses generally start smaller and remain smaller for a period of 10 years or more (Moreira, 2017:16). In the United Kingdom, the beginning of the Great Recession prompted a noticeable reduction in the incidence of HGEs. This fall instigated a reduction in the repeat of high-growth episodes going forward, induced by the fall in firm births (Anyadike-Danes & Hart, 2017:12).

Sustained rapid growth is usually difficult, even in the absence of negative shocks in the market, because HGEs require continuous improvement in firm capabilities, including the adoption of new technologies, processes and customer bases. If the HGE does not continue to explore new ways to conduct its business, the high-growth episode may be short-lived. In Australia, for example, a high-growth episode lasts between four and seven years for more than half of the HGEs; a quarter of them start shedding jobs four years after that period (Commonwealth of Australia, 2017:42). A recent analysis of job destruction in Vietnam revealed that HGEs are responsible for substantial job destruction before, during and after a high-performance episode compared to other entities (Goswami *et al.*, 2019:7). This negative effect of high growth on subsequent performance—the curse of fast growth—has also been widely documented (Hölzl, 2014:199-231). The difficulties associated with sustaining high growth and the glaring disparities

in subsequent growth curves following the high-growth episode imply that HGEs may not be a type of enterprise but rather a phase that some firms go through during their life cycle (Commonwealth of Australia, 2017:1).

The volatile nature of the high-growth episode is another important aspect of the growth path of HGEs. The literature shows a very weak correlation between one high-growth episode in one period and the next (Goswami *et al.*, 2019:22). It has been observed that, at times, rapid growth in one year is followed by little to no growth or even a contraction in subsequent years. In Indonesia, for example, the normalised standard deviation of employment growth for firms which have never experienced a high-growth episode is lower than that of firms which have had at least one high-growth event during their life cycle (Goswami *et al.*, 2019:22), as demonstrated in Figure 4-13. The volatile nature of high-growth episodes raises concerns about HGEs' contribution to employment or output generation. It appears possible that, at times, an HGE's overall contribution to job creation or output growth over its entire life cycle may be lower than during the high-growth episode.



**Figure 4-13: HGEs in Indonesia are volatile and lack persistence**

Source: Goswami *et al.* (2019)

Research shows that high growth is difficult to sustain, and the chances of repeating the high-growth episode in subsequent periods are marginally higher for HGEs than entities that did not experience high growth in the previous period (Coad, Nightingale, Pellegrino, Savona, Cowling & Siepel, 2014:40).

Transition matrices presented in Table 4-3 show how difficult it is for firms to sustain high growth or remain in the market at all. These metrics also show that using the complete set of possible three or six-year periods reduces the impact of volatility associated with good and bad times.

**Table 4-3: High growth improves the chances of survival**

<b>Brazil</b>						
	3-year transition probability for firms observed in 1994, 1997, 2000, 2003, 2006, and 2009 (%)			6-year transition probability for firms observed in 1994, 1997, 2000, 2003, and 2006 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	25.6	64.3	10.2	40.0	54.7	5.2
Survival	13.0	80.0	7.1	24.6	69.6	5.8
High growth	11.7	77.4	10.9	23.8	67.9	8.4

<b>Côte d'Ivoire</b>						
	3-year transition probability for firms observed in 2003, 2006, and 2009 (%)			6-year transition probability for firms observed in 2003 and 2006 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	50.1	43.9	5.9	65.0	31.6	3.4
Survival	39.4	54.6	6.0	59.7	36.7	3.7
High growth	38.4	54.1	7.5	54.4	42.3	3.4

<b>Ethiopia</b>						
	3-year transition probability for firms observed in 1997, 2000, 2003, and 2006 (%)			6-year transition probability for firms observed in 1997, 2000, and 2003 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	44.1	49.9	6.1	49.0	47.0	4.0
Survival	28.3	63.8	7.9	37.8	56.6	5.6
High growth	22.2	69.7	8.1	31.7	57.0	11.4

<b>Hungary</b>						
	3-year transition probability for firms observed in 2000, 2003, 2006, 2009, and 2012 (%)			6-year transition probability for firms observed in 2000, 2003, 2006, and 2009 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	75.5	24.1	0.5	75.3	21.8	2.9
Survival	38.3	59.4	2.3	46.0	51.1	2.9
High growth	17.8	74.1	8.1	32.1	63.0	5.0

<b>Indonesia</b>						
	3-year transition probability for firms observed in 1996, 1999, 2002, 2005, 2008, and 2011 (%)			6-year transition probability for firms observed in 1996, 1999, 2002, 2005, and 2008 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	29.5	62.7	7.8	43.2	53.1	3.8
Survival	19.8	74.7	5.5	34.4	61.9	3.8
High growth	10.8	84.5	4.7	21.1	72.7	6.2

<b>Turkey</b>						
	3-year transition probability for firms observed in 2006, 2009, and 2012 (%)			6-year transition probability for firms observed in 2006 and 2009 (%)		
	Exit	Survival	High growth	Exit	Survival	High growth
Birth	29.5	62.7	7.8	43.2	53.1	3.8
Survival	19.8	74.7	5.5	34.4	61.9	3.8
High growth	10.8	84.5	4.7	21.1	72.7	6.2

Source: Goswami *et al.* (2019)



From Table 4-3, the conclusions are:

- High growth is difficult to sustain;
- The chances of repeating the high-growth episode in subsequent periods are marginally higher for HGEs than entities which did not experience high growth in the previous period; and
- There is no consistency regarding when high growth occurs: some entities experience it early and others late in their life cycle, whereas others move in and out of high-growth phases (Goswami et al., 2019:54).

The above confirms that more firms experience a high-growth phase at some point in their life cycle than maintaining high-growth performance throughout, meaning there are more high-growth episodes than there are HGEs. This raises another important question for policymakers: should the search be for HGEs (targeting the right entity at the right time to support the high-growth episode when it occurs—a task that is difficult to undertake with any degree of certainty) or should policies be designed to create an environment conducive to HGEs emerging and flourishing during their high-growth episodes (with no targeting)?

#### **4.4 JUSTIFICATION FOR A DIFFERENT DEFINITION OF HGES FOR EMERGING MARKETS**

##### **4.4.1 *Different economic structures***

The economic fundamentals of a developing economy are often quite different from those of a developed economy. The developing economy is often an agrarian country moving towards mechanisation, or it may be one where modernisation is in its infancy, lacking advanced technology. The 21<sup>st</sup> century has seen great changes, and the world has become a global village because of the great strides made in technological advancement and communication, and the globalisation of industry and commerce is bringing a vast change in various aspects of life (Kazi, 2013). The economic environment in developing countries features several specificities that potentially qualify the empirical regularities about high growth that have been identified. An important element is that a typical small firm in a developing country consists of only its owner.

This constitutes a significant departure from developed countries, such as the USA, where the modal value of firm size is 45 employees (Hsieh & Klenow, 2014:1035-1084).

Pervasive resource misallocation constitutes another key characteristic of low-income countries in general and sub-Saharan Africa in particular (Cirera *et al.*, 2017:6). Part of the gap in total manufacturing productivity between developed and developing economies is attributable to the misallocation of resources across entities (Restucia & Rogerson, 2014:710). Aggregate productivity would be 30% to 60% higher in China and India if inputs were allocated as efficiently as they are in the USA (Hsieh & Klenow, 2009:1403-1448). To understand whether the current definition and characteristics of HGE are applicable in developing countries, one must first understand the differences between the different regions' economic structures. Table 4-4 shows these differences.

**Table 4-4: Differences between developed and developing countries**

Developed Countries	Developing Countries
Independent and prosperous	Are at the beginning of industrialisation
Have a high per capita income	Characterised by low per capita income
Have a high literacy rate	Have a high illiteracy rate
Have good infrastructure and a better environment in terms of health and safety	Have poor infrastructure and poor health and safety services
Have a high standard of living	Have low to moderate standard of living
Effective and efficient utilisation of resources	Poor utilisation of resources
Birth and death rates are low	Both birth and death rates are high
Industrialised and have the highest human development index	Have a less developed industrial base and a low human development index
Larger ecological footprint	Smaller ecological footprint
Equal wealth distribution amongst citizens	High inequality wealth gap amongst citizens

Source: Researcher's compilation

Table 4-5 shows developed economies' GDP growth between 2009 and 2019 (the annual percentage change).

**Table 4-5: Developed economies' GDP growth between 2009 and 2019 (annual percentage change)**

	2009-2016	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Developed Economies</b>	<b>1,0</b>	<b>-3,7</b>	<b>2,6</b>	<b>1,5</b>	<b>1,0</b>	<b>1,2</b>	<b>1,9</b>	<b>2,2</b>	<b>1,6</b>	<b>2,2</b>	<b>2,0</b>	<b>1,9</b>
<b>North America</b>	1,5	-2,8	2,6	1,8	2,2	1,8	2,6	2,7	1,5	2,3	2,1	2,1
<b>Developed Asia and Pacific</b>	0,9	-4,1	3,8	0,4	1,9	2,0	0,8	1,4	1,4	1,9	1,6	1,3
<b>Europe</b>	0,6	-4,3	2,1	1,7	-0,3	0,3	1,8	2,2	1,9	2,1	2,0	1,9
<b>Major Developed Economies</b>	1,1	-3,9	2,9	1,6	1,3	1,4	1,9	2,0	1,4	2,0	1,8	1,8
<b>Euro Area</b>	0,4	-4,5	2,1	1,5	-0,9	-0,3	1,3	2,0	1,8	2,1	2,0	1,9

Source: United Nations (2018)

Table 4-6 shows economies in transition's GDP growth between 2009 and 2019 (the annual percentage change).

**Table 4-6: Economies in transition's GDP growth between 2009 and 2019 (annual percentage change)**

	2009-2016	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Economies in Transition</b>	<b>0,9</b>	<b>-6,6</b>	<b>4,8</b>	<b>4,6</b>	<b>3,4</b>	<b>2,4</b>	<b>0,9</b>	<b>-2,2</b>	<b>0,4</b>	<b>2,2</b>	<b>2,3</b>	<b>2,4</b>
<b>South-Eastern Europe</b>	1,0	-2,0	1,5	1,7	-0,7	2,4	0,2	2,0	2,9	2,5	3,2	3,3
<b>Commonwealth of Independent States and Georgia</b>	0,9	-6,8	4,9	4,7	3,6	2,4	1,0	-2,4	0,3	2,2	2,3	2,4
<b>Commonwealth of Independent States and Georgia – Net Fuel Exporters</b>	1,1	-6,3	4,9	4,6	3,9	2,5	1,4	-1,9	0,2	2,2	2,2	2,2
<b>Commonwealth of Independent States and Georgia – Net Fuel Importers</b>	-0,8	-10,5	5,0	5,5	1,3	1,2	-2,6	-6,0	1,2	2,4	2,8	3,5

Source: United Nations (2018)

Table 4-7 shows developing economies' GDP growth between 2009 and 2019 (the annual percentage change).

**Table 4-7: Developing economies' GDP growth between 2009 and 2019 (annual percentage change)**

	2009-2016	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Developing countries</b>	<b>4,9</b>	<b>2,8</b>	<b>7,7</b>	<b>6,2</b>	<b>5,1</b>	<b>4,9</b>	<b>4,4</b>	<b>3,9</b>	<b>3,8</b>	<b>4,3</b>	<b>4,6</b>	<b>4,7</b>
<b>Africa</b>	3,3	3,1	5,2	1,4	6,0	2,2	3,8	3,1	1,7	3,0	3,5	3,7
<b>East and South Asia</b>	6,5	5,9	9,2	7,3	5,9	6,0	6,1	5,8	6,0	6,0	5,8	5,9
<b>Latin America and the Caribbean</b>	1,7	-1,7	6,0	4,5	2,9	2,8	0,9	-0,6	-1,3	1,0	2,0	2,5

Source: United Nations (2018)

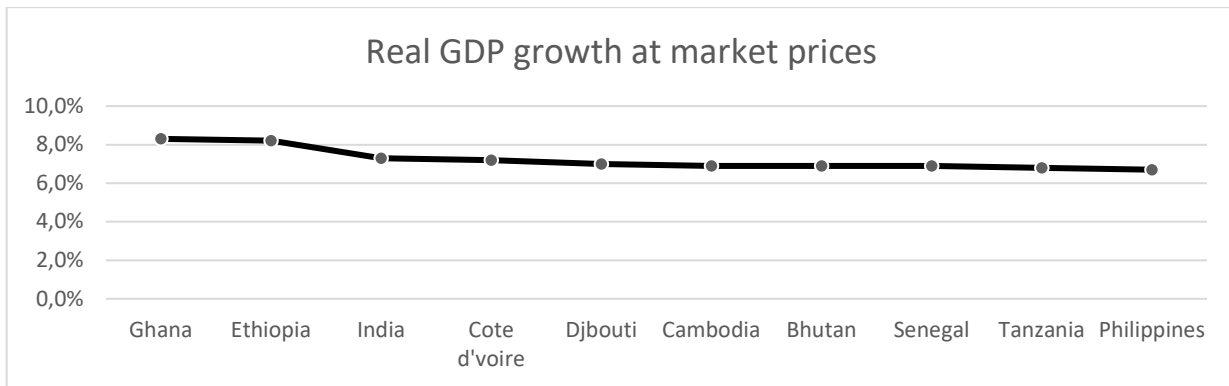
Table 4-8 shows the consumer price index between 2015 and 2019.

**Table 4-8: Consumer price index between 2015 and 2019**

Annual Percentage Change	2015	2016	2017	2018	2019
<b>World</b>	2,1	2,4	2,6	2,8	2,8
<b>Developed Economies</b>	0,2	0,7	1,5	1,9	2,1
<b>Economies in Transition</b>	15,8	7,8	5,3	5,1	4,6
<b>Developing Economies</b>	4,4	5,2	4,4	4,3	4,2

Source: United Nations (2018)

The developing economies, with a greater than 75% contribution to global growth in output and consumption, have clearly emerged as economic powerhouses going forward. The 10 fastest growing economies in the world, as outlined in Figure 4-14, are in developing economies (six in Africa).



**Figure 4-14: Top 10 fastest growing economies in 2018**

Source: United Nations (2018)

Harvard’s Centre for International Development released its latest global growth projections, looking at which economies are expected to grow the fastest by 2026 (Table 4-9).

**Table 4-9: Fastest growing economies: 2019 to 2026**

Rank	Country	Projected Growth
1	India	7,89%
2	Uganda	7,46%
3	Egypt	6,63%
4	Tanzania	6,15%
5	Indonesia	6,13%
6	Kyrgyzstan	6,04%
7	Pakistan	5,99%
8	Vietnam	5,89%
9	Mali	5,89%
10	Kenya	5,87%

Source: Harvard’s Centre for International Development (2019)

The countries at the top of the growth list are also some of the world’s poorest, highlighting the ease of growing from a lower initial income base. The average GDP growth rates for the developed countries over the last 10 years was 1,25%, projected to 1,9% in 2019, while inflation

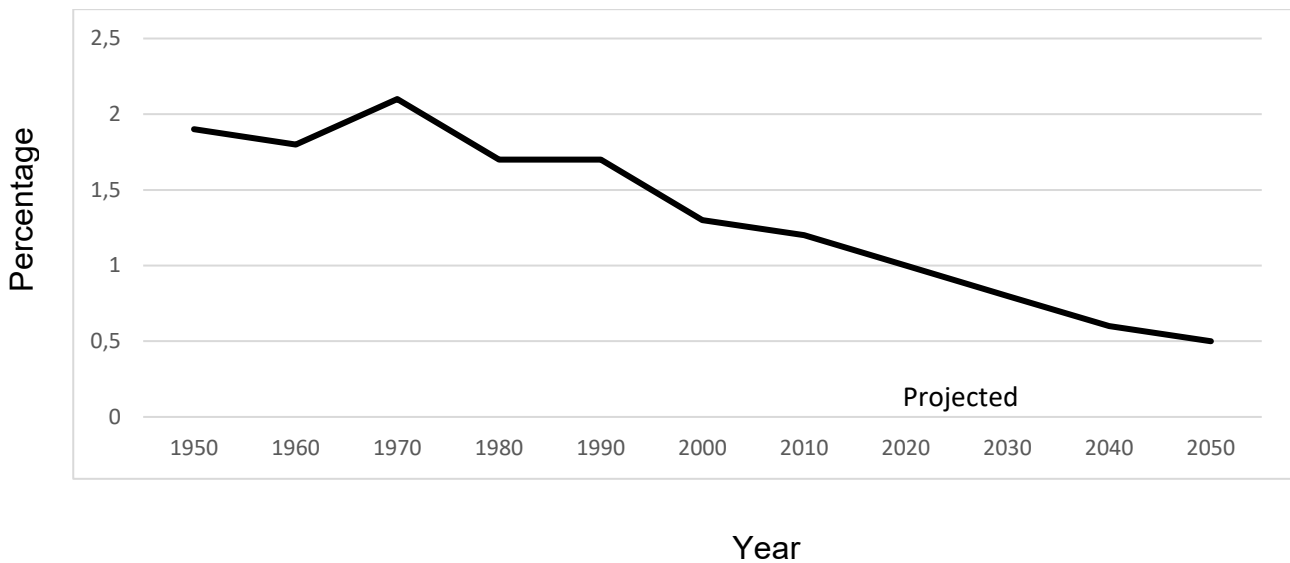
was projected at 2,8% in 2019. The average GDP growth rate for developing countries over the last 10 years was 4,8%, projected to reduce to 4,7% in 2019, while inflation was projected at 4,2% in 2019 (United Nations, 2018:11).

The assumption is that a higher GDP growth rate implies higher earnings, and higher earnings imply that people are getting richer (as they are working to reach a higher GDP and their hard work is paid by higher wages). However, an important perspective is that a higher GDP does not filter down to the poor; rather, the rich get richer, and the poor get poorer. Although the GDP per capita of the USA and China are about \$55,000 and \$40,000, respectively, the average annual wages are only \$44,000 and \$14,000, respectively (Amadeo, 2019). This means that although China has been growing at a remarkably high rate, its standard of living is far from that of the USA, whose GDP grew much more slowly, proving that higher GDP growth rates are not always the solution.

Economists agree that a GDP growing at a rate of above 6% does not necessarily translate to better standard of living for the citizens of the country. Instead, countries are better off if they focus on metrics such as education, healthcare, cleaner air and water and better sanitation facilities (Thoma, 2007). A healthy GDP growth rate is sustainable so that the economy stays in the expansion phase of the business cycle as long as possible while ensuring the GDP growth benefits filter down to lower level citizens (Amadeo, 2019). The optimal GDP growth rate is 2% to 4% in developed economies and 3% to 6% in developing economies (Thoma, 2007).

#### **4.4.2 Different population dynamics**

The world has seen a decrease in the population growth rate since the late 1960s. In 1969, the world population increased by 2,1% from the preceding year. In 1979, the annual growth rate fell to 1,8% and remained at that level for the next nine years. The early 1990s saw a sharp decline. The population growth rate fell to 1,3% at the turn of the millennium and continued to decrease to the current level of 1,1%—projected to further decline to 0,5% by 2050 (UNCTAD, 2017:62). See Figure 4-15.

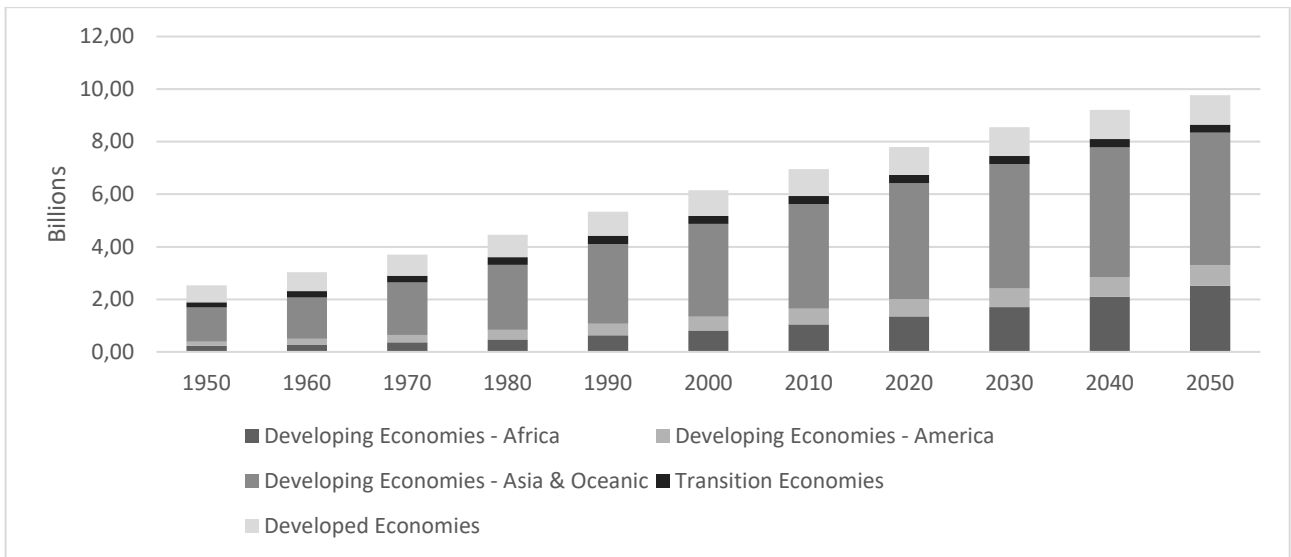


**Figure 4-15: World population growth rate between 1950 and 2050 (percentage)**

Source: UNCTAD (2017:62)

In 2016, the world population was approximately 7,5 billion, with 58% occupying only 10 economies. The three most populated countries in the world were China, India and Indonesia, accounting for 40% of the world's total population (UNCTAD, 2017:62).

It is estimated that by 2030 the world's population will increase to 8,4 billion, and the developing economies are projected to account for 97% of the increase. This means the developing economies' population will rise by 20,7% (1,2 billion people) while the population in developed economies will rise by only 3,3% (41 million people). The regions projected to have the largest increase in population are India (224,3 million), Nigeria (99,5 million) and China (67,7 million). In contrast, the United Kingdom is projected to add 5,5 million, while Germany will see a decrease of 3,2 million people (UNCTAD, 2017:62). See Figure 4-16.



**Figure 4-16: World population by economy grouping**

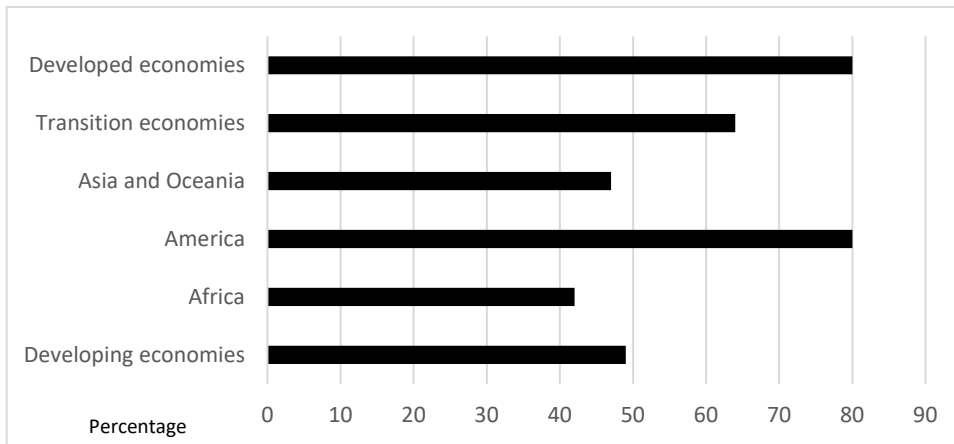
Source: UNCTAD (2017:62)

### 4.4.3 Urbanisation

A 2017 United Nations Conference on Trade and Development (UNCTAD) study revealed that the developing economies of America were the most urbanised (80%) of any developing region in the world, while only 41% of the population in Africa lived in urbanised regions. It is projected that urbanisation will rise considerably in the coming years, and it is estimated that the urban population will increase from 54% in 2017 to 66% in 2050 (an additional 2,4 billion people). This equates to 193,000 new people per day for the next 33 years (UNCTAD, 2017:63).

Figure 4-17 shows the urban population by economy grouping as a percentage of the total population.





**Figure 4-17: Urban population by economy grouping (percentage of the total population)**

Source: UNCTAD (2017:63)

Developing countries are not homogeneous. There are many structural differences between developing nations, for example (United Nations, 2018:113):

- Macro-economic conditions—economic stability and growth, national legislative frameworks and social and political stability;
- Framework conditions—infrastructure, education and environmental and legislative systems;
- Humanitarian conditions—gender equity and ethnic tolerance levels; and
- Mainstream SMME support—instruments available to build and support ecosystems, including entrepreneurial education, financial and non-financial support, access to markets and culture.

Developing countries can grow faster because they are in a position to pursue ‘catch-up growth’ by using technological procedures and processes invented, tried and tested in the developed countries. Developed countries, on the other hand, are already operating at, or close to, the technological frontier and, as a result, have no one to catch up with (Sillers, 2016). Catch-up growth is always faster than frontier growth, which requires developed countries to come up with technologies that have not yet been invented and fully used. The only time developed countries

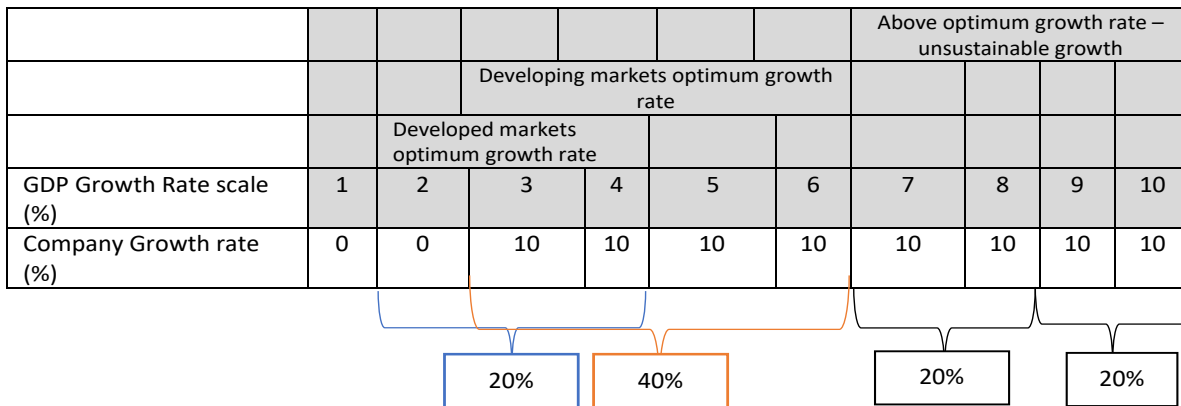
grow rapidly is when they are recovering from a recession that temporarily puts them below their potential level of output (Sillers, 2016).

The researcher contends that given that different jurisdictions define SMMEs differently, depending on the development stage (developed vs developing countries) of each jurisdiction, the definition of HGEs cannot be the same. The current definition of HGEs is based on the economic conditions of developed countries, and given the differences between developed and developing economies (as outlined in Table 4-6), the definition of HGEs must take these differences into account.

## **4.5 PROPOSED DEFINITION OF HGES IN EMERGING MARKETS**

### ***4.5.1 Introduction***

The researcher contends that the definition of HGEs in emerging markets cannot be the same as in developed economies, given the differences outlined above. He further proposes that the measured period must be linked to the procurement framework of each country. In defining HGEs, both the OECD and the Birch Index adopted a 20% annualised turnover/jobs growth rate over the measured period. Both definitions were established and have been widely used in developed economics. When the OECD definition was adopted in 2007, the developed economies were growing, on average, at a rate of 2,68%, well within the ideal GDP growth rate for developed countries (2% to 4%) (International Monetary Fund, 2019:14). As mentioned in Section 4.4.1, the optimum growth rate for developing markets is between 3 and 6%, and currently, developing countries are growing at 4,4% (on average), well within their optimum growth rate band. The researcher contends that the extrapolated annualised growth rate to be used to define HGEs in emerging markets is, therefore, 40% (twice that of developed economies), as illustrated in Figure 4-18.



**Figure 4-18: Proposed HGE growth rate for emerging economies**

Source: Researcher's compilation

Company growth rate is non-linear and does not always linearly follow the GDP growth rate. For the purposes of this research and in the absence of any other information, it has been assumed that incremental company growth rate is constant at 10% for every 1% increase in GDP growth rate.

#### 4.5.2 Growth indicator

The term business growth implies an increment in size or improvement in quality because of a cycle of advancement wherein an interfacing arrangement of interior changes prompts increments in size or improvement in quality, accompanied by changes in the characteristics of the growing object. Business growth often refers to increasing sales, assets and profitability and an opportunity to exploit the experience growth curve to lessen the per-unit cost of items sold and accordingly maximise profitability (Machado, 2016:14). Most scholars agree that growth is a consequence of certain decisions and actions taken by entrepreneurs to construct and reconstruct products or business processes based on the assessment of the business and market needs.

Several indicators can be used to define growth and can be grouped under four broad categories, namely:

- Business outcomes—the profit margin generated by a business is a combination of revenues generated and the level of efficiency in the business. An increase in profit

margin, therefore, indicates an increase in either revenue or efficiency (Sumari, 2013:7).

- Business outputs—the main outputs for most businesses are either products or services. Production or stock levels are sometimes used as indicators of the business size as they reflect both the capacity of the business and its profit potential. Given that available stock is an internal measure—as there is no guarantee that all produced goods will be sold—it is not widely used as a growth indicator (Olomi, 2009:16).
- Resource capacity—this refers to the ability of a business to produce outputs and outcomes. They include human capital, available financial resources, assets and production capacity (Olomi, 2009:16).
- Qualitative indicators—these include business structure, quality of management, policies and procedures and the risk profile of the business. The business is growing when there are formalised business and management structures that can be expanded to allow for decentralisation, management practices increase and become more complicated, the company risk profile is low, and the degree of formalisation increases (Olomi, 2009:16).

The main measurement indices commonly used include variation in sales volumes and the number of employees (Achtenhagen, Naldi & Melin, 2010:289-316). These indexes, however, have their shortcomings, and these must be taken into account in their application.

In addition to the number of employees and turnover figures, other indicators sometimes measure growth. These include absolute growth of employees, acquisition of new clients, diversifying into new markets, variation in product and profit mix, increased asset utilisation ratios and growth in the enterprise value. Specific sectoral indicators are also employed, for example, the number of seats in the case of restaurants, airlines and theatres and the number of cars in the case of taxi or e-hailing businesses (Davidsson, 2010:69-166).

The researcher concurs with Janssen (2009:21-45) that growth measurement indicators should be simplified, and using compound indexes and mixing different variables, such as sales or employees, do not help much since they do not assess the same phenomenon. Achtenhagen

*et al.* (2010:289-316) opine that the use of different growth measurements may provide different, non-comparable results.

#### **4.5.3 Assessment of turnover index as a measure of growth**

Turnover growth is achieved by either volume increase, price increase or a combination of the two factors. While turnover growth is a good measure of business activity, it has the following shortcomings:

- Not all sales are profitable—the company could be increasing its sales figures but not achieving a corresponding sales margin. This is mainly the case with volume growth that is not accompanied by price growth;
- It hides inefficiencies in business processes—a company can achieve sales growth but use ineffective production/sales processes; and
- Bad debts—where a company sells goods on credit; in some cases, not all sales are recoverable, resulting in bad debts.

The researcher proposes that if sales are to be used as a measure of growth, the efficiency of the measured entity in generating such sales must be considered.

#### **4.5.4 Measuring efficiency**

Efficiency ratios measure the extent to which a company employs its assets and liabilities. The most commonly used efficiency ratios are:

- Accounts receivable turnover—this ratio indicates how quickly a company collects its debts from its customers, thereby contributing to maintaining a healthy business cash flow;
- Inventory turnover—this measures how quickly a company turns over its stock;
- Accounts payables turnover—this ratio measures how a company manages its creditors. The longer the payables cycle (without damaging the image of the business), the better it is for the company;

- Working capital turnover—this ratio reflects the amount of operating capital needed to maintain a given level of sales; and
- Fixed assets turnover—this ratio measures the efficiency of a company's long-term capital investments.

The most appropriate efficiency ratio for most entities is the working capital turnover ratio, as not all variables are relevant to all businesses. The researcher proposes the following adjusted sales growth formula to address the problems associated with sales growth (relevant to both relative and absolute growth formulas):

$$\begin{array}{lcl} \underline{\text{Cash sales}} & + & \underline{\text{Credit sales}} \\ (\text{T1-T0}) \times \text{ER} & + & ((\text{T1-T0}) \times \text{RR}) \times \text{ER} \end{array}$$

Where:

T1 = application year sales

T0 = first-year sales

ER = efficiency ratio

RR = debt-recovery ratio

ER = efficiency ratio

Source: Researcher's compilation

#### **4.5.5 Assessment of employment creation as a measure of growth**

Chandler, Mckelvie & Davidsson (2009:375) studied the correlation in Sweden between sales and the number of employees and found there is often no direct correlation, as there is a multiplicity of factors contributing to either an increase or decrease in sales figures. They found that when supervision costs are high, entities prefer to outsource services like advertising and the promotion of the product or service. In some cases, sales are closely linked with improvement in technology and less associated with an increase in the number of employees, and in some cases, employee rates or the number of employees may increase without a corresponding increase in sales (Delmar & Wiklund, 2008:15463). Davidsson *et al.* (2015:90) do not support the view that growth increases employment since the greatest generation of

employment rates occurs in fusions. However, Rauch & Rijskik (2013:925) maintain that despite the shortcomings mentioned above, the employment rate is still a more stable indicator of growth. Several authors argue that other factors contribute to variations in sales figures, for example, an improvement in the processes' efficiency (Davidsson *et al.*, 2015:91).

The other problem with using job increase as a measure of growth is that the index considers only the number of jobs (quantity) and not the quality of jobs. This can have unintended consequences in that some jobs created may not aid in breaking the cycle of poverty but may perpetuate it (Armeni, 2016). Often job creation, especially in developing markets, leaves many workers dependent on government services because the wages are too low to allow for self-sufficiency (Armeni, 2016). In some cases, and more so in developing economies, jobs are created due to inefficient production processes and systems, leading to higher product prices that, in turn, reduce demand and growth. In other words, job increases are a result of diseconomies of scale (Heaka, 2019). The researcher posits that most entrepreneurs do not go into business to create jobs, but rather, jobs are a consequence of business growth. It is, therefore, incorrect to use the rate of job growth as a measure of business growth.

#### **4.5.6 The period of measurement**

The period of measurement is an important element in the definition of HGEs. Both the OECD and the Birch definitions use a variation between two periods (first and last year) and fail to recognise that growth is non-linear (Machado, 2016:3). In order to recognise this shortcoming, most researchers consider longitudinal studies more appropriate (Achtenhagen *et al.*, 2010:289-316). However, the challenge is that, due to the discontinuous nature of the analysis, it is not always possible to identify the growth cross-section period (three, five, six or more years) (McKelvie & Wiklund, 2010:261-288). Davidsson *et al.* (2015:122) suggest that using a definite formula, such as the regression analysis of a period, may better reveal growth. It should, however, be noted that there are different types of growth, such as organic and acquisition, and therefore, a thorough analysis of growth variables should be undertaken as acquisition growth may obscure the growth measurement period.

The researcher holds that when using turnover as a growth measure, the measurement period should be aligned with a country's procurement framework, especially if the country uses a

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tendering system. In South Africa, for example, tenders in the SMME space are usually issued for a period of between three and five years. An average period of four years could, for example, be used as a measurement period to assess enterprise growth. Knockaert and Maillfert (2004:135-145) define sustainable jobs as jobs where social, environmental and economic conditions are satisfied, which normally happens in the long term. In finance and business management, a period beyond three years is often considered long-term, with medium-term usually between one and three years and short-term usually under one year. The researcher suggests that the measurement period where job creation is used as a measure should not be under three years.

#### **4.5.7 Proposed definition of HGE for emerging markets**

In this chapter, the researcher outlined the importance of entrepreneurship to economic growth and outlined how entrepreneurship and SMME development contribute differently to developed and developing economies. The differences between the developed and developing country's economic structures were outlined, including urbanisation and different population dynamics. These differences lead to varied definitions of SMMEs between developed and developing countries. The two main definitions of HGE (Birch Index and OECD) are based on developed countries, despite the differences in economic fundamentals outlined in this research. The researcher proposes the following definition for HGEs in emerging economies:

All entities with average annualised growth greater than 40% per annum, over a six-year period and with five or more employees at the beginning of the observation period.

The catch-up effect (or convergence theory) suggests that poorer countries experience a higher rate of economic growth and, as time progresses, move closer to the developed world's income levels (Pettinger, 2019). One advantage that developing countries have is that they can replicate existing technology and working practices developed by advanced economies. In Africa, for example, many people never owned a landline or fax machine but moved straight to mobile phones and, because of the internet, benefit from cheap phone calls. This technology significantly improved communication in developing economies, and they skipped the



investment levels incurred by developed countries when developing frontier technologies. As developing countries come from a low base and catch up with developed countries by using existing technologies, their growth rate is higher than that of developed countries, hence the suggestion of a higher growth rate for SMEs classified as HGEs in emerging markets.

#### **4.6 POLICY IMPLICATIONS FOR SUPPORTING HGES**

Reviewed literature makes it clear that policymakers should focus on quality, not quantity, as identifying entities with growth potential is a substantial challenge. Policymakers face several challenges related to the possible political support of high-growth SMEs: overall lack of knowledge and evidence, a need for specific policy design, possible government failure, dilemmas related to justification and resource allocation, limitations concerning quality and speed, and the co-occurrence of high growth with high failure (Lilischkis, 2011:87). If policymakers decide to promote HGEs, they need to consider various factors, including how to allocate limited budgets towards promoting SMEs in general, and HGEs in particular, changes to the existing policy framework, the definition of HGE and sectoral and geographic spread,

Although there is proven evidence that HGEs create the large-scale share of new jobs, there are arguments against abandoning general SME policy in favour of HGEs:

- Directing SME policies largely towards growth and high growth may induce unsustainable growth and high failure rates—even for entities that may have survived without growing (Koellinger, 2011:6). Even if the majority of SMEs do not create new jobs, they still account for a significant share of employment. Abandoning general SME policies in favour of high-potential SMEs could harm established and stable SMEs (Hendricks, 2011:9).
- Theoretical considerations of market failure do not only apply to innovative high-growth SMEs but also other entities (Hendricks, 2011:9).

## 4.7 CONCLUSION

The conclusion should be that policies for high-growth SMEs and general SMEs should coexist. Since policies for high-growth SMEs are fairly new on the agenda for many countries, they have to consider introducing such policies. For others, it may mean extending or refining their high-growth policies. Fine-tuning policies for general and high-growth SMEs is necessary because the rationales behind both types are different and sometimes conflicting (Stam & van Stel, 2011:5).

The question of balancing policies for general and high-growth SMEs may have to be even broader: how should SME policies be balanced with enterprise policies at large? Economists suggest that policy should not principally favour SMEs. Which type of enterprise generates the most innovations and growth depends on many factors, for example, market size, stage of market development, and industry. Since these factors and their interplay are difficult to monitor, policies favouring specific types of entities are prone to producing more economic damage than benefit (Koellinger, 2011:6).

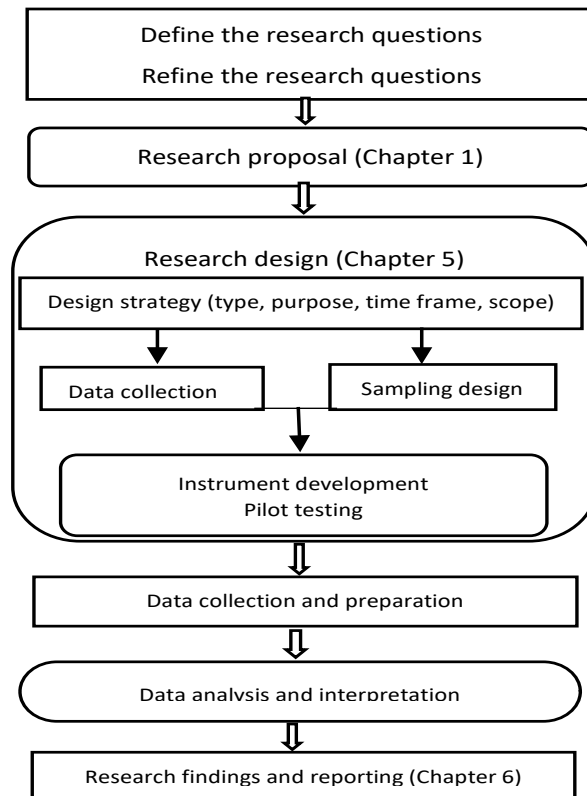
## **5 CHAPTER 5: RESEARCH METHODOLOGY**

### **5.1 INTRODUCTION**

As indicated in Chapter 3, the three biggest challenges facing South Africa are poverty, inequality and unemployment. The unemployment figures released in the second quarter of 2019 show that this figure has increased to 7,1 million people—30,8% of the working-age population (Stats SA, 2020). North America has the same number of unemployed people, but this figure amounts to only 3,7% of the population (Trading Economics, 2019). Of the 7,1 million unemployed people in South Africa, 60% are youth. This shows that South Africa is at a tipping point, and urgent action needs to be taken to address this problem (Stats SA, 2020).

In this chapter, the researcher outlines the methodology and design of this study that evaluates high-growth entrepreneurs' knowledge of the South African SMME policy framework and the impact of such knowledge on business performance. This approach provided a deeper knowledge of high-growth entrepreneurs' experiences of HGE support in South Africa and sought to provide a basis for policy development to support these types of entities. The study, therefore, sought to establish if there is a correlation between entrepreneurs' knowledge of the SMME policy framework and the impact of such knowledge on the performance of their enterprises. Basic or fundamental research was conducted as the study purpose was not to solve a real-life problem but to understand the impact on business performance of knowledge of the SMME policy framework (Cooper & Schindler, 2014:15).

The research process used in this study is outlined in Figure 5-1.



**Figure 5-1: Research process**

Source: Moos (2014)

In this chapter, the problem statement, study objectives, hypotheses and methods used to gather and analyse data to support the findings are discussed. The reliability and validity of the measuring instrument are discussed in Section 5.14.2.

## 5.2 PURPOSE OF THE STUDY

The motivation for this study was policymakers' continued insistence on supporting start-up entities and the extraordinarily little attention given to providing support for HGEs.

The argument that is advanced is that HGEs do not need any support as they are likely to grow anyway, and support should be directed to start-up entities.

South Africa's economic growth has been sluggish at an average rate of 1% over the last five years, compared to an average global growth rate of 3,5% (National Treasury, 2017). Not surprisingly, the business discontinuance rate (the percentage of the population aged 18 to 65 years) increased from 3,9% in 2009 to 4,5% in 2017 (Small Business Institute, 2019:2). In order to defeat the triple challenge of poverty, unemployment and inequality, the South Africa economy needs to increase its job creation capacity. It is recognised and accepted that jobs need to be created; however, there is no consensus on how to go about it. There is no silver bullet to solve this problem, and the answer depends on a complex set of factors, including human capital, natural resources, capital structure and entrepreneurship (Chadha, 2015:19). To foster growth and the development of HGEs, policymakers must understand the determinants of these businesses and variables that enhance their growth. This study sought to contribute to the understanding of how knowledge of the SMME policy framework impacts business performance.

### **5.3 THE RESEARCH PROBLEM**

With an unemployment rate of 34,4% (74,4% amongst the youth) in 2021, South Africa faces more prominent business challenges than other nations in the BRICS block of arising public economies (Brazil at 11%, Russia at 4,6%, India at 7,2% and China at 3,6%) (Trading Economics, 2021). Joblessness is an emergency that must be tended to through primary changes in the economy, upheld by an interest in and fundamental changes to the institutional and education framework. At 10,8%, South Africa's 2019 TEA rate was below the average of 12,1% for the African region, while the 2019 business discontinuance rate of 4,9% was higher than the established business ownership rate of 3,5%. This is concerning as it implies that more businesses are closing, being sold or otherwise discontinued than businesses are continuing to operate (GEM, 2020:12).

Given that South Africa faces chronically high unemployment and underemployment, the persistent trend of low entrepreneurial activity is concerning. The low graduation rate from new business to established business means that South Africa has a high business fatality rate and a low percentage of entities maturing to a sustainable stage. Since the dawn of democracy in 1994, the South African Government has developed various policies and interventions to promote and foster small business development (dti, 2005b:23). It can be argued that for SMEs

to live up to expectation and drive entrepreneurship development, there must be an enabling business climate to support them (Bouazza *et al.*, 2015:101-121). Clement and Ang (2004:347-363) highlight that the government's enactment of a good regulatory framework is indispensable for job creation, poverty reduction and the economic development of its people. The legal and administrative climate of a firm plays an important role in determining its endurance and development possibilities (Khan, 2014:89-94). Government laws, regulations and guidelines produce two environments for organisations: an atmosphere to grow or an atmosphere to crumble (Luiz, 2011:99-107).

The World Bank conducted the *Doing Business 2020* study, which measured regulations in 12 areas of business activity across 190 economies (World Bank, 2020:4). The study focussed on the processes around business incorporation, obtaining a building permit and an electricity connection, transferring property, accessing credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts and resolving insolvency. Table 5-1 shows the relative ease of business in selected African countries.

**Table 5-1: Ease of doing business rankings**

Country	Ranking out of 190 Countries	Doing Business Score
Mauritius	13	81,5
Rwanda	38	76,5
Morocco	54	73,4
Kenya	56	73,2
Tunisia	78	68,7
South Africa	84	67,0

Source: World Bank (2020)

The *Doing Business 2020* study showed that developing countries are making progress in terms of ease of doing business and that the gap between them and developed economies remains

wide. The rankings and more detailed benchmarks provided in this study offered insights into when structural reforms that encourage broad-based growth are considered and prioritised. This includes reforms required for the rapid stimulation of entrepreneurial activity in South Africa.

Although it is not the responsibility of governments to start and run businesses or create new jobs, it is their responsibility to create an economic policy environment that supports entrepreneurial activity, entrepreneurial success and enterprise sustainability. The South African Government understands the importance of growing entrepreneurial activity and SMMEs and has invested significantly in relevant incentives and funds. Yet, the expert ratings indicate that these efforts have not been effective (GEM, 2020:26). Table 5-2 depicts the entrepreneurial framework conditions scores between 2015 and 2019.

**Table 5-2: Entrepreneurial framework conditions scores between 2015 and 2019**

<b>Entrepreneurial Framework Conditions</b>	<b>South Africa 2015</b>	<b>South Africa 2016</b>	<b>South Africa 2017</b>	<b>South Africa 2019</b>	<b>GEM Average 2019</b>
Financial environment and support	4,4	4,8	4,6	4,0	4,5
Concrete government policies related to entrepreneurship	4,6	5,3	4,5	3,5	4,3
Government policies: taxes and bureaucracy	3,4	3,0	3,6	2,7	4,0
Government entrepreneurship programmes	3,3	3,3	3,5	3,1	4,4
Entrepreneurship education (primary and secondary school level)	3,4	3,2	3,1	2,2	3,2
Entrepreneurship education (vocational, professional and tertiary level)	4,7	4,2	4,6	3,5	4,7
R&D transfer	3,8	3,7	3,1	3,2	4,0
Access to professional and commercial infrastructure	5,4	5,7	5,0	4,4	5,0
Internal market dynamics	5,0	5,8	5,9	4,7	5,2
Burdens of internal markets	4,3	3,7	3,5	3,4	4,4
Access to physical infrastructure and services	6,6	6,4	5,8	5,1	6,7
Cultural and social norms	3,8	4,4	4,9	3,8	5,1

Source: GEM (2020)

Given the importance of the regulatory environment to the growth and development of an entity, it is important to understand whether a knowledge of the current SMME policy framework impacts business performance.

#### **5.4 THE RESEARCH QUESTIONS**

This research sought to answer the following two questions:

- What is high growth entrepreneurs' level of knowledge of the SMME policy framework?
- How does such knowledge impact business performance?

#### **5.5 RESEARCH OBJECTIVES**

This research study had the following two objectives:

- To evaluate high-growth entrepreneurs' knowledge of the SMME policy framework; and
- To determine how this knowledge impacts businesses performance.

#### **5.6 HYPOTHESES**

Given that this is empirical research, the researcher formulates hypotheses as opposed to propositions. A proposition differs from a hypothesis in that it suggests a relationship between two concepts, but such a relationship cannot be confirmed by an experiment, and therefore, it relies on previously accepted investigations, reasonable assumptions and existing correlative evidence. A hypothesis is a suggestion that is derived for observational testing (Blumberg *et al.*, 2005).

Table 5-3 outlines the different hypotheses for this study.



Table 5-3: Hypotheses

<p><b>Null hypothesis (H10)</b></p> <p>The age of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework.</p>	<p><b>Alternative hypothesis (H1a)</b></p> <p>The age of the entrepreneur has a significant effect on their knowledge of the SMME policy framework.</p>
<p><b>Null hypothesis (H20)</b></p> <p>The gender of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework.</p>	<p><b>Alternative hypothesis (H2a)</b></p> <p>The gender of the entrepreneur has a significant effect on their knowledge of the SMME policy framework.</p>
<p><b>Null hypothesis (H30)</b></p> <p>The qualifications of the entrepreneur do not have a material effect on their knowledge of SMME policy framework.</p>	<p><b>Alternative hypothesis (H3a)</b></p> <p>The qualifications of the entrepreneur have a material effect on their knowledge of SMME policy framework.</p>
<p><b>Null hypothesis (H40)</b></p> <p>The number of years it takes to reach the break-even point does not have a material impact on the rate of business performance.</p>	<p><b>Alternative hypothesis (H4a)</b></p> <p>The number of years it takes to reach the break-even point has a material impact on the rate of business performance.</p> <p><math>\mu_1 = \mu_2</math></p>
<p><b>Null hypothesis (H50)</b></p> <p>There exist no material statistical differences between the number of years in business and performance.</p>	<p><b>Alternative hypothesis (H5a)</b></p> <p>There exist material statistical differences between the number of years in business and performance.</p>
<p><b>Null hypothesis (H60)</b></p> <p>There exist no material statistical differences between the kind of support received by HGEs during their growth phase and their performance.</p>	<p><b>Alternative hypothesis (H6a)</b></p> <p>There exist material statistical differences between the kind of support received by HGEs during their growth phase and their performance.</p>
<p><b>Null hypothesis (H70)</b></p> <p>There exist no material statistical differences between the knowledge of the SMME policy framework and business performance.</p>	<p><b>Alternative hypothesis (H7a)</b></p> <p>There exist material statistical differences between the knowledge of the SMME policy framework and business performance.</p>

Source: Researcher's construction

### **5.6.1 Hypothesis testing**

Hypothesis testing allows the researcher to carry out inferences about population parameters using data from a sample. Cooper and Schindler (2014:432) state that hypothesis tests use sample data to answer questions such as:

- “Is the population mean greater than or less than a particular value?”; and
- “Are the means of two or more populations different from each other?”

Hypothesis testing allows the researcher to draw these types of conclusions about entire populations. When conducting hypothesis testing, the deduction, induction or abduction (or a combination of two or more) reasoning methodology is used to reach conclusions (Frost, 2018).

#### **5.6.1.1 Deductive reasoning**

Deductive thinking is an essential type of substantial thinking. It starts with a general statement or hypothesis and examines the possibilities of reaching a specific logical conclusion (Bradford, 2017). This logical technique uses allowance to test speculations and hypotheses. In deductive induction, the researcher holds a theory and based on it, they make a prognosis of its results. That is, the researcher anticipates what the perceptions ought to be if the hypothesis were correct. The progression is from general theory to specific observations (Course Hero, 2016).

#### **5.6.1.2 Inductive reasoning**

Inductive reasoning makes broad generalisations from specific observations (Bradford, 2017): there is data, and conclusions are drawn from the data. In inductive inferencing, the researcher makes many observations, discerns a pattern, makes a generalisation, and infers an explanation or a theory (Bradford, 2017). In scientific research, there is a constant interplay between inductive inferences (based on observations) and deductive inferences (based on theory). Regardless of whether the entirety of the premises is valid in an articulation, inductive thinking allows for a false conclusion, implying that truth can only be approached but not ascertained with complete certainty (Krivetskaya, 2014).

### 5.6.1.3 Abductive reasoning

Abductive thinking normally begins with a deficient arrangement of perceptions and continues to the likeliest conceivable clarification for the gathering of perceptions (Butte College, 2016). It is centred on making and testing theories by using the best data accessible. It normally involves making an informed supposition after noticing a phenomenon for which there is no reasonable clarification. Abductive thinking helps frame speculations to be tried (Butte College, 2016). Abductive thinking is frequently used by medical specialists who draw a conclusion dependent on test results and by legal counsel who settle on choices dependent on the proof introduced to them (Bradford, 2017).

As this study sought to ascertain whether there is a correlation between knowledge of the SMME policy framework and firm growth, the researcher needed to move from general theory to specific tested results because a positive correlation between the two variables might lead to policy development. Whereas inductive reasoning draws general principles from specific instances, deductive reasoning draws specific conclusions from general principles or premises. Unlike inductive reasoning, which always involves uncertainty, the conclusions from deductive inference are certain, provided the premises are true (Herr, 2007). For the purposes of this study, the deductive reasoning methodology was deemed the most appropriate, as the researcher moved from general hypotheses to specific conclusions about the population of the 120 observed SMMEs.

Once the reasoning method and procedures for data preparation and preliminary analysis have been performed, the next step for many studies is hypothesis testing. The purpose of hypothesis testing is to determine the accuracy of one's hypothesis because the researcher has collected a sample of data. The researcher then evaluates the accuracy of the hypothesis by determining the statistical likelihood that the data reveals true differences, not random sampling error. The next step is to evaluate the importance of a statistically critical distinction by gauging the functional meaning of any estimated change (Frost, 2018). Even though there are two ways to deal with speculation testing, the more settled way is the traditional or examining-hypothesis approach (Cooper and Schindler, 2014:184). Conventional insights are broadly used in research

applications. A hypothesis is established, and it is rejected or accepted based on the sample data collected (Cooper & Schindler, 2014:433).

The other methodology is known as Bayesian measurements, which is an augmentation of the conventional approach (Cooper & Schindler, 2019:430). This methodology initially uses testing data but goes further and examines any remaining accessible data. These subjective evaluations depend on broad experience instead of explicit gathered information. Different choice principles are set up, cost and different assessments can be presented, and the normal results of component combinations are used to pass judgement on available decision options (Simpson, 2014:136).

Once the researcher has decided on the hypothesis testing tools to use, they must decide on the statistical analysis methodology to use, namely descriptive and/or inferential statistics.

#### **5.6.1.4 Descriptive statistics**

Descriptive statistics summarise and graph the data for a chosen sample or population. This process allows the researcher to understand the specific set of observations. With descriptive statistics, there is no uncertainty because one describes only the people or items that were measured; one does not infer properties about a larger population (Frost, 2018). The interaction includes taking a conceivably large amount of information from the sample and decreasing it to a couple of significant rundown values and charts. Descriptive statistics normally use the accompanying factual measures to portray gathered data (Frost, 2018):

- Central tendency—use the mean or the median to find the focal point of the dataset. This assessment determines where most values fall;
- Dispersion—this determines how far out from the midpoint information broadens. The reach or standard deviation is, for the most part, used to gauge the scattering of data. A low scattering shows that values are firmly scattered around the midpoint. Higher scattering implies that data points fall further away from the middle; and
- Skewness—this measures whether the distribution of values is symmetric or skewed.

These are the standard descriptive measurements, but other clear examinations can be performed, for example, surveying the connections of combined information using relationship and scatterplots.

#### **5.6.1.5 Inferential statistics**

Inferential measurements take information from a sample and extrapolate the bigger populace from which the sample was drawn (Khandelwal, 2018). Given that inferential measurements' objective is to make inferences from the sample and generalise them to a population, it is imperative to be confident that the sample accurately reflects the population.

The most popular methods in inferential insights are theory tests, certainty spans and relapse examination. Curiously, these inferential strategies can create comparable outline values as descriptive measurements, such as the mean and standard deviation (Khandelwal, 2018).

#### **5.6.1.6 Confidence intervals**

In inferential measurements, an essential objective is to appraise population boundaries. These boundaries are the obscure qualities for the whole population, for example, the population mean and standard deviation. These boundary values are obscure and, quite often, undecipherable (Frost, 2018). Typically, it is impossible to measure an entire population. However, in this research, population analysis was conducted as the data was derived from a specific group exposed to the same treatment. The sampling error produced uncertainty, or a margin of error, around the estimates. Following a classical statistics approach, the researcher accepted or rejected a hypothesis based on sampling.

Given that any sample will almost certainly fluctuate from its population, researchers should decide whether the distinctions are statistically materially significant or insignificant (Shukla, 2010:51). A distinction has measurable, significant importance if there is a valid justification to accept that it does not only constitute irregular variability. Certainty stretches integrate the vulnerability and test error to generate a range of values that the actual population value is likely to fall within (Frost, 2018).

### 5.6.1.7 Regression analysis

Regression analysis explains the connection between autonomous factors and a reliant variable. This investigation includes speculation tests that help decide if the connections detected in the sample data really exist in the population (Frost, 2018). In this study, the researcher used ANOVA, regression and correlation analysis to test the hypotheses.

The two types of significant tests used are parametric and non-parametric tests. Parametric tests are more powerful because their information is gathered from interval and proportion estimations. Non-parametric tests are used to test theories with ostensible and ordinal information (Cooper & Schindler, 2014:440).

### 5.6.1.8 Type I and Type II errors

During the hypothesis testing process, two possible errors can occur. These two errors, in turn, could result in four possible scenarios where the null hypothesis can either be true or false, and the statistical decision will be to either accept or reject the null hypothesis (Cooper & Schindler, 2014:457). As confidence is initially earned by the rejection of the null hypothesis, the researcher focusses on the probability of a Type 1 error (claiming a relationship that truly *does not* exist) and the probability of a Type 2 error (failing to claim a relationship that truly *does* exist), as shown in Table 5-4.

**Table 5-4: Implications of the decision to reject or not to reject the null hypothesis**

	<b>ACTUAL STATE OF AFFAIRS</b>	
<b>SCIENTIST'S DECISION</b>	<b>Null hypothesis is true</b> Entrepreneurs' knowledge of SMME policy framework does not impact business performance	<b>Null hypothesis is false</b> Entrepreneurs' knowledge of SMME policy framework impacts business performance
<b>Reject the null hypothesis</b> Entrepreneurs' knowledge of SMME policy framework impacts business performance	<b>TYPE 1 ERROR – GULLIBILITY</b> (claiming a relationship that DOES NOT exist)  Probability is called alpha, significance level or p level	<b>NO DECISION ERROR</b>

<p><b>Do not reject the null hypothesis</b></p> <p>Entrepreneurs' knowledge of SMME policy framework does not impact business performance</p>	<p><b>NO DECISION ERROR</b></p>	<p><b>TYPE 2 ERROR-</b> BLINDNESS (failing to claim a relationship that DOES exist)</p> <p>Probability is beta</p>
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Source: Rosenthal & Rosnow (2008:53) (adapted)

## 5.7 RESEARCH DESIGN

A research design is a deliberate methodology that an investigator uses to lead a scientific study. It is the general synchronisation of distinguished segments and information bringing about a conceivable result. To decisively arrive at a genuine and exact outcome, the research design ought to follow an essential approach according to the kind of examination approach selected (Yousaf, 2018).

Research design can be approached from two standpoints: a *quantitative* or *qualitative* research design—and both have extended components. They can be used or applied distinctly or together (Yousaf, 2018).

### 5.7.1 Quantitative research design

The quantitative method of information gathering centres around explaining a phenomenon across a larger number of study participants, affording the process a real chance of summarising attributes across gatherings or connections (Ben-Eliyahu, 2014). This methodology examines a large pool of participants and applies statistical procedures to recognise general patterns. Critically, the use of questionnaires should be possible across participating groups (Ben-Eliyahu, 2014).

This approach can be further sub-classified into inferential, experimental and simulation approaches to research. The purpose of an inferential approach to research is to form a database from which to infer a population's characteristics or relationships. The experimental approach is characterised by much greater control over the research environment, and in this case, some variables are manipulated to observe their effect on other variables (Asgari & Nunes, 2011:36). A simulation approach involves constructing an artificial environment within which

relevant information and data can be generated. This permits observation of the dynamic behaviour of a system (or its sub-system) under controlled conditions (Kothari, 2004:84).

### **5.7.2 Qualitative research design**

Qualitative research design is exploratory in nature, as it attempts to investigate and not predict the result. It tries to address the questions ‘what’ and ‘how’ (Yousaf, 2018). A qualitative research design is used to investigate the significance and comprehension of complex social conditions, similar to individuals' experience, by using contextual analyses. It has comparative qualities with logical exploration in the following manner (Yousaf, 2018):

- It has a blueprint question expressing the issue that should be settled;
- It has a set request and system used to address these enquiries;
- It analyses the information produced; and
- It makes its decision after the information has been gathered and dissected with the goal that the end drawn from the discoveries is not foreordained.

Other than the similitudes recognised above, a qualitative research design also tries to comprehend, portray or find the discoveries (Sutton & Austin, 2015:228). The investigator is generally the essential instrument that plans the enquiries and deciphers the significance of the information. The information used is reported words generally from interviews (both electronic medium), newspapers and recordings. More than one kind of information is gathered—from the field where the members are—during this examination. At the end of the day, the examination exceeds the proposed scope, thereby making it new as the technique used to gather data changes, resulting in a potentially new form of data collected as the interview progresses (Yousaf, 2018). The researcher concluded that for the purposes of this study, the quantitative approach was the most appropriate.

## **5.8 CONTROL OF VARIABLES**

The specialist can separate between an exploratory and *ex post facto* plan on account of controlling factors. In an analysis, the researcher endeavours to control factors in the investigation. Experimentation offers the most impressive help feasible for speculation of



causation (Cooper & Schindler, 2014:127). For this examination study, a trial configuration was not fitting because the researcher had no control over the tested factors and could not influence participants in the study. Therefore, the *ex post facto* design was more appropriate because it can report only what has happened or what is happening.

## **5.9 TIME DIMENSION**

Cross-sectional studies are carried out once and represent a snapshot in time. Longitudinal examinations are performed over an all-encompassing period (Lazazzara, 2014). A positive aspect of a longitudinal report is that it can follow changes in the long run. In longitudinal board considerations, researchers may contemplate individuals over an extended period. In advertising and marketing studies, boards are set up to report useful information (National Research Council, 2002:9). This data provides information on relative market share, consumer response to new products and new promotional methods. Some types of information cannot be collected from the same person for a second time without the risk of bias. Some benefits of a longitudinal study are often uncovered in a cross-sectional investigation by skilful questioning about past attitudes, history and future expectations (Cooper & Schindler, 2014:128). Given the existing time constraints, this study is a cross-sectional study.

## **5.10 RESEARCH ENVIRONMENT**

Research designs differ as to whether they occur under actual environmental conditions (field conditions) or staged or manipulated conditions (laboratory conditions) (Cooper & Schindler, 2014:128). Simulations that replicate the essence of a system or process are increasingly used in research, especially in operations research. Conditions and connections in real circumstances are regularly addressed in numerical models. Role-playing and other behavioural activities may also be viewed as simulations (Course Hero, 2016). This study was conducted under field conditions in the South African SMME environment.

## **5.11 PARTICIPANTS' PERCEPTUAL AWARENESS**

Participants' perceptual awareness can influence response behaviour. Cooper and Schindler (2014:129) underscore that the value of a research plan might decrease when individuals in a

hidden report see that the exploration is being directed. The people who participated in this study were part of government-funded high-growth programmes and informed of the research. They could have answered the questions according to what they perceived may improve their position in the programme, and therefore, they could potentially receive more government support going forward. It is therefore not inconceivable that the respondents may have adapted their response behaviour.

## **5.12 POPULATION AND SAMPLING**

In the researchers' mission to add to scholarly discussion and information, they accumulate information or data from research participants. These participants are part of the research population, which is a gathering of people with at least one attribute of interest. Validity is quintessential to each exploration study, and data integrity drives the credibility of the findings (Asiamah, Mensah & Oteng-Abayie, 2017:1607-1620). As the primary source of data, the population can, therefore, influence research validity based on the analyst's arrangement, definition and decision.

Notwithstanding the requirement for researchers to adequately comprehend their examination population, they are relied upon to characterise it concisely and plainly at the phase of reporting the exploration. A legitimate definition or determination of the population is important since it guides others in evaluating the validity of the sample, sampling technique(s) and results of the examination. A proper description of the population characteristics is a necessity in the documentation of both qualitative and quantitative investigations. Additionally, the ideas of the general, target and accessible population frequently apply to the two designs (Asiamah et. al, 2017:1607-1620).

### **5.12.1 General population**

A general population is a group from which information is to be ascertained. It includes past, present and future participants who share common characteristics. A general population is dictated by characterising study participants who, for the most part, are suggested by the examination objective. The capacity of the study participants to share knowledge and

experiences generally does not take into account defining the general population (Asiamah *et al.*, 2017:1607-1620).

### **5.12.2 Target population**

The general population is naturally rudimentary, meaning it frequently contains members whose consideration in the investigation would defy the exploration objective, suppositions and setting (Asiamah *et al.*, 2017:1607-1620). The researcher's goal in choosing individuals from the objective population is to arrive at participants who can depict their experiences to address the exploration objective. This study's target population was high-growth SMMEs that have received some form of business development support services from either the public or private sector.

### **5.12.3 Accessible population**

The accessible population consists of individuals from the target population who will take part in and be accessible at the time of the investigation (Knight, 2014). It is generally smaller than the target population because progress to the accessible population is possibly characterised by a critical number of people quitting the investigation.

For purposes of this study, the accessible population consisted of high-growth SMMEs that participate in the SEDA and the Transnet high-growth programmes, which are both funded by the Government of South Africa. Table 5-5 below provides a comparison between qualitative and quantitative research design as they relate to the various population groups.

Table 5-5: Comparing and contrasting quantitative and qualitative designs

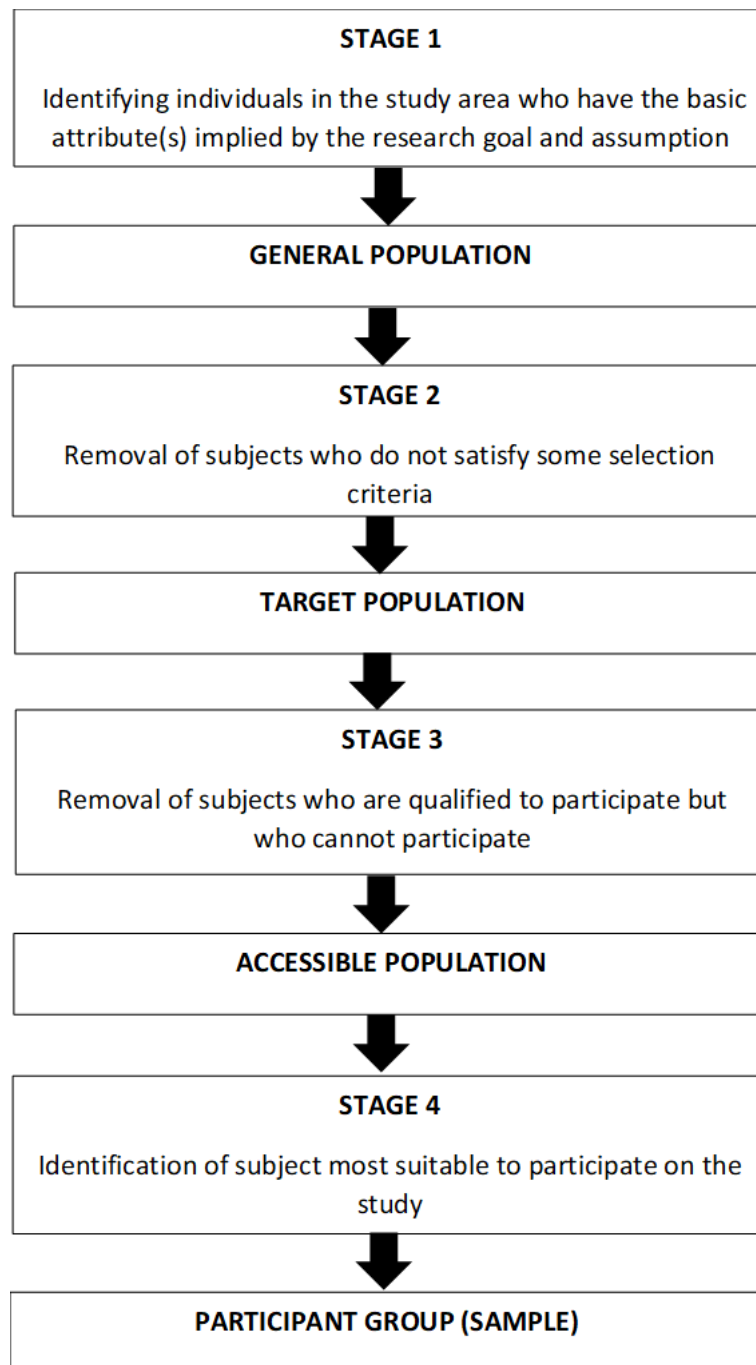
Type of population	Similarity	Difference	
		Quantitative	Qualitative
General	Both are determined based on the research goal or objective, context and assumptions.	This may be larger because quantitative studies, particularly cross-sectional studies, theoretically require larger population groups.	This may be small given that qualitative studies are hypothetically connected with smaller research participant groups.
Target	Both employ determination measures to remove members of the general population who can not give exact and sufficient data.	This is resolved depending on whether the choice models are met by participants from the general population. When a participant fulfils these measures, the individual in question is incorporated. The capacity to react is of next-to-zero significance; henceforth, not many choice models might be applied.	A few standards are methodically used to scrutinise everyone towards the most qualified arrangement of people. The capacity to react is of critical significance; subsequently, this may apply more choice standards.

Type of population	Similarity	Difference	
		Quantitative	Qualitative
Accessible	Both are formed after removing target population members who are unwilling to participate or can not participate.	Often larger and more complex to sample. May require stratification and clustering to sample.	Often smaller and simpler to sample. Does not need clustering and stratification to sample. However, some qualitative studies accompany large accessible populations.

Source: Asiamah *et al.* (2017)

Determination of the available population is a forerunner of sampling. Until the available population is distinguished and seen, any endeavour to test may prompt undesirable results, for example, having out-of-reach people in the sample. Having a significant number of such people in the sample will create an insufficient data set and the inability to fulfil test size necessities (Asiamah *et al.*, 2017:1607-1620).

Figure 5-2 outlines the steps to be followed in population refinement.



**Figure 5-2: Steps in population refinement**

Source: Asiamah *et al.*, 2017 (adapted)

#### **5.12.4 Sampling methodology**

In this study, the entire accessible population was included in the study. This was deemed appropriate because:

- The population shared uncommon characteristics;
- The population was relatively small; and
- It would be relatively easier to solicit responses from these SMMEs.

It should be noted that there could be other HGEs in South Africa that do not participate in such programmes.

### **5.13 DATA COLLECTION METHODS AND INSTRUMENTS**

Data collection is a cycle of gathering information from every applicable source to discover answers to the research problem, test the suppositions and assess the results. Data collection techniques can be separated into two classifications: primary and secondary methods (Dudovskiy, 2018).

#### **5.13.1 Primary data collection methods**

Primary data collection strategies can be isolated into two gatherings: quantitative and qualitative data collection. Quantitative data collection strategies are situated in basic numerical methodologies in different configurations. Techniques for quantitative data collection methods and examination incorporate surveys with limited open inquiries, strategies for regression, correlations, mean, mode and medians (Bryman & Bell, 2015:403).

Quantitative strategies are less expensive to apply, and they can be applied in a relatively limited period compared to qualitative strategies. In addition, because of the significant degree of normalisation of quantitative strategies, it is not difficult to make correlations of discoveries (Dudovskiy, 2018).

Qualitative research strategies do not include numbers or numerical counts and are firmly connected with words, sounds, feelings, colours and unquantifiable components. Qualitative examinations intend to guarantee a more prominent degree of the profundity of comprehension and incorporate meetings, surveys with open-ended questions, centre gatherings, perceptions, games or role-playing and contextual analyses (Dudovskiy, 2018).

The study's two identified programmes had 120 HGEs between them, and the intention was to collect data from the whole population by using a structured questionnaire. The effect of the high growth entrepreneurs' knowledge of the SMME policy framework was assessed against their performance when they first entered the programme.

### **5.13.2 Secondary data collection methods**

Secondary data is a type of data that has already been published in books, newspapers, magazines, journals, online portals etc. There is an abundance of data available in these sources about research in business studies, almost regardless of the nature of the research area. Therefore, application of appropriate set of criteria to select secondary data to be used in the study plays an important role in terms of increasing the levels of research validity and reliability (Saunders, Lewis, & Thornhill, 2012:58). These criteria include, but are not limited to date of publication, the credentials of the author, the reliability of the source, the quality of discussions, depth of analyses, and the extent of contribution of the text to the development of the research area, etc.

### **5.13.3 Procedure followed to gather data**

As indicated in Section 5.12.3 above, the 120 entities forming part of this study participated in government-sponsored high-growth programmes. The programme managers were contacted, and permission was sought to conduct the study. A Survey Monkey questionnaire link was then sent to participants. Questionnaires were emailed to participants who could not access the online link. Reminders were sent to participants near the closing time, and all participants submitted their responses by the closing date.



## **5.14 DATA ANALYSIS METHODOLOGY**

A quantitative methodology is generally connected with discovering evidence to either support or reject a supposition that has been formulated during the earlier stages of the research process (Dudovskiy, 2018). Data analysis is the most crucial part of research and summarises collected data. It involves interpreting gathered data through analytical and logical reasoning to determine patterns, relationships or trends (University of Pretoria, 2019). In this study, descriptive statistics focussing on personal and business venture demographics are presented, followed by Cronbach's alpha values to determine the reliability of the measuring instrument. Finally, the researcher provides an outline of inferential statistics used to test the strength of the relationship between the variables using the univariate ANOVA, Spearman correlation coefficient and Wald logistic regression analysis.

### **5.14.1 Unit of analysis**

To select the appropriate unit of analysis, a researcher must first consider what can be concluded about the unit of analysis on completion of the study (Grunbaum, 2007:78-97). In this study, bearing in mind the research question, the objective was to infer at the end of the research whether the unit of analysis (HGEs) grew because of a knowledge of the SMME policy framework by the unit of observation (the entrepreneur).

The unit of investigation consisted of 120 identified HGEs that participate in the SEDA and Transnet high-growth programmes. Research data was collected using a structured questionnaire validated for South African populations. The key resources used in developing the study were the researcher, the study supervisor, HGEs, language editors and subject matter experts.

The research focussed on measuring the level of knowledge of high-growth entrepreneurs of the SMME policy and how such knowledge or lack thereof impacts their businesses and the objectives and intended outcomes of the SMME policy framework.

### **5.14.2 Measurement instruments**

While it is conceivable to use existing questionnaires that have gone through substantial development, are widely used and have a well-established level of reliability and validity, when a study is new, there may not be an appropriate existing instrument, and a new one has to be developed (Mohajan, 2017:59). The researcher would have to consider designing a questionnaire if no existing questionnaire suits the study objectives, and the questionnaire is conceptualised through a detailed literature review (Mohajan, 2017:65). Colton and Covert (2007:14) emphasise the need to ensure that the newly-developed instrument will produce trustworthy and accurate data.

One may even choose to adapt an existing instrument. However, adapting an existing questionnaire for a different purpose or group of people can have significant ramifications for its reliability and validity (Meadows, 2003). If, however, the information requirements of the questionnaire are specific to a one-off study, the only option may be to construct a new questionnaire. This can also include questions adapted from existing questionnaires (Meadows, 2003).

Moos (2014) used a questionnaire to evaluate the South African small business policy to determine the need for and nature of an entrepreneurial policy. This questionnaire was adopted and slightly adapted by this researcher to accommodate specific questions related to the subject under investigation. The changes to the questionnaire and their impact on validity are discussed in Section 5.14.3.1 below.

### **5.14.3 Validity and reliability of the measuring instrument**

A measurement instrument's inherent value is heavily influenced by the reliability and validity of the information gathered (Chikamba, 2016:175). High validity and reliability increase transparency and decrease opportunities to insert researcher bias in qualitative research (Singh, 2014:79).

#### **5.14.3.1 Validity**

An exploration instrument's validity surveys the degree to which the instrument estimates what it is intended to gauge (Singh, 2014:80). Leedy and Ormrod (2013:182) hypothesise that

internal validity concerns itself with whether or not a determination that fuses a causal connection between at least two factors is substantial. External validity is concerned with whether or not study outcomes can be generalised beyond a specific research context. There are three different ways to quantify validity: content, criterion, and construct validity (Moos, 2014).

The researcher acknowledges that the validity of the questionnaire used in this research has already been tested and proven by Moos (2014). In his study, Moos tested and discussed the questionnaire with small business practitioners to ensure that it captured the necessary content and constructs. Moos also used the services of a language editor to ensure the questionnaire was sound in terms of instruction and language.

Criterion-related validity is concerned with the ability of a measure to make accurate predictions and correlate with other standard measures of similar constructs (Zikmund, et al., 2013:124). In her study, Moos performed a correlation analysis to prove that predictions can be made and that significant relationships did exist. Construct validity exists when a measure dependably quantifies and honestly addresses a special idea (Cooper & Schindler, 2014:259).

The researcher used Moos's questionnaire as both studies evaluated the knowledge of the SMME policy framework. The difference between the two studies is that Moos conducted the study on the broader SMME sector while this study focussed on the HGE segment of the SMME market. The researcher added Questions 10, 16-21 to the questionnaire.

The results of the factor analysis on the three factors conducted by Moos are presented in Table 5-6.

**Table 5-6: Factor analysis**

Description of variable	Factors	Eigenvalues
1. Respondents' need for business skills, support and entrepreneurial skills	Factor 1: Business skills	7,12128
	Factor 2: Support	1,77533
	Factor 3: Entrepreneurial skills	1,22411

Description of variable	Factors	Eigenvalues
2. Objectives of the small business policy	Factor 1: Objectives	4,60634
3. Outputs of the small business policy	Factor 1: Outputs	2,37948
4. Outcomes of the small business policy	Factor 1: Outcomes	4,62387

Source: Moos (2014)

As all the questions were demographic-type questions, they did not impact the factor analysis results (and eigenvalues) performed by Moos to test the validity of the measuring instrument.

#### 5.14.3.2 Reliability

Reliability is measured by the extent to which a measurement is dependable or produces the same outcome each time, under identical conditions and with the same subjects. It estimates the consistency, accuracy, repeatability and reliability of the examination (Chakrabarty, 2013:1-8). Reliability is a vital but not adequate condition for validity. If a measure is not reliable, it cannot be valid; a measure can, however, be reliable but not necessarily valid (Diamantopoulos & Schlegelmilch, 2000:34).

The two types of reliability measurements are stability and internal consistency. Stability refers to a measure's ability to remain the same over time, despite uncontrolled testing conditions or the respondents themselves (Allen & Yen, 1979:10). A perfectly stable measure will produce the same scores time after time when administered to the same respondents (Cooper & Schindler, 2014:260).

Internal consistency is the usual gauge for reliability and estimates reliability by grouping questions in a questionnaire that measures the same concept (Chikamba, 2016:176). It quantifies the level of internal consistency by checking one half of the outcomes of measured items against the other half (Ganesh, 2009:37). It requires a single administration and is

appropriate when the test is exceptionally long (Mohajan, 2017:50). A high Cronbach's alpha coefficient (usually above 0,7) is regarded as indicating construct reliability. The study results of Cronbach's alpha analysis presented in Chapter 6.

### 5.15 PRE-TESTING

The pre-testing and piloting of a questionnaire is an essential part of its development and ensures that all the administrative procedures are working properly before the main study is conducted. This is done by observing the time it takes to complete the questionnaire, identifying any problems with rater reliability, examining the influence of environmental conditions, and correcting any issues respondents may have with the wording and format (Colton & Covert, 2007:15).

The researcher piloted the questionnaire with five qualifying SMMEs that were shortlisted (they met all the qualifying criteria) for the Transnet programme but that were not selected in the end. This assisted the researcher in refining the instrument and field procedures in an iterative process, as issuing a questionnaire that has not been pre-tested is not recommended.

### 5.16 STATISTICAL TESTS

Statistical tests give a technique for settling on quantitative choices about a specific sample. Statistical tests predominantly test the theory on the meaning of an examined sample.

The most commonly used tests are detailed in Table 5-7.

Table 5-7: Recommended statistical techniques by measurement level and testing situation

	One-sample Tests	Two-sample Tests		K-sample Tests	
Measurement Scale	One-sample Case	Related Samples	Independent Samples	Related Samples	Independent Samples
<b>Nominal</b>	- Binomial - Chi-square one-sample test	- McNemar	- Fisher's exact test - Chi-square two-samples test	- Cochran's Q	- Chi-square for k-samples
<b>Ordinal</b>	- Kolmogorov-Smirnov one-	- Sign test - Wilcoxon	- Median test - Mann-Whitney U	- Friedman two-way ANOVA	- Median extension

	One-sample Tests	Two-sample Tests		K-sample Tests	
Measurement Scale	One-sample Case	Related Samples	Independent Samples	Related Samples	Independent Samples
	sample test - Runs test	matched-pairs test	- Kolmogorov - Wald-Wolfowitz		- Kruskal-Wallis one-way ANOVA
<b>Interval and Ratio</b>	- T-test - Z-test	- T-test for paired samples	- T-test - Z-test	- Repeated-measures ANOVA	- One-way ANOVA - N-way ANOVA

Source: Cooper & Schindler (2014)

The most common assumptions for the use of statistical tests refer to whether:

- The subjects are independently and randomly sampled;
- The samples are independent of one another;
- The population variances are homogeneous;
- The sizes of the samples are large; and
- The measurement scale is interval, ordinal or nominal (Bless & Kathuria, 1993:76).

The test employed by the researcher is discussed below.

### **5.16.1 Null hypothesis**

The null hypotheses is that knowledge of the SMME policy framework is not be positively related to business performance.

The alternative hypothesis states the direction of difference; hence, a one-tailed test of significance was employed.

### **5.16.2 Statistical test**

A non-parametric test was used as (Bless & Kathuria, 1993:43):

- Subjects were not independently and randomly sampled;
- A purposive sample was used;
- The sample was independent;
- Population variances were not expected to be homogeneous but potentially heterogeneous;
- The size of the accessible population (totality of entities in the two high-growth programmes) was relatively small; and
- The scale of the measurement was interval and ordinal.

### **5.16.3 Test of normality**

When managing medium-size tests, it is critical to check for a potential infringement of the regularity supposition. This can be cultivated through a review of the residuals from the regression model. There are a few measurements accessible to analyse the regularity of factors, including skewness, kurtosis and graphical portrayals e.g ordinary probability plot (Statistics Solutions, 2013). Skewness is a measure of the asymmetry of a variable's distribution, and kurtosis is a measure of the 'peakedness' of a distribution (West, Finch & Curran, 1995:60). In Chapter 6, the researcher presents and discusses the results of normality tests for each variable.

### **5.16.4 Significance level**

Following the above-definition of the null and alternative hypotheses, the researcher had to decide on the significance level to be used, analyse the observation and either accept or reject the null hypothesis in reaching the conclusion of the research goal (Laerd Statistics, 2018). The level of statistical significance refers to the probability of rejecting a null hypothesis that is, in fact, true. This quantity ranges from zero (0,0) to one (1,0) and is typically denoted by the letter alpha ( $\alpha$ ). As this quantity represents an 'error rate', lower values are generally preferred. In scientific research, nominal values generally range from 0,05 to 0,10 (The Minitab Blog, 2015). The research findings are presented in Chapter 6, and conclusions on whether to accept or reject the hypotheses are presented in Chapter 7.

### **5.16.5 Statistical analysis**

Descriptive statistics focussing on personal and business venture demographics are presented in Chapter 6, followed by Cronbach's alpha values to determine the validity of the measuring instrument.

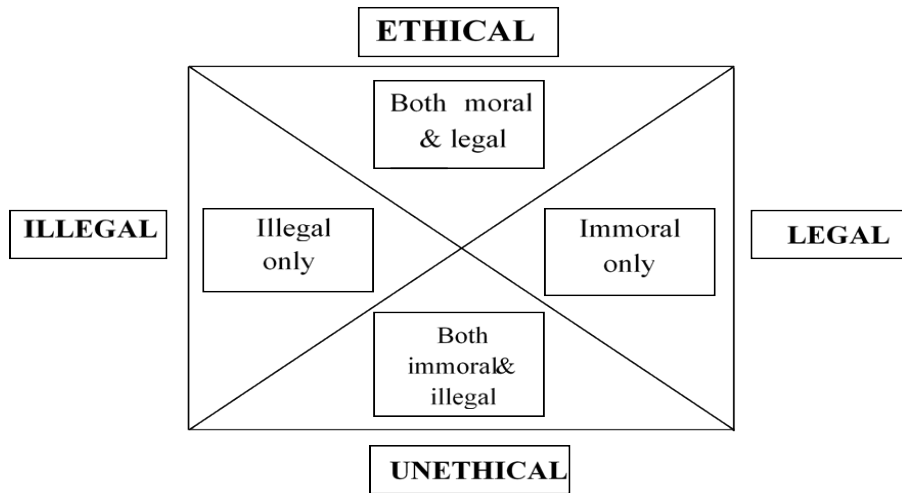
The researcher provides an outline of inferential statistics used to test the strength of the relationship between the variables using the univariate ANOVA, Spearman correlation coefficient and Wald logistic regression analysis.

## **5.17 ETHICAL CONSIDERATIONS**

In order to meet the ethical requirements of a research study, the researcher sought permission from the SEDA and Transnet high-growth programme managers to conduct the study. Silverman (2009:175) warns that, although it is common practice to seek participants' formal written consent before undertaking a study, the researcher should avoid highly formalised methods of securing consent and rather pursue methods that nurture relationships that lend themselves to a sustained ethical regard for participants. In this study, the researcher explained the purpose of the study to the participants, who did not raise any objections to participating, and questionnaires were then sent to them to complete. The information was given freely without coercion or duress, and the principle of anonymity and confidentiality was observed throughout the research process. Participation was strictly voluntary, and participants were informed they had the right to withdraw from the research process at any time.

The interpretation of the results was in line with observed data, using high standards of research as defined by the research scope. This study sought to conduct ethical research that is both moral and legal, as shown in Figure 5-3, with the fully informed consent of the subjects involved, as discussed above.





**Figure 5-3: Typology of legal and moral actions in research**

Source: Chikamba (2016)

The researcher took responsibility for observing the basic principles aligned with Figure 5-3.

### 5.18 CONCLUSION

In this chapter, a description of the study's research design and methodology was discussed. The chapter also discussed the research question, objectives, hypotheses, data collection methods, statistical methods, and ethical considerations. The variables involved in the analysis are outlined in Figure 6-25.

The data collection was from the total accessible population of 120 HGEs and was conducted in the form of a research questionnaire. The data processing and analysis attempted to answer the research question through the research findings, as presented in Chapter 6. The explanation of the statistical techniques (presented here) has preceded the actual tests carried out. These techniques include the descriptive statistics used to investigate and summarise the primary data research constructs. This was followed by ANOVA, correlation and regression analysis. Chapter 6 explains and interprets the most significant results yielded from the above techniques.

## **6 CHAPTER 6: DATA ANALYSIS**

### **6.1 INTRODUCTION**

The literature review in Chapter 4 demonstrated that determinants of HGEs are different from other forms of entities and require specialised support to foster their growth and development. However, besides the two programmes outlined in Chapter 5, the Government of South Africa has not put in place other programmes and measures designed to identify HGEs and enable them to accelerate to the next level. In fact, these two programmes have received widespread criticism amongst some politicians that the government is supporting entities that would survive without its support. As will be seen from the findings in Chapter 7, these entities are likely to survive without further support, but the majority are unlikely to scale up and create much-needed jobs. It could be argued that some of the contributors to the stagnant economic growth and high unemployment rate in South Africa are the high fatality rate of SMMEs and the survivors' inability to scale up.

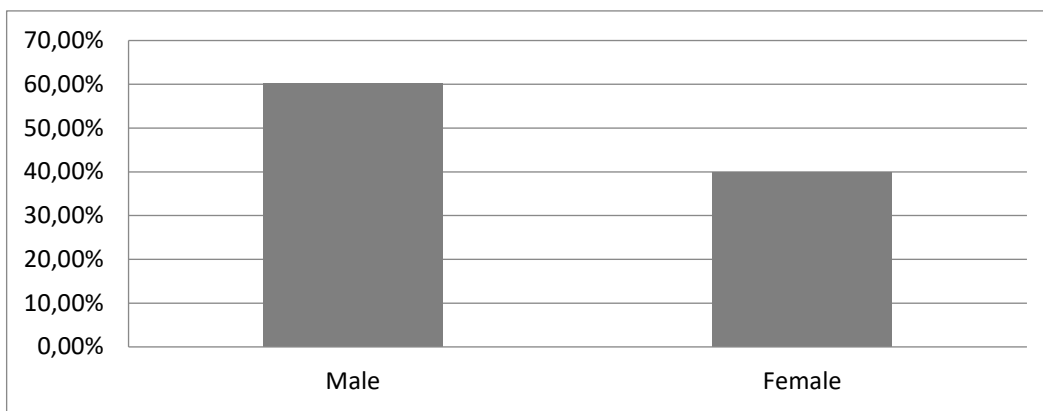
In this chapter, the researcher presents and interprets the research findings based on responses received from research participants who completed and submitted their questionnaires. The exploration of various high-growth programmes in other jurisdictions and the literature review on determinants of HGEs enabled the questionnaire's development. Firstly, descriptive statistics focussing on personal and business venture demographics are presented, followed by Cronbach's alpha values to determine the reliability of the measuring instrument. The measurement instrument is a validated instrument that has been used in previous research (Moos, 2014). Finally, the researcher provides an outline of inferential statistics used to test the strength of the relationship between the variables using the univariate ANOVA, Spearman correlation coefficient and Wald logistic regression analysis.

### **6.2 THE DEMOGRAPHICS OF THE TOTAL POPULATION**

#### ***6.2.1 Personal demographics***

Appendix A shows the electronic questionnaire sent to the 120 entities. All 120 questionnaires were returned and analysed. This section provides a detailed analysis of the population

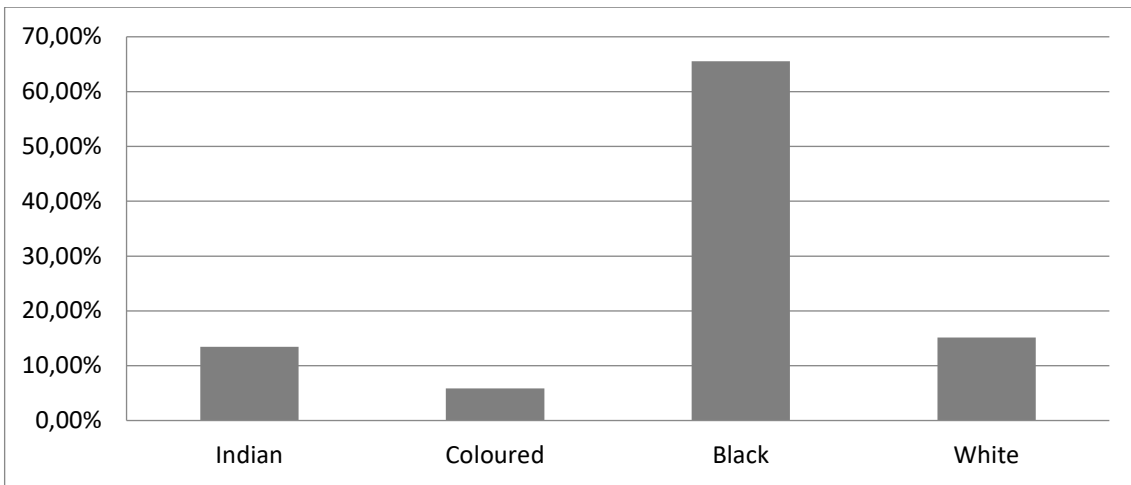
demographics using descriptive statistics. The demographic information which relates to the entrepreneur refers to gender, ethnic group, province, metropolitan area, home language, level of education and age. The demographic information related to the business venture refers to the age of the business, number of employees, industry, form of ownership, annual turnover and how long it took to reach the break-even point. In addition, profitability, number of competitors and projected number of employees over the next five years are covered. The demographic results of this study are presented in the figures and tables below. Figure 6-1 illustrates the gender demographic.



**Figure 6-1: Gender demographic**

Source: Researcher's construction

As illustrated in Figure 6-1, 60% (71) of respondents were male, and 40% (47) were female. Figure 6-2 provides a breakdown of the group demographic profiles of the respondents.

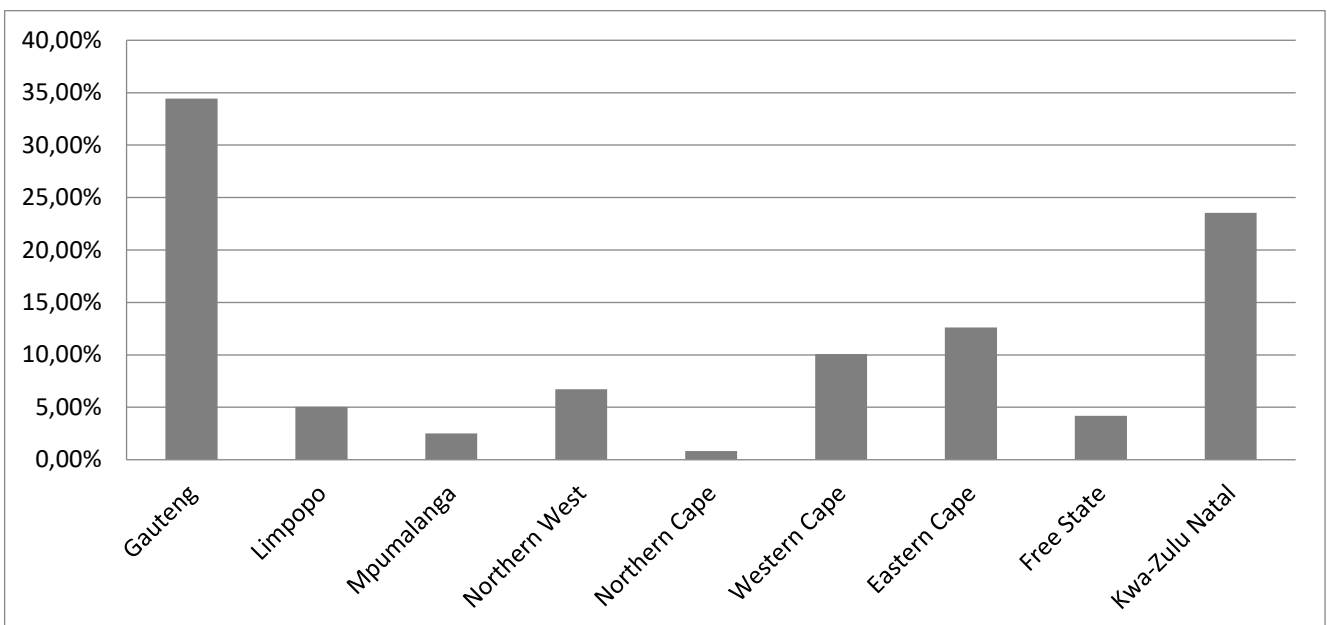


**Figure 6-2: Ethnic group demographics**

Source: Researcher's construction

As illustrated in Figure 6-2, most respondents were Black 78 (65,55%), followed by Whites 18 (15,13%), Indian 16 (13,45%) and Coloured 7 (5,88%). The racial profile of South Africa's population is 80,7% Black, 8,8% Coloured, 7,9% White and 2,6% Asian/Indian (Stats SA, 2019a:1). In this study, White people were over-represented, at 15,13%.

Figure 6-3 depicts the distribution of respondents across the nine provinces of South Africa.

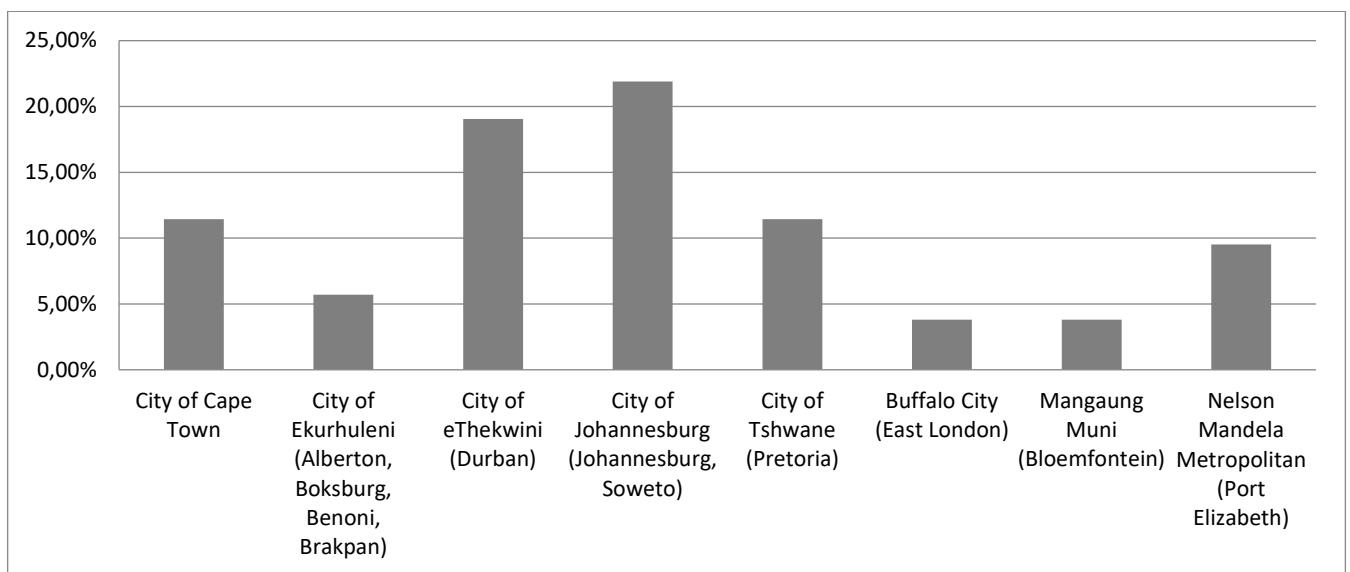


**Figure 6-3: Provincial distribution**

Source: Researcher's construction

Of the respondents, 34,45% (41) were from Gauteng, followed by 23,53% (28) from KwaZulu- Natal and 12,61% (15) from the Eastern Cape. Surprisingly, the Western Cape (which is more developed and has a more thriving industry than the Eastern Cape) came in third with 10,08% (10) of respondents.

Figure 6-4 depicts the metropolitan municipality where respondents are located.

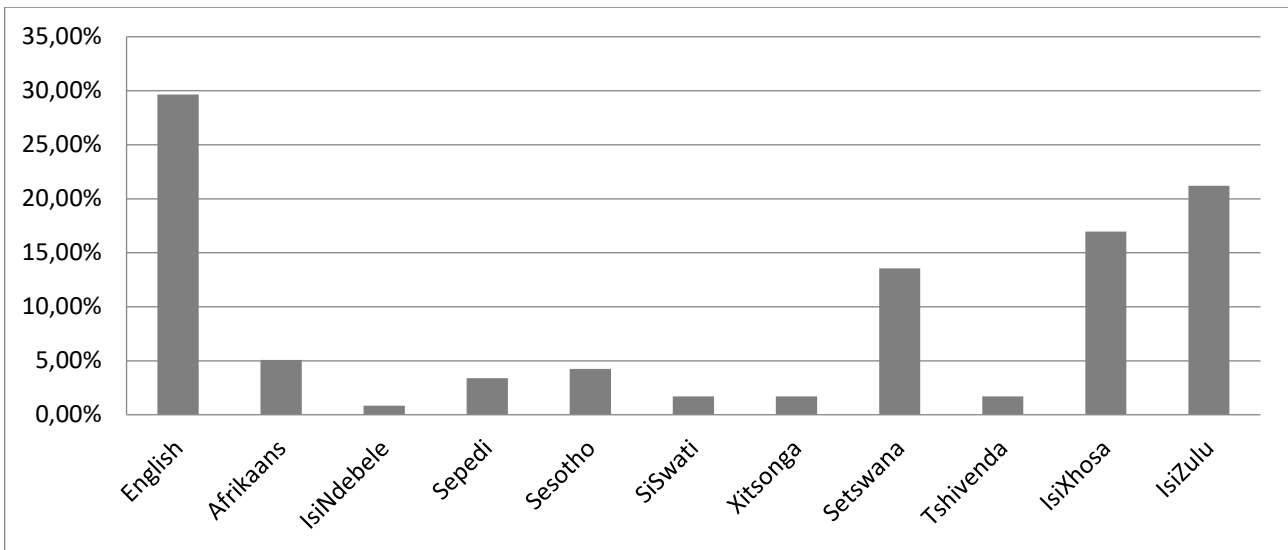


**Figure 6-4: Distribution by metropolitan municipality**

Source: Researcher's construction

The spread of responses in metropolitan municipalities was in line with the provincial representation depicted in Figure 6-3. The majority of responses 33,33% (35) came from Johannesburg and Tshwane (the two biggest Metropolitan Municipalities in Gauteng), followed by eThekweni at 19,05% (20), Nelson Mandela Metropolitan Municipality at 9,52% (10) and Buffalo City Metropolitan Municipality at 3,81% (4), the two Metropolitan Municipalities in the Eastern Cape.

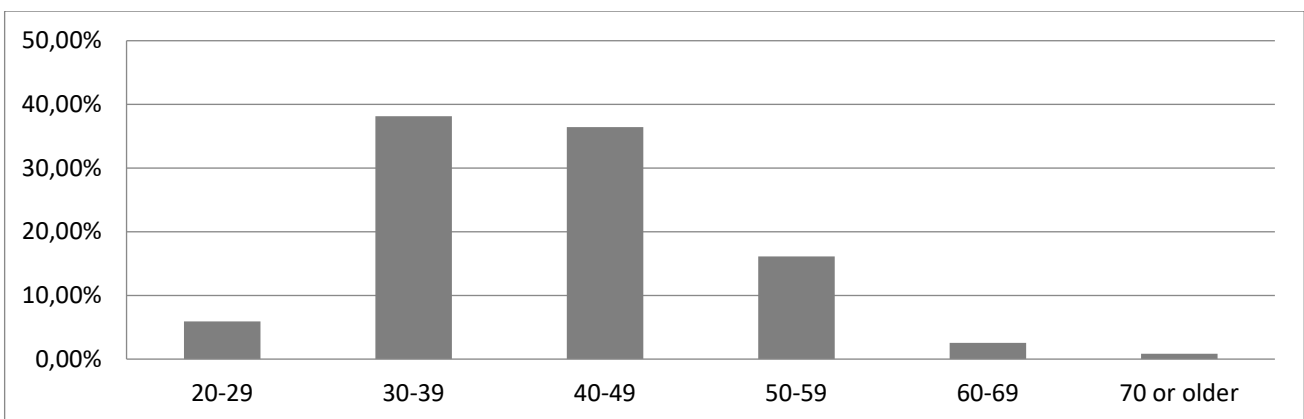
Figure 6-5 depicts the home language of the respondents. The questionnaires were all conducted in English.



**Figure 6-5: Home language distribution**

Source: Researcher's construction

Of the respondents, 29,66% (35) were English speaking, 21,19% (25) IsiZulu speaking and 16,95% (20) IsiXhosa speaking. Although the majority of respondents were Black (Figure 6-2), most of the Black respondents from Johannesburg were highly educated. Although most were fluent in their various vernacular languages, they regarded English as their main language. Figure 6-6 illustrates the age distribution of respondents.

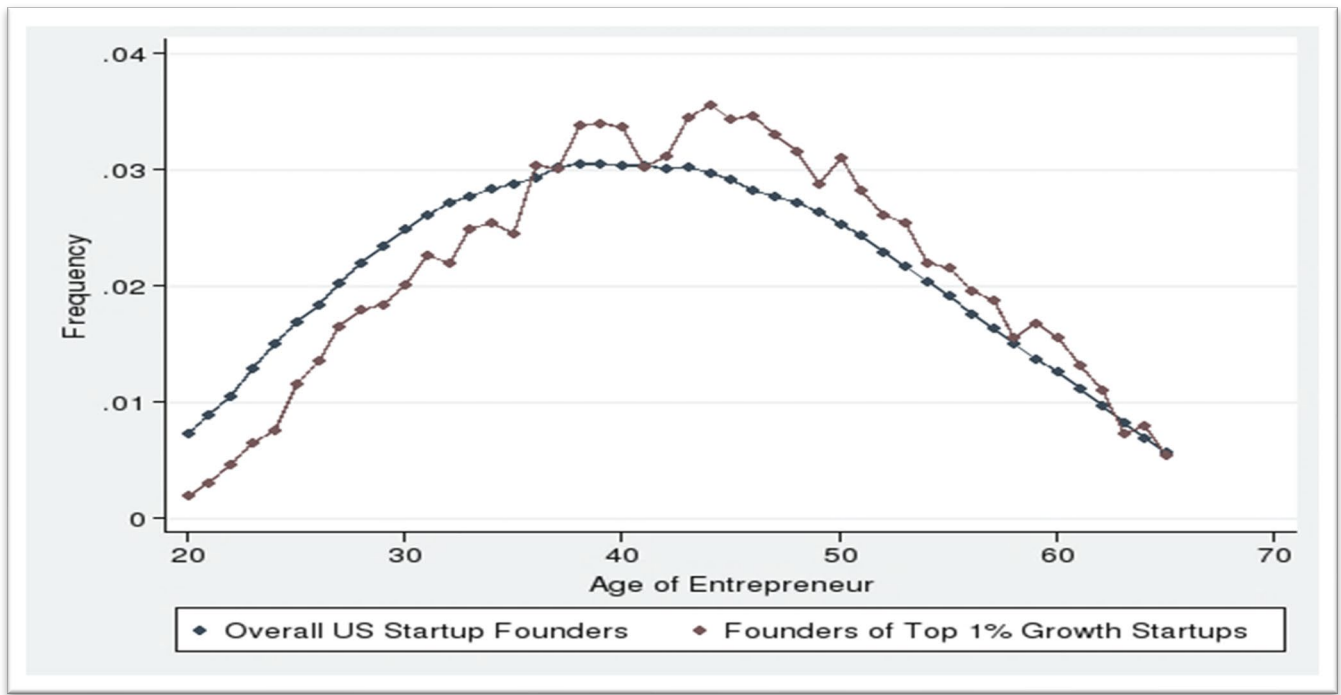


**Figure 6-6: Age distribution**

Source: Researcher's construction

The majority of the respondents, 38,14% (45), fell within the 30 to 39 years age group, followed by 36,44% (43) in the 40 to 49 years age group. These two categories constituted 74,58% of all

respondents. The age distribution outlined in Figure 6-6 was in line with international norms, as demonstrated in Figure 6-7.



**Figure 6-7: Founder age distribution in the USA**

Source: Azoulay, Jones, Kim & Miranda (2018:74)

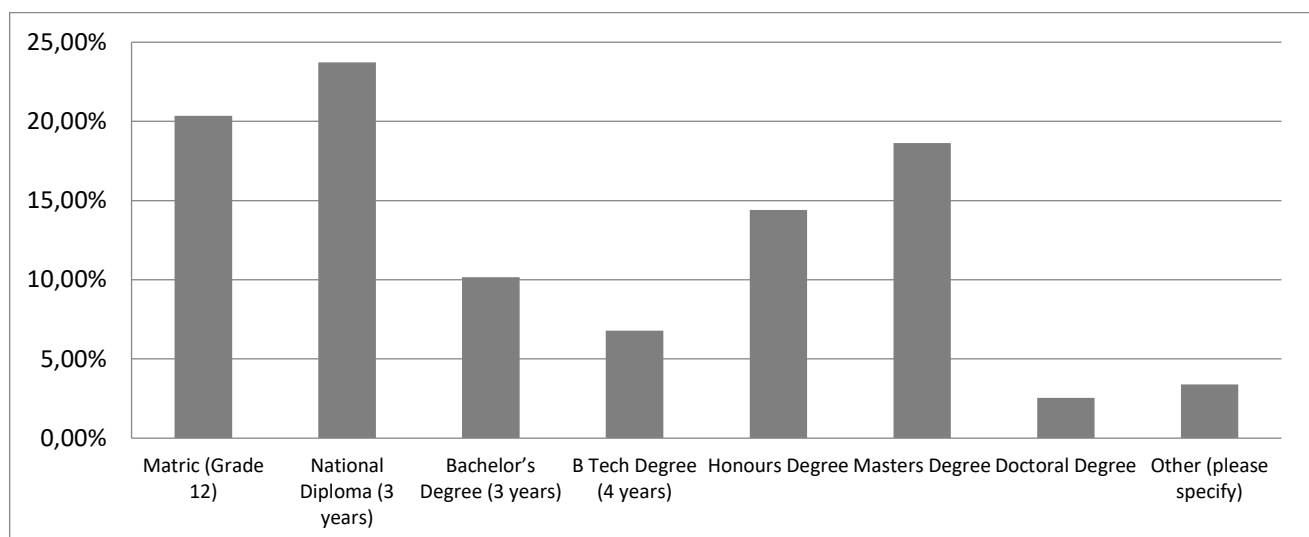
Based on the information outlined in Figure 6-6, the data concurs with the information outlined in Figure 6-7 that successful entrepreneurs are middle-aged, not young, as is sometimes suggested. The data presented does not support the view that entrepreneurs in their early 20's are likely to succeed. The data suggests that entrepreneurs who start businesses in their middle-age have a higher probability of succeeding, while young founders appear disadvantaged.

The mean age for the 2,7 million entrepreneurs in the USA who started businesses that progressed and employed at least one employee between 2007 and 2014 was 41,5 years. The mean age for the 1,000 new HGEs in the USA is 45,0 years (Azoulay *et al.*, 2018:65). Though the dominance of HGEs by middle-aged founders is due, in part, to the prevalence of entry by

the middle-aged, Azoulay *et al.* (2018) found that the ‘batting average’ for starting a successful entity is theoretically rising with age.

The suggestion that young people establish the highest-growth entities effectively underplays the role of experience, because the view is that experience either is not valuable in business or obstructs novelty and transformative ideas. In addition, history suggests that most founders who built successful businesses came from within the start-up’s specific industries. Research shows that for entrepreneurs who have prior employment experience in a specific sector, their chance of success increases by up to 125% compared to those with no sector experience. These findings contradict the popular presumption that youth has an advantage over experience (Azoulay *et al.*, 2018:79).

Figure 6-8 depicts respondents’ highest level of education.



**Figure 6-8: Highest level of education**

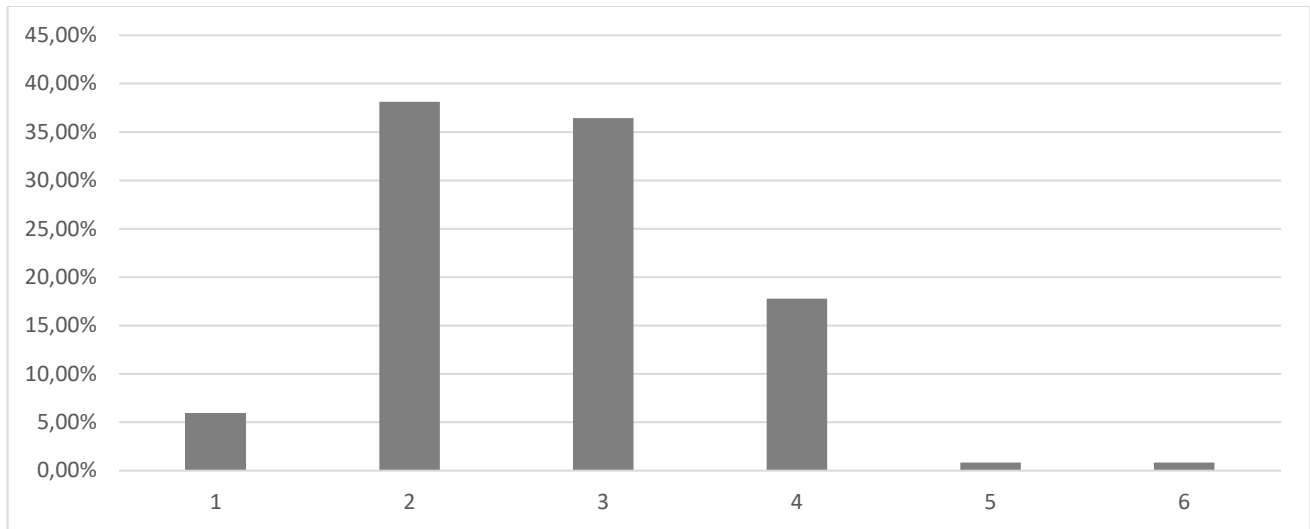
Source: Researcher’s construction

Of the respondents, 23,73% (28) had a three-year year National Diploma, followed by 30,24% (24) with a matric certificate and 18,64% (22) with a master’s degree. Eighty percent had a post-matric qualification, and slightly more than half had a university education.



## 6.2.2 Business venture demographics

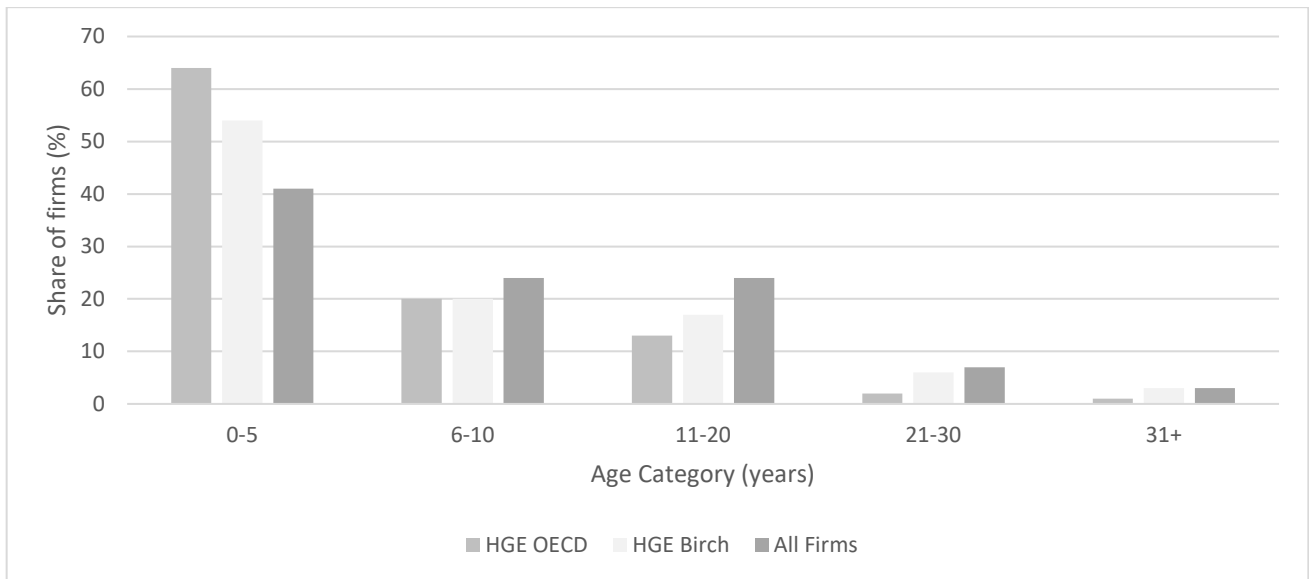
Figure 6-9 depicts the number of years the participants were in business.



**Figure 6-9: Number of years in business**

Source: Researcher's construction

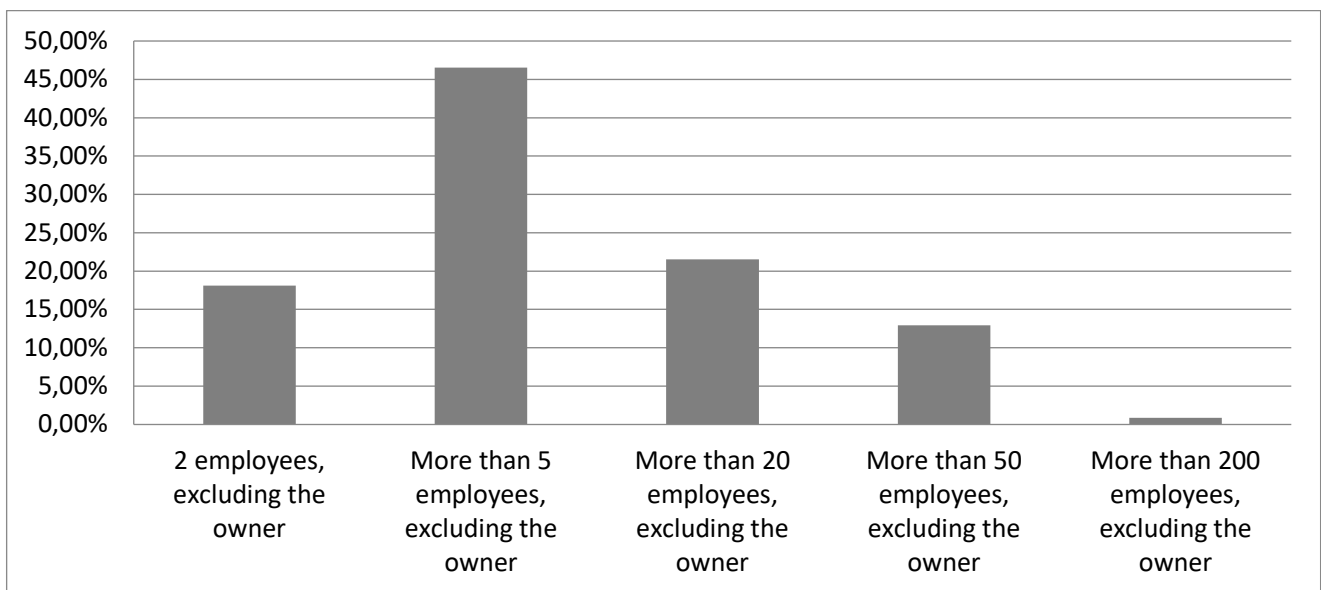
As can be seen from Figure 6-9, 5,93% (7) had been in existence for one year, 38,14% (45) of businesses had been in existence for two years, 36,44% (43) had been in existence for three years, 17,80% (21) had been in existence for four years, 0,85% (1) had been in existence for 5 and 1 (0,85%) entity had been in business for 6 years. This was in line with the international norm that HGEs are relatively young, as depicted in Figure 6-10.



**Figure 6-10: Age of HGEs in Brazil**

Source: Goswami et al. (2019)

Figure 6-11 shows the current number of employees in the participant businesses.

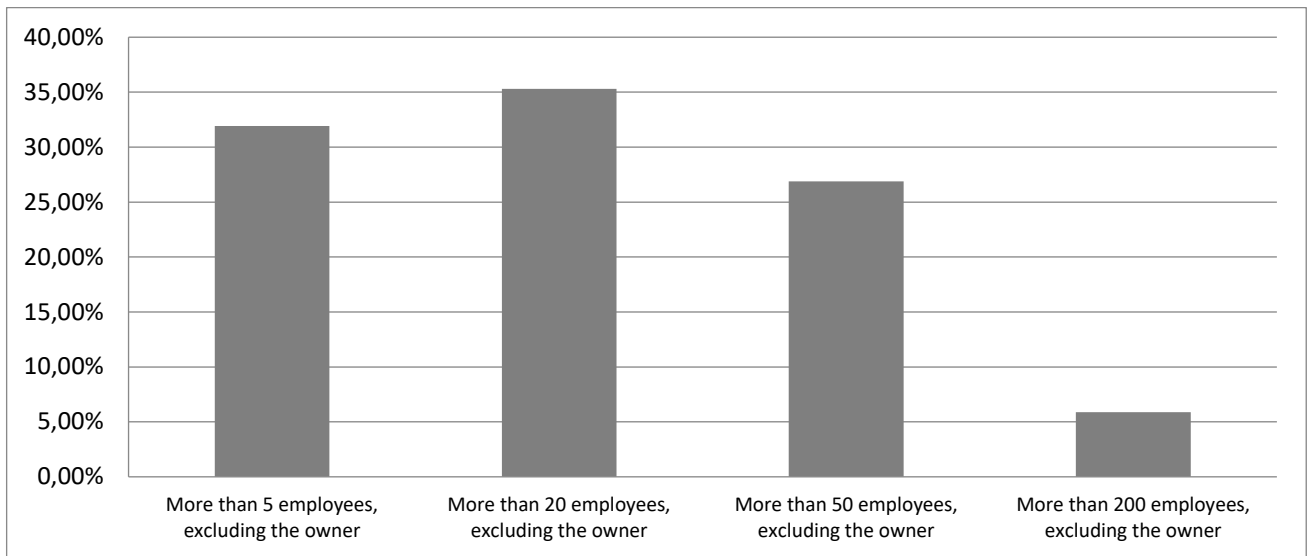


**Figure 6-11: The current number of employees**

Source: Researcher's construction

Of the responses received, 54 (46,55%) businesses had more than five employees, followed by 25 (21,55%) with more than 20 employees. It is interesting to note that 16 entities (13,79%)

had more than 50 employees but did not meet the turnover threshold of R50 million (\$3,5 million). In South Africa, SMMEs are classified as entities with fewer than 50 employees and, in most sectors have a threshold of R50 million turnover (DSBD, 2018.3). Figure 6-12 shows the projected number of new employees in the participants' businesses in the next five years.

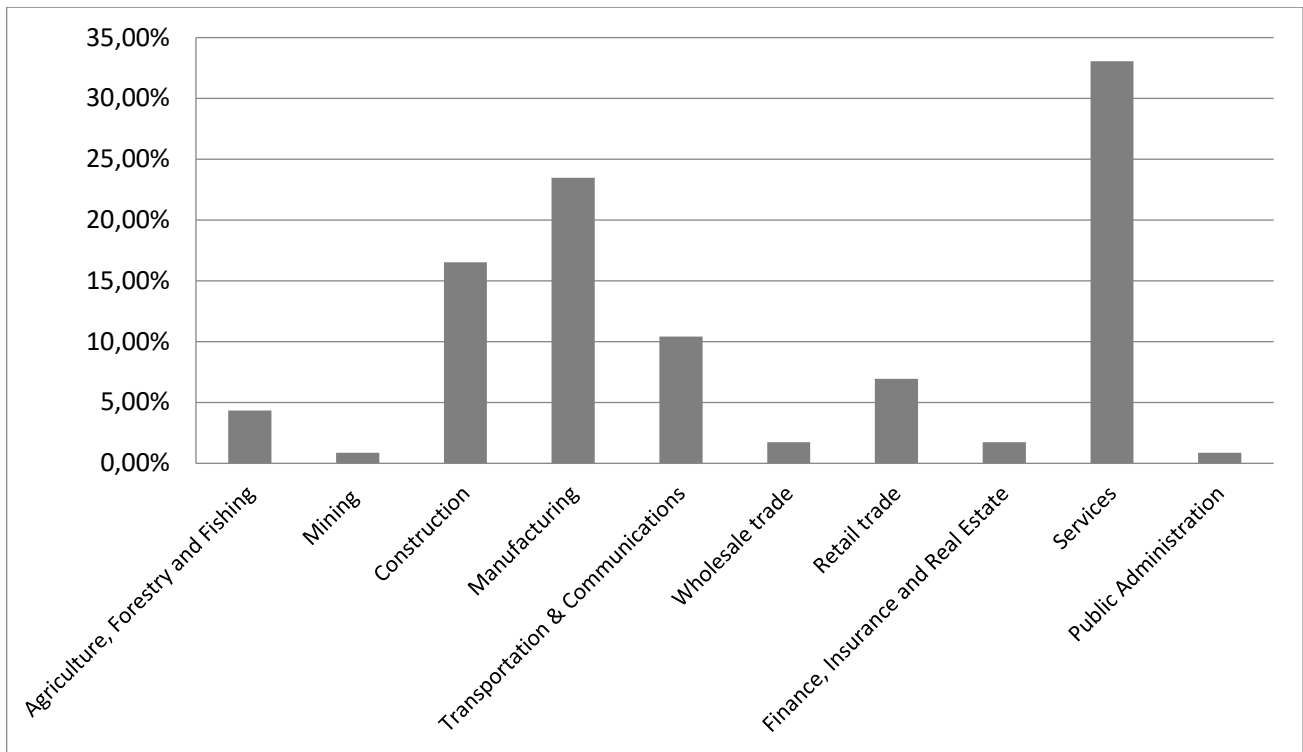


**Figure 6-12: Projected number of new employees in the next five years**

Source: Researcher's construction

It is encouraging to note that entities with more than 20 projected employees increased from 21,55% to 35,29%, and those with more than 50 employees increased from 12,93% to 26,89%.

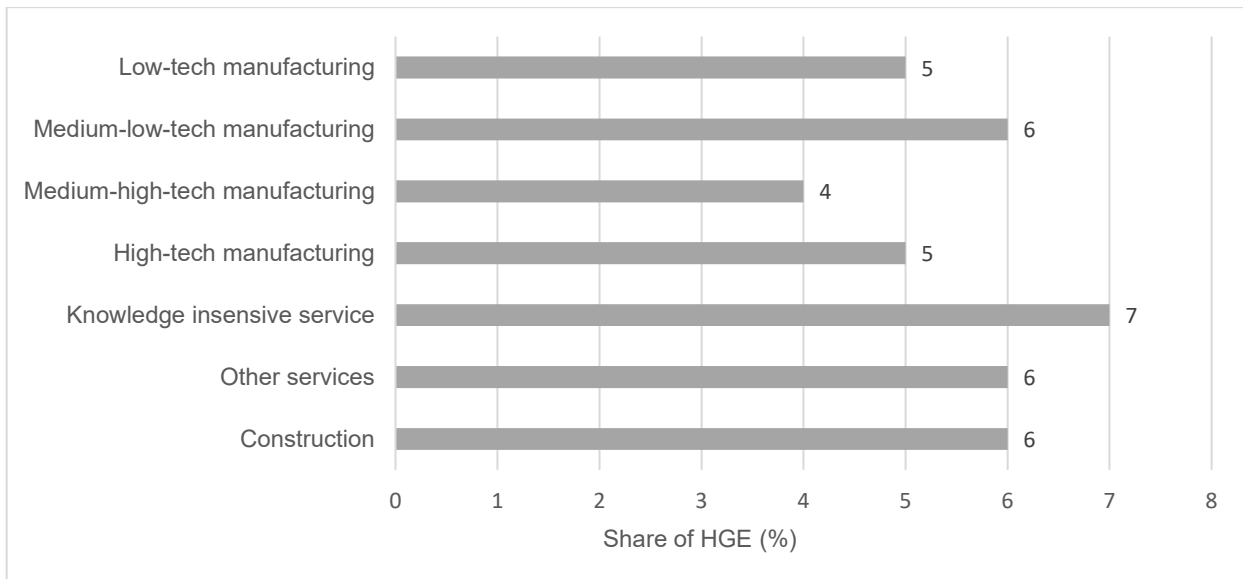
Respondents were asked to describe their business venture's main product offering or service. Figure 6-13 presents the various industries within which the businesses fall.



**Figure 6-13: Industry classification**

Source: Researcher's construction

It is interesting to note that 33,04% (38) of HGEs in South Africa are in the services sector, followed by 23,48% (27) in the manufacturing sector. Transport and communication sectors were fourth at 10,43% (12). This dispels the perception that HGEs are in the ICT sector. This result was in line with international trends, as depicted in Figure 6-14 (HGEs' position in Hungary).

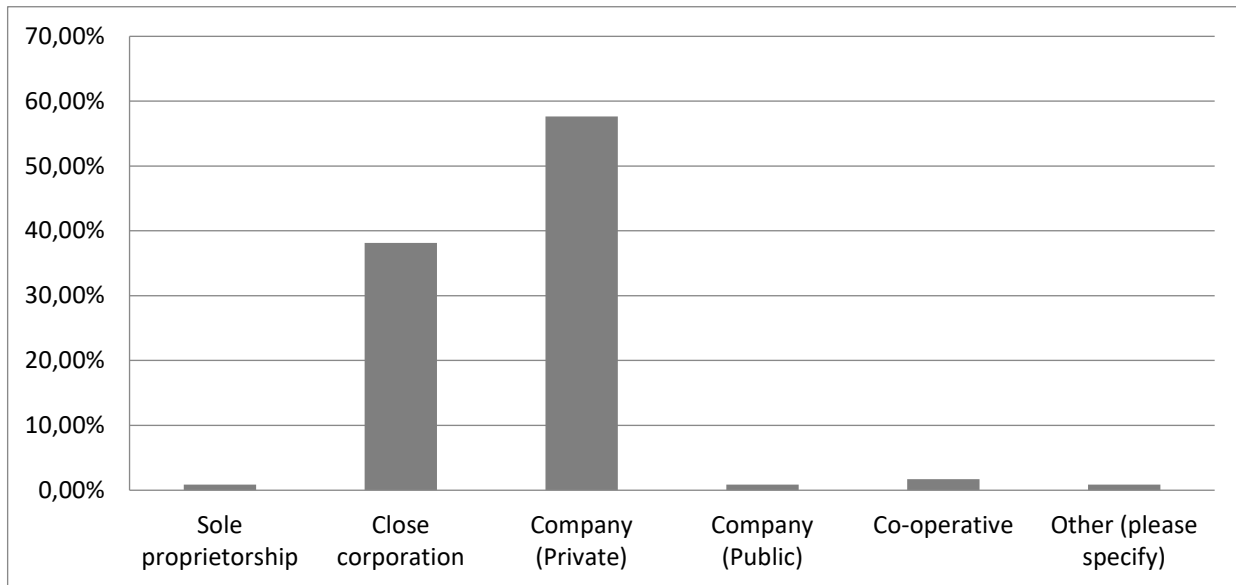


**Figure 6-14: Share of HGE by sector in Hungary**

Note: The data includes all entities with more than five employees between 2010 and 2014.

Source: Muraközy, de Nicola & Tan (2018)

Figure 6-15 shows the forms of ownership for entities that responded to the questionnaire.

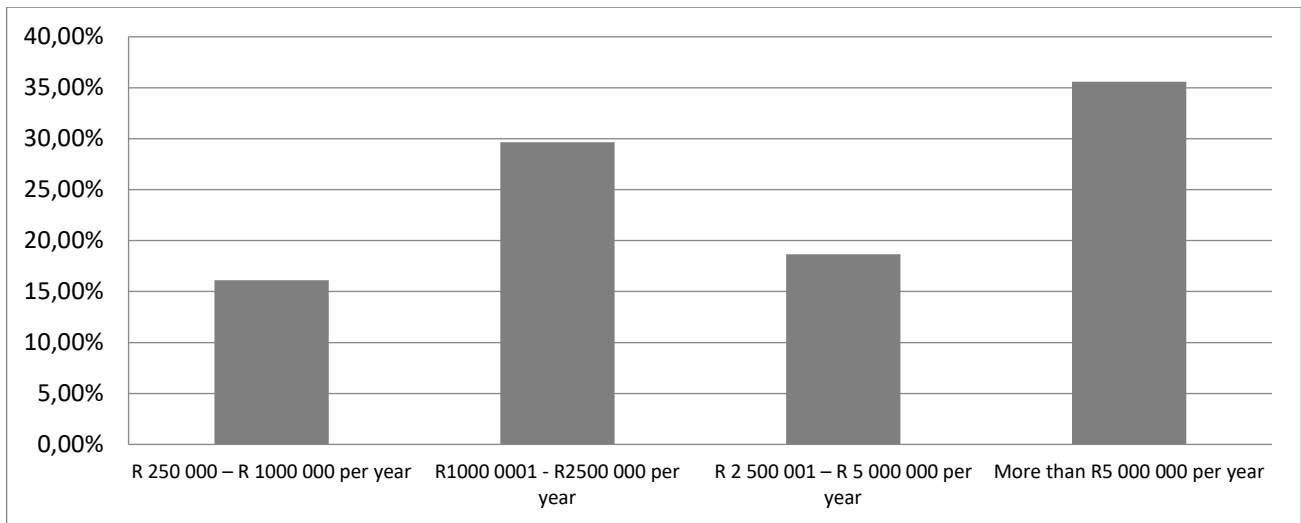


**Figure 6-15: The forms of ownership**

Source: Researcher's construction

Of the respondents, 57,63% (68) were private entities, followed by 38,14% (45) close corporations. The study conducted by Moos (2014) revealed that business owners preferred close corporations as a form of business ownership. As a result of the changes to the Companies Act 71 of 2008, no new close corporations were incorporated, but existing ones were maintained. Since most study entities were under seven years old, as demonstrated in Figure 6-15, it was not surprising that most were incorporated as companies.

Figure 6-16 demonstrates the turnover level of respondents' businesses.

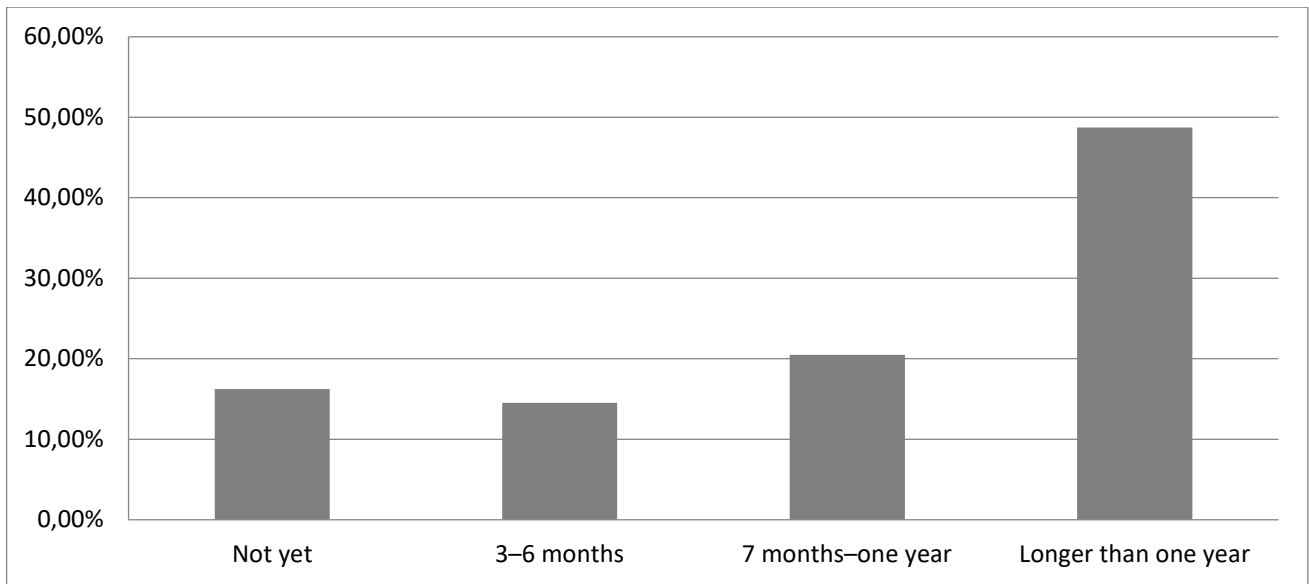


**Figure 6-16: Turnover level**

Source: Researcher's construction

Figure 6-16 shows that 35,59% (42) had a turnover of more than R5 million (\$357,142), followed by 48,30% (57) entities with a turnover of between R1 million (\$71,429) and R2,5 million (\$178 571).

Figure 6-17 depicts how long it took respondent entities to reach the break-even point.



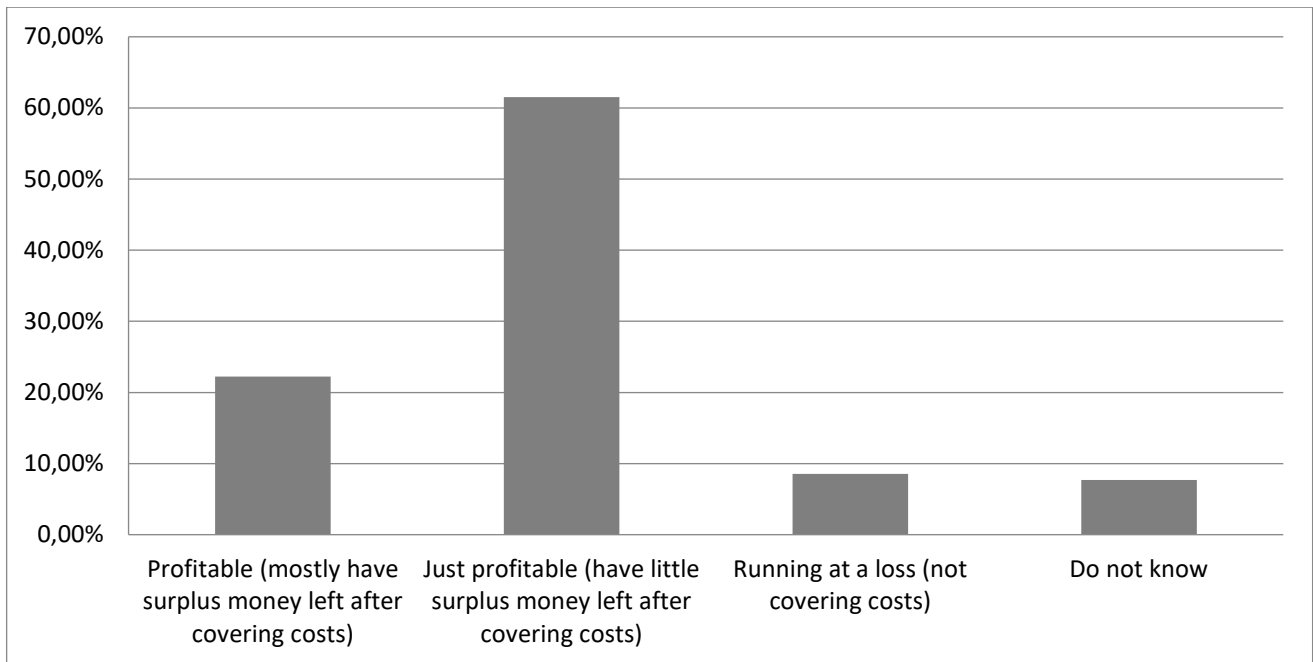
**Figure 6-17: Number of years it took to reach the break-even point**

Source: Researcher's construction

As can be seen from Figure 6-17, it took 49% (57) of entities over 12 months to reach the break-even point, followed by 24 entities (21%) that took longer than seven months to break even.

Figure 6-18 shows that 62% (72) of respondents are just profitable, while 22% (26) are mostly profitable. It is, however, concerning that 8% (9) of business owners do not know whether their businesses are profitable or not.

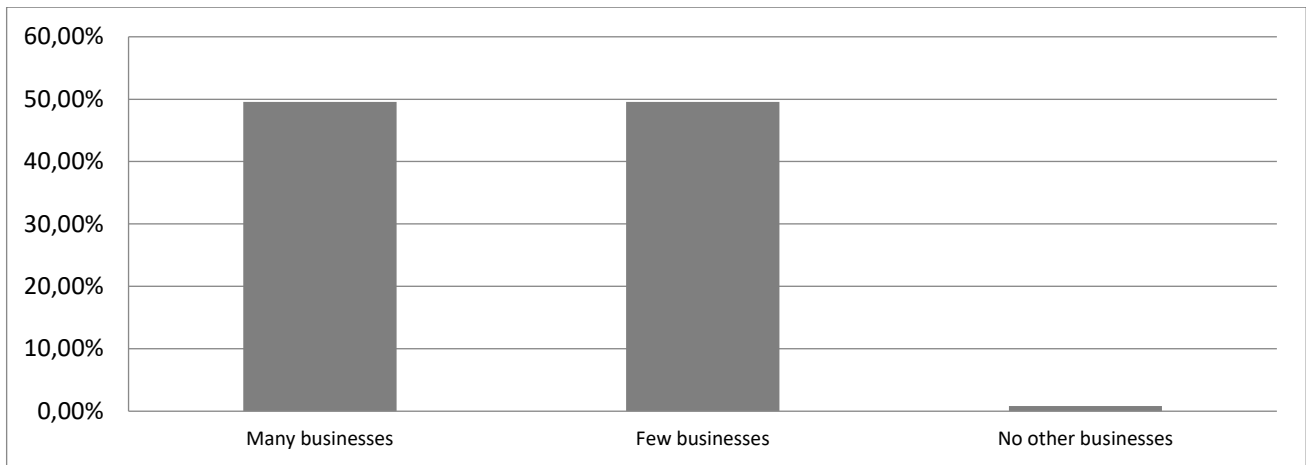




**Figure 6-18: Profitability level**

Source: Researcher's construction

Figure 6-19 summarises the respondents' response on how many businesses are directly competing with their businesses.



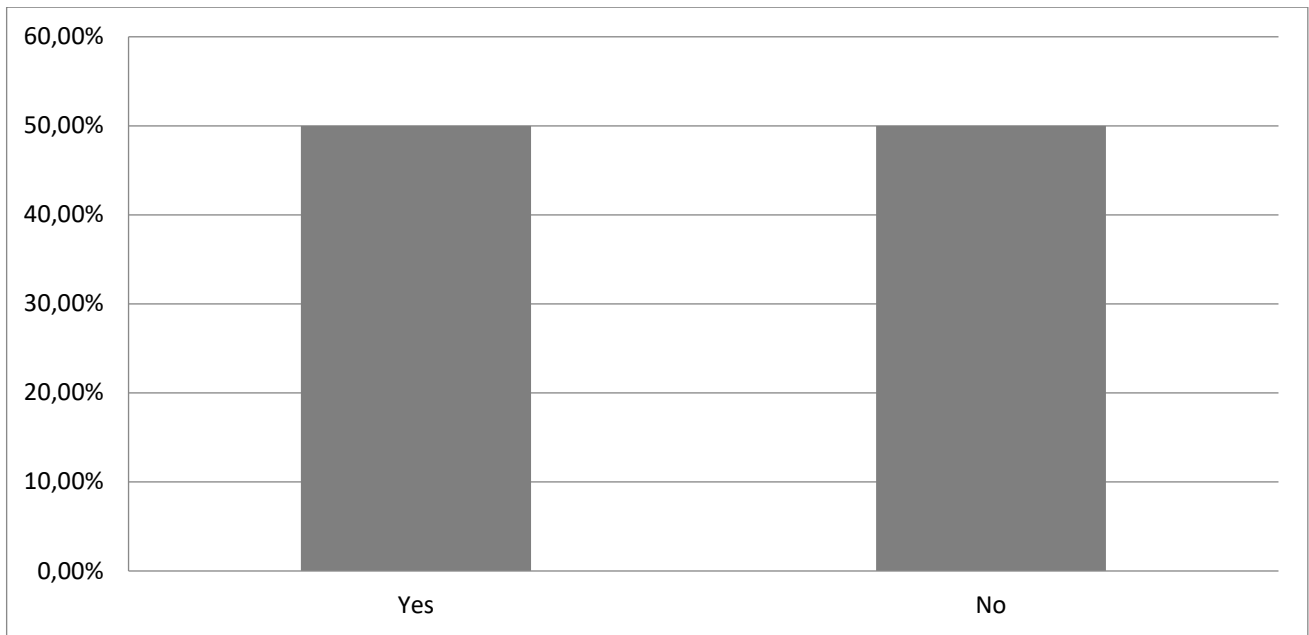
**Figure 6-19: Direct competition**

Source: Researcher's construction

The study conducted by Moos in 2014 showed that 52% of businesses surveyed faced stiff competition as many businesses were directly competing with them, and 41% of businesses indicated they had a few businesses that competed with them. It is encouraging to note that for HGEs, there is some form of novelty and differentiation in that 49,57% (58) of businesses indicated they had many businesses as competitors; another 58 businesses indicated they had few businesses competing with them. One business indicated no known competitor; this business was in the technology space (ICT-based products for healthcare management) and had been in existence for three years.

### **6.2.3 Analysis of support services provided**

The descriptive statistics in Figure 6-20 show the level and kind of support received by HGEs from both the government and private sector.

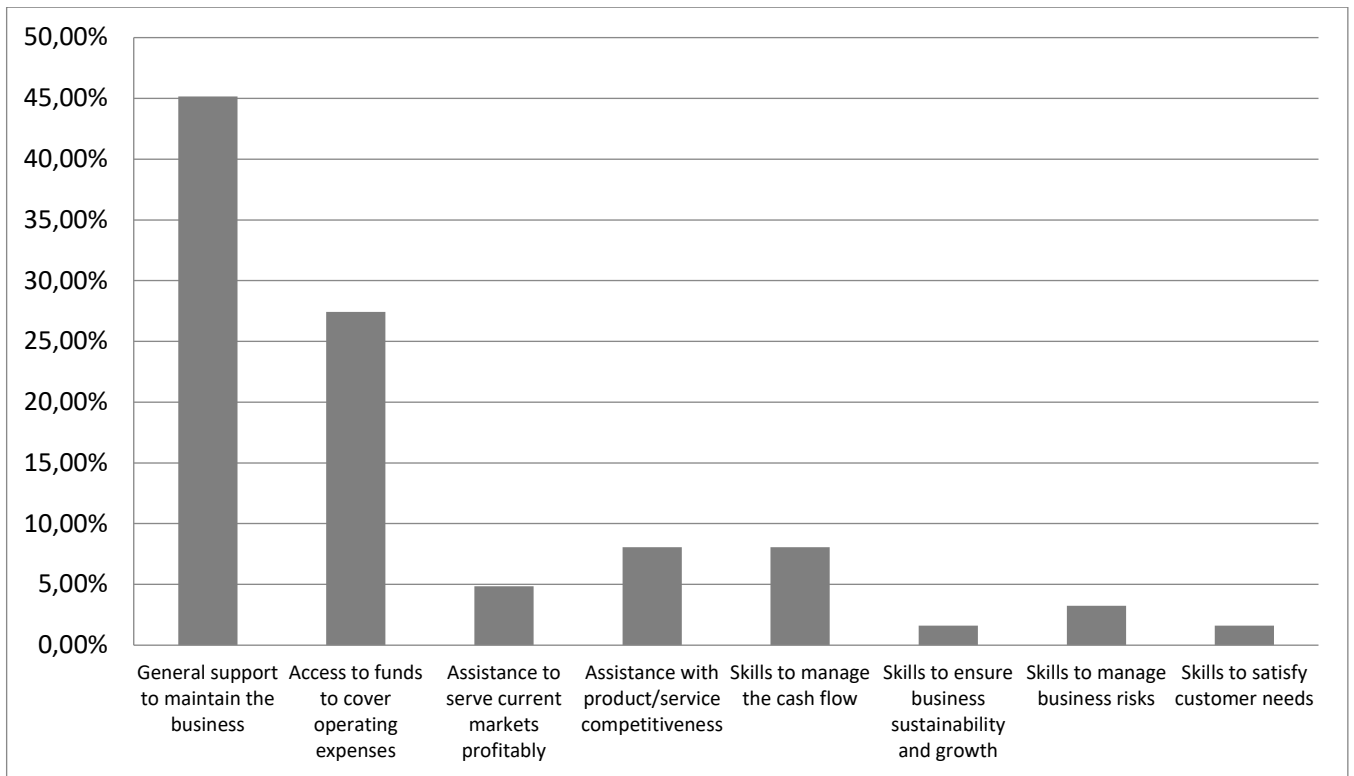


**Figure 6-20: Number of entities that used government-sector support**

Source: Researcher's construction

As shown in Figure 6-20, 50% (59) of respondents had accessed government support to grow their businesses, while the other 50% had not.

Figure 6-21 illustrates the kind of government support used by the various entities.

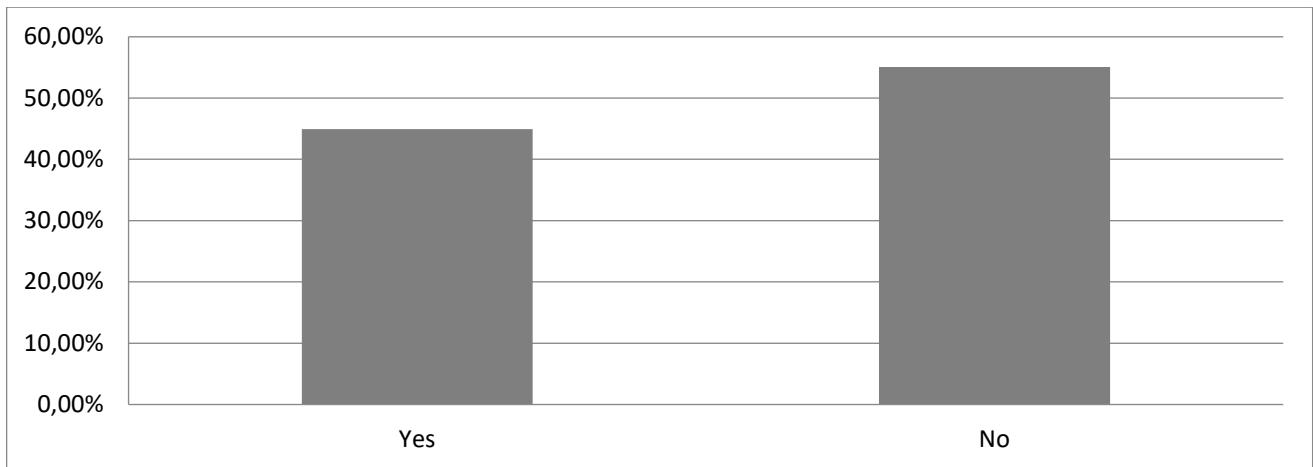


**Figure 6-21: Nature of the government support used**

Source: Researcher's construction

As shown in Figure 6-21, of the 62 respondents, 45,16% (28) used general support services, while 27,42% (17) used funding support to grow their businesses. It should be noted that support related to competitiveness 8,06% (5) and risk management 3,23% (2) was low.

Figure 6-22 depicts the number of entities that use private-sector support.

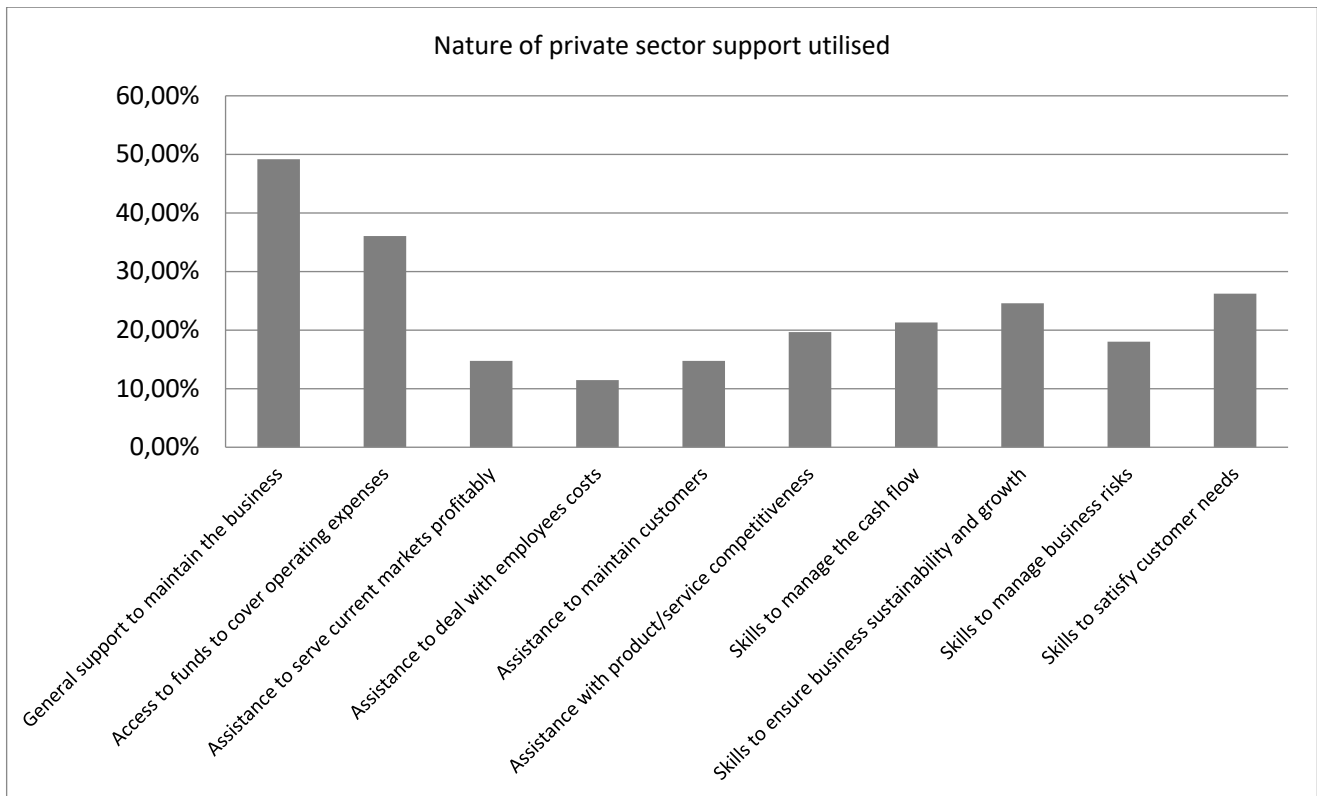


**Figure 6-22: Number of entities that used private-sector support**

Source: Researcher's construction

As shown in Figure 6-22, 44,92% (53) accessed private-sector support to grow their businesses, while 55,08% (65) had not.

Figure 6-23 demonstrates what kind of private-sector support was used by the various entities.

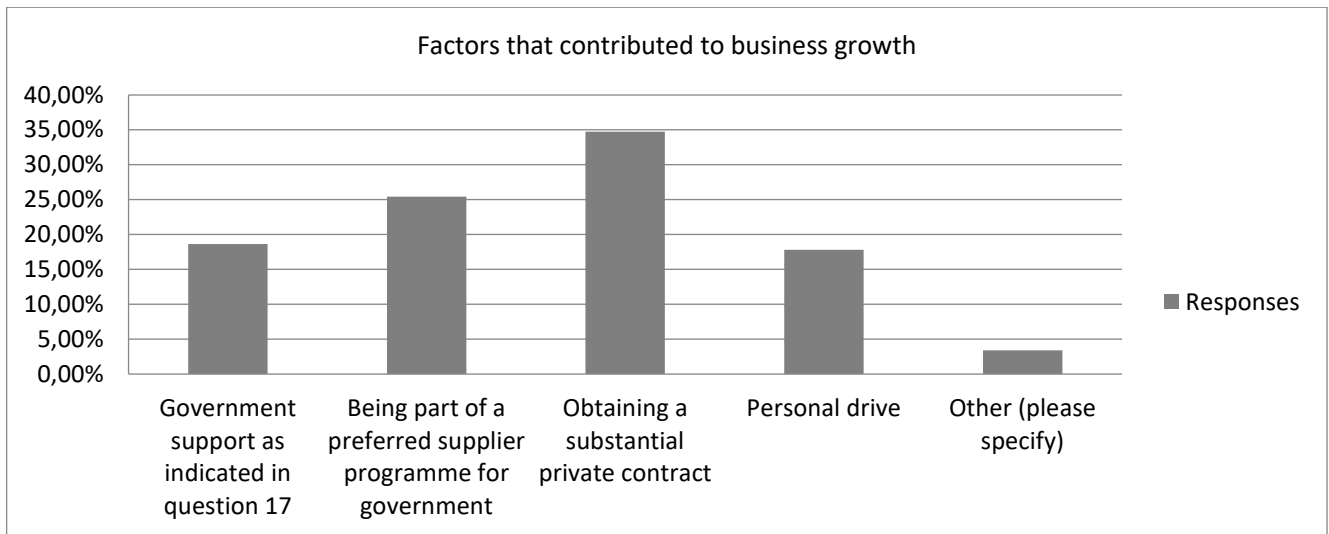


**Figure 6-23: Nature of private-sector support used**

Source: Researcher's construction

As shown in Figure 6-23, out of 61 respondents, 49,18% (30) had used general support to maintain their business, while 36,07% (22) had accessed funds to cover operating expenses (total together 85,25%). This correlates well with the public-sector support outlined in Figure 6-21. However, respondents had used more of the other private-sector support services than public-sector support services. It is not clear whether the problem is access to these services in the public sector due to bureaucracy or whether the public sector does not offer these services at scale.

The respondents were requested to indicate what contributed most to their business success. Figure 6-24 provides an analysis of factors that contributed most to business growth.



**Figure 6-24: Factors that contributed most to business growth**

Source: Researcher's construction

As illustrated in Figure 6-24, 34,75% (41) of respondents attributed their success to obtaining a substantial private-sector contract; 25,42% (30) attributed their success to being part of a government-preferred supplier programme, and 18,64% (22) indicated that their success was due to the government support as outlined. It is interesting to note that 17,80% (21) of respondents attributed their business success solely to their efforts.

#### **6.2.4 HGEs' ranking of support needed**

The descriptive statistics presented below demonstrate the importance respondents placed on the services needed to support their business growth. The nature of the support was classified into four categories:

- Accessibility to markets, finance, infrastructure, communication, and training and mentorship;
- Support required at different growth stages;
- Assistance required to register and grow the business; and
- Required entrepreneurial skills.

Table 6-1 indicates the HGEs' ranking of the kind of support they require to grow their businesses. These statistics indicate the kind of support HGEs need to grow their businesses. It is thus important for policy makers to understand what kind of assistance HGEs need to grow their business. It could be that this kind of support is already available but HGEs don't understand policies designed to assist them with this kind of support. The findings are discussed in accordance with the four categories above.



**Table 6-1: HGE rating of support services needed**

Support Services	Not Important		Fairly Important		Moderately Important		Very Important		Extremely Important		
	n	%	n	%	n	%	n	%	n	%	
<b>Access to:</b>											
Local markets	1	0,86	0	0	3	2,59	20	17,24	92	79,31	
Overseas markets	11	10,19	23	21,3	29	26,85	23	21,3	22	20,37	
Financial support, including access to capital and loans when initially starting a business	0	0	8	6,9	12	10,34	29	25	67	57,76	
Roads, electricity, transport and communication facilities	1	0,86	6	5,17	16	13,79	36	31,03	57	49,14	
Information regarding economic, market and government regulations and programmes	1	0,87	8	6,96	14	12,17	48	41,74	44	38,26	
Additional funds to increase assets	0	0	3	2,56	9	7,69	28	23,93	77	65,81	
Mentorship and coaching	2	1,71	7	5,98	15	12,82	32	27,35	61	52,14	
<b>Support needed:</b>											
During start-up process of a business	4	3,51	7	6,14	12	10,53	28	24,56	63	55,26	

Support Services	Not Important		Fairly Important		Moderately Important		Very Important		Extremely Important	
	n	%	n	%	n	%	n	%	n	%
In setting up and opening a business	7	6,31	9	8,11	14	12,61	32	28,83	49	44,14
To manage a new business until three-and-half-years-old	4	3,48	10	8,7	14	12,17	35	30,43	52	45,22
To manage a business more than three-and-half-years-old	4	3,45	11	9,48	21	18,1	33	28,45	47	40,52
When business is declining in terms of sales, numbers of customers and profit	1	0,88	2	1,75	9	7,89	18	15,79	84	73,68
<b>Assistance to:</b>										
Register a business	38	33,33	18	15,79	22	19,3	16	14,04	20	17,54
Develop a business to export products	9	7,83	8	6,96	19	16,52	36	31,3	43	37,39
Find new markets not exploited before	1	0,85	2	1,71	5	4,27	32	27,35	77	65,81
Outsource business functions such as human resource management	16	13,68	15	12,82	36	30,77	33	28,21	17	14,53
Manage customer relations	4	3,42	7	5,98	3	2,56	32	27,35	71	60,68

Support Services	Not Important		Fairly Important		Moderately Important		Very Important		Extremely Important	
	n	%	n	%	n	%	n	%	n	%
Innovate products/services	1	0,85	5	4,27	9	7,69	28	23,93	74	63,25
General management	2	1,72	11	9,48	13	11,21	36	31,03	54	46,55
Build and develop leadership skills	0	0	7	5,93	13	11,02	25	21,19	73	61,86
Be able to deal with legal matters	3	2,54	5	4,24	24	20,34	35	29,66	51	43,22
Do quality control	0	0	5	4,31	10	8,62	24	20,69	77	66,38
Strategy development	1	0,85	1	0,85	8	6,78	17	14,41	91	77,12
<b>Skills to:</b>										
Identify and choose an initial product or service for the market when planning a start-up	6	5,17	8	6,9	10	8,62	26	22,41	66	56,9
Compile a business plan	7	6,03	9	7,76	16	13,79	35	30,17	49	42,24
Do market research	2	1,72	1	0,86	12	10,34	41	35,34	60	51,72

Support Services	Not Important		Fairly Important		Moderately Important		Very Important		Extremely Important	
	n	%	n	%	n	%	n	%	n	%
Deal with cash-flow problems	0	0	3	2,56	4	3,42	30	25,64	80	68,38
Control and plan the growth of the business	0	0	1	0,85	5	4,24	27	22,88	85	72,03
Manage risks as the business grows	0	0	1	0,85	4	3,39	27	22,88	86	72,88
Be responsive to customer needs	1	0,85	0	0	4	3,39	15	12,71	98	83,05

Source: Researcher's construction

The analysis of Table 6-1 is as follows.

**Category 1:** Most businesses (92) (79,31%) rated access to local markets as extremely important, while 20 (17,24%) rated access to markets as very important. Of the businesses, 77 (65,81%) rated access to additional funds to increase assets as extremely important, and 67 (57,76%) entities rated access to financial support when starting up a business as extremely important. It is encouraging to note that access to markets was rated higher than access to funding. This is a fundamental shift from start-up entities who rate access to funding as more important than access to markets (Moos, 2014). Access to roads, electricity and communication facilities was rated as extremely important by 57 (49,14%) businesses and very important by 36 (31,03%). A significant number of businesses 61 (52,14%) rated mentorship and coaching as extremely important, while 32 (27,35%) rated it as very important.

**Category 2:** Of the businesses, 84 (73,68%) rated support required to turn around a loss-making business as extremely important; 63 (55,26%) businesses rated support needed to start up a business as extremely important, and 28 (24,56%) rated it as important. This demonstrates the difficulty in starting up and managing a business that is in a declining phase. Of the businesses, 52 (45,22%) rated support required to manage a three-and-a-half-year-old business as extremely important, followed by support required to set up a business at 44,14% (49). These findings were in line with the study conducted by Moos in 2014 on start-up and established businesses.

**Category 3:** Ninety-one (77,12%) respondents indicated that assistance with strategy development was extremely important, while another 17 (14,41%) identified it as very important. Seventy-seven (65,81%) businesses identified that assistance to identify new markets not exploited before was extremely important, while 32 (27,35%) found this very important. Seventy-seven (66,38%) respondents also identified quality control as extremely important. Seventy-four (63,25%) businesses indicated that assistance to innovate their products/services was extremely important, and 71 (60,68%) indicated that managing customer relations was extremely important.

**Category 4:** Most respondents, 98 (83,05%), identified skills required to respond to customer needs as extremely important. Eighty-six (72,88%) respondents indicated that skills to manage

risk as the business grows were also extremely important, while 27 (22,88%) identified this skill as very important. With regard to controlling and planning the growth of the business, 85 (72,03%) businesses found this extremely important, while another 27 (22,88%) found it very important. Eighty (68,38%) respondents rated skills to deal with cash-flow problems as extremely important, while 30 (25,64%) found it very important.

Table 6-2 illustrates the respondents' view of when support is required at each stage of business growth. Number 1 is when most help is required, and Number 5 is when the least help is required.

Table 6-2: Ranking of support needed at each phase of business growth

Ranking	1 Most Support		2		3		4		5 Least Support	
	%	n	%	n	%	n	%	n	%	n
Before the business is started	29,58%	21	9,86%	7	11,27%	8	14,08%	10	35,21%	25
During the start-up process for the business	28,79%	19	28,79%	19	15,15%	10	12,12%	8	15,15%	10
After the new business is established and is under three-and-a-half-years-old	19,40%	13	19,40%	13	31,34%	21	17,91%	12	11,94%	8
When the established business is more than three-and-a-half-years-old	9,09%	8	23,86%	21	28,41%	25	25,00%	22	13,64%	12
When the business is declining, for example, sales drop	39,09%	43	15,45%	17	15,45%	17	13,64%	15	16,36%	18

Source: Researcher's construction

As can be seen from Table 6-2, most respondents (43) indicated that the most assistance is required when the business is declining. Of the respondents, 88 indicated that support is required when the business is more than three-and-a-half-years-old, which is the business growth phase. It is interesting to note that most entrepreneurs indicated they did not need the

most assistance during the business start-up phase but during the growth stage and when the business was declining.

The research questionnaire included an open-ended question that allowed respondents to list or indicate other support requirements not mentioned in the questionnaire. Respondents indicated that they required the following additional support from the government:

- Funding to cover industry-specific certification, clinical trials and temporal staff;
- Kitchen and laundry industrial equipment, office furniture, solar energy and computer software;
- Share sales—BBBEE, transformational planning, recruiting previously disadvantaged individuals and developing exports;
- Equipment, sales training, ownership of own premises and access to markets;
- Contract management and project management;
- Access to markets;
- Funding to cover innovation;
- Personal and leadership development, capacity building and the skill to work on the business, not in it;
- Expanding the amount and scope of manufacturing;
- Sector-focussed mentorship, access to the market and digital-sales marketing focus;
- Industry-specific support; and
- Marketing, showcasing and good exposure of the business.

Table 6-3 summarises whether or not the following three business goals and objectives were achieved:

- A new product/service was introduced to your customers during the past year;
- Long-term objectives (three to five years) have been set for the business; and
- Sales increased more than inflation in the past year.

**Table 6-3: Factors that contributed to business expansion**

	Definitely Disagree		Probably Disagree		Do Not Know		Probably Agree		Definitely Agree	
	n	%	n	%	n	%	n	%	n	%
A new product/service was introduced to your customers during the past year	15	12,71	11	9,32	10	8,47	21	17,8	61	51,69
Long-term objectives (three to five years) have been set for the business	8	6,84	14	11,97	8	6,84	22	18,8	65	55,56
Sales increased more than inflation in the past year	10	8,47	16	13,56	16	13,56	31	26,27	45	38,14

Source: Researcher's construction



As can be seen from Table 6-3, 65 (55,56%) respondents definitely agreed that setting long-term objectives had contributed to their business expansion, while 22 respondents (18,80%) probably agreed. Sixty-one (51,69%) respondents attributed the expansion of their business to the introduction of a new product/service, while 45 respondents (38,14%) attributed their business expansion to sales increasing by more than inflation in the previous year.

Though the figures are not significant, it is concerning that 22 respondents (18,81%) definitely and probably disagreed that setting long-term goals contributed to their business success. It is also worth noting that 28,87% (34) of respondents did not know if the three factors impacted their business expansion.

### **6.3 POLICY EVALUATION BY HGES**

This section analyses the descriptions used to evaluate the small business policy, namely objectives, outputs, outcomes and impact. Participants were required to rate the different elements of the small business policy on a five-point Likert scale. A rating of 1 implied that the respondent firmly contradicted the assertion recorded, while a rating of 5 implied that the respondent certainly concurred with the assertion.

Table 6-4 shows HGEs' evaluation of the objectives of the South African small business policy.

**Table 6-4: HGE evaluation of the OBJECTIVES of the South African small business policy**

	Definitely Disagree		Probably Disagree		Do Not Know		Probably Agree		Definitely Agree	
	n	%	n	%	n	%	n	%	n	%
Assist with business venture growth	2	1,72	8	6,9	5	4,31	28	24,14	73	62,93
Motivate more new entrepreneurs to start businesses	6	5,13	9	7,69	10	8,55	24	20,51	68	58,12
Target nascent entrepreneurs/new business starters	7	5,98	20	17,09	13	11,11	38	32,48	39	33,33
Focus on creating a favourable business environment (for example, reducing red tape)	9	7,63	11	9,32	11	9,32	30	25,42	57	48,31
Stimulate entrepreneurship and an entrepreneurial culture or climate in the country	6	5,13	14	11,97	6	5,13	34	29,06	57	48,72
Achieve results in under four years	13	11,11	13	11,11	28	23,93	23	19,66	40	34,19
Have a narrow, rather than a broad, definition of which institutional structures constitute the support environment	11	9,48	20	17,24	32	27,59	33	28,45	20	17,24
Favour measures to support early phases of the entrepreneurial development process	9	7,69	16	13,68	16	13,68	39	33,33	37	31,62
Influence the quantitative aspects, such as the number of self-employed, small or new business ventures, rather than the quality thereof	16	13,68	30	25,64	17	14,53	29	24,79	25	21,37

Source: Researcher's construction

As presented in Table 6-4, 88,79% (101) definitely and probably agreed that the small business policy seeks to foster business growth. Regarding the objective to motivate more new entrepreneurs to start businesses, 79,31% (92) of respondents definitely and probably agreed with this objective. However, only 65,81% (77) definitely and probably agreed that the SMME policy seeks to nurture nascent entrepreneurs. Of the respondents, 73,73% (87) definitely and probably agreed that the SMME policies aim to reduce red tape and create a favourable business environment; 16,95% (20) definitely and probably disagreed, while 9,32% (11) did not know.

Of the respondents, 77,78% (91) definitely and probably agreed that the government seeks to stimulate entrepreneurship, while 17,09% (20) definitely and probably disagreed. With regard to achieving results in under four years, 53,85% (63) of respondents believed the government seeks to achieve this. Of the respondents, 46,16% (54) believed the government seeks to increase the number of self-employed people rather than the quality thereof; 39,32% (46) disagreed, while 14,53% (17) did not know. This is important as a focus on quantity, and not quality, leads to a high failure rate. It is also interesting to note that 45,69% (53) of respondents definitely and probably agreed that the government has a narrow characterisation of which institutional structures constitute an adequate business support environment; 18,97% (22) of respondents disagreed with this view, while 27,59% (32) did not know.

Of the respondents, 64,95% (76) definitely and probably agreed that government policies support early phases of the entrepreneurial development process; 21,37% (25) definitely and probably disagreed, while 13,68% (16) did not know.

Table 6-5 shows HGEs' evaluation of outputs of the South African small business policy.

**Table 6-5: HGE evaluation of OUTPUTS of the South African small business policy**

	Definitely Disagree		Probably Disagree		Do Not Know		Probably Agree		Definitely Agree	
	n	%	n	%	n	%	n	%	n	%
Support reaches all regions of the country because the local network for small business development services has been strengthened	19	16,38	20	17,24	17	14,66	36	31,03	24	20,69
The necessary support incentives are provided	16	13,79	18	15,52	20	17,24	40	34,48	22	18,97
A dedicated network of SMME finance has been established	20	17,39	18	15,65	17	14,78	37	32,17	23	20,00

Source: Researcher's construction

Of the respondents, 60 (51,72%) definitely and probably agreed that support reaches all regions of the country. It should be noted that this is a marginal confirmation as 39 (33,62%) definitely and probably disagreed, and 17 (14,66%) did not know. With regard to whether the necessary support incentives are provided, 62 (53,45%) of respondents definitely and probably agreed with this statement, while 34 (29,31%) definitely and probably disagreed, and 20 (17,24%) did not know. Of the respondents, 60 (52,17%) definitely and probably agreed that a dedicated network of SMME finance has been established, while 38 (33,04%) definitely and probably disagreed, and 17 (14,78%) did not know.

The questionnaire requested respondents to list any additional outputs of the small business policy not mentioned in the table above. The following additional outputs were listed:

- There is increased access to information;
- More technological tools are now available for use by SMMEs; and
- Increased entrepreneurial education for the youth.

Table 6-6 shows HGEs' evaluation of outcomes of the South African small business policy.

**Table 6-6: HGE evaluation of OUTCOMES of the South African small business policy**

	Definitely Disagree		Probably Disagree		Do Not Know		Probably Agree		Definitely Agree	
	%	n	%	n	%	n	%	n	%	n
A demand has been created for small-enterprise products and services	10	8,55	27	23,08	15	12,82	34	29,06	31	26,5
Small-enterprise competencies and delivery capacity have improved	7	6,03	23	19,83	17	14,66	50	43,1	19	16,38
Enterprise networks, for example, between the government, public institutions and the private sector have strengthened	14	12,07	23	19,83	20	17,24	46	39,66	13	11,21
The regulatory environment has improved	7	5,98	29	24,79	27	23,08	36	30,77	18	15,38
An entrepreneurship culture has been fostered	11	9,4	26	22,22	17	14,53	41	35,04	22	18,8
The number of business start-ups has increased	4	3,42	17	14,53	25	21,37	39	33,33	32	27,35
The number of start-up obstacles has decreased	23	20	32	27,83	29	25,22	25	21,74	6	5,22
There are changes in the level of entrepreneurial activity amongst women and youth	2	1,72	6	5,17	17	14,66	57	49,14	34	29,31

Source: Researcher's construction

Of the respondents, 65 (55,56%) probably and definitely agreed that demand has been created for SMME products and services, while 37 (31,62%) disagreed. With regard to whether the competencies and delivery capacity of SMME have improved, out of 116 respondents, 69 (59,48%) definitely and probably agreed, while 30 (25,86%) definitely and probably disagreed, and 17 (14,66%) did not know. Of the respondents, 59 (50,86%) definitely and probably agreed that enterprise networks have strengthened, while 37 (31,90%) did not agree. It is interesting to note that only 54 (46,15%) of respondents definitely and probably agreed that the regulatory environment has improved; 36 (30,77%) definitely and probably disagreed, and 27 (23,08%) did not know. With regard to whether the entrepreneurial culture has been fostered, out of 117 respondents, 63 (53,85%) definitely and probably agreed, while 37 (31,62%) definitely and probably disagreed, and 17 (14,53%) did not know.

Of the respondents, 71 (60,68%) definitely and probably agreed that the number of business start-ups has increased; 21 (17,95%) definitely and probably did not agree, and 25 (21,37%) did not know. It is interesting to note that only 31 (17,95%) definitely and probably agreed that start-up obstacles have decreased, while 55 (47,83%) definitely and probably disagreed, and 29 (25,22%) did not know. Of the respondents, 91 (78,45%) definitely and probably agreed that there are changes in the level of entrepreneurship activity amongst women and youth, while 8 (6,90%) did not agree, and 17 (14,66%) did not know. The high rate of respondents agreeing with this statement is probably due to the extensive focus of the South African Government on policies targeted at youth and women-owned businesses.

These findings are of concern, especially the improvement of entrepreneurship competencies, networks between public and private sectors, entrepreneurship culture and the obstacles that start-ups need to overcome to truly become entrepreneurial ventures. With regard to South Africa's entrepreneurship culture, this shows there is a long way to go to change South Africans' perception of and attitude towards entrepreneurship; in other words, to help them see it is a good career. The start-up obstacles need to be seen in perspective and context: in no country in the world is it easy to start and grow a business. If the enabling environment in South Africa, as described in the first part of this document, is considered, a relatively friendly environment has been created by the government.

Respondents were also asked to list any other outcomes of the small business policy that were not mentioned in the questionnaire. Their responses were as follows:

- The profitability of SMMEs has improved;
- Attention given to SMMEs by the media and various other communication platforms has improved;
- The promotion of entrepreneurship as a career has improved;
- The inclusion of people living with disabilities in broader economic activities has improved; and
- There are more opportunities and access to markets for SMMEs.

Table 6-7 shows the HGEs' evaluation of the impact of the South African small business policy.



**Table 6-7: HGE evaluation of the IMPACT of the South African small business policy**

	Definitely Disagree		Probably Disagree		Do Not Know		Probably Agree		Definitely Agree	
	n	%	n	%	n	%	n	%	n	%
Jobs have been created, resulting in a reduced unemployment rate	22	18,97	29	25	13	11,21	37	31,90	15	12,98
Economic growth of the country has increased	34	29,82	28	24,56	14	12,28	28	24,56	10	8,77

Source: Researcher's construction

As can be seen from Table 6-7, 52 (44,83%) respondents probably and definitely agreed with the statement that there has been an increase in job creation and reduction of the unemployment rate, while 51 (43,97%) definitely and probably disagreed, and 13 (11,21%) did not know. The reason for the low rate of respondents who definitely agreed 15 (12,98%) is probably due to the high unemployment rate in South Africa (34,4%) (Stats SA, 2021:2). This clearly demonstrates there is no clarity on whether the current SMME policies are successful or not regarding job creation.

With regard to whether the economic growth rate of the country has increased, only 10 (8,77%) respondents definitely agreed, and 28 (24,56%) probably agreed. Of the respondents, 62 (54,39%) definitely and probably disagreed, while 14 (12,28%) did not know.

Respondents were also asked to list any other impact of the small business policy not mentioned in the questionnaire, and the responses were:

- There is an improvement in economic activity in underdeveloped areas;
- There is increased entrepreneurial activity by disabled youth; and
- Improvement in entrepreneurial skills to manage the business.

#### **6.4 ESTABLISHING THE RELIABILITY OF THE MEASUREMENT TOOL**

Cronbach's alpha is the most common measure of internal consistency used to test reliability (Bux, 2016:147). It is mostly used when a study has used multiple Likert-type questions in a questionnaire that forms a scale, and the researcher wishes to determine if the scale is reliable (Bux, 2016:147). Internal consistency indicates how strong the measuring items are holding together when measuring the respective construct. The measuring items are developed from summated scales that are a collation of interrelated items; therefore, determining its internal consistency is important. Reliability is achieved when the value of Cronbach's alpha exceeds 0,7 (Ursachi, Horodnic, & Zai, 2015:682).

Table 6-8 provides the results of Cronbach's alpha of each variable. From the representation below, it may be asserted that internal reliability was achieved for seven of the nine constructs.

Table 6-8: Cronbach's alpha per variable

Construct	Cronbach's Alpha
Access	0,516
Skills	0,824
Support	0,833
Assistance	0,822
Expansion	0,666
Government policy	0,875
Outputs	0,855
Outcomes	0,884
Impact	0,818

Source: Researcher's construction

## 6.5 TEST OF NORMALITY

When managing medium-size tests, it is critical to check for a potential infringement of the 'normality' supposition. This can be refined through an examination of the residuals from the regression model. There are a few measurements accessible to inspect the normality of factors, including skewness, kurtosis and graphical portrayals, for example, a typical likelihood plot (Statistics Solutions, 2013). Skewness is a proportion of the imbalance of a variable's circulation, and kurtosis is a measure of 'peakedness' of a distribution (Kim, 2013:53). Table 6-9 shows the skewness and kurtosis values for the variables used in this study.

Table 6-9: Analysis of skewness and kurtosis

Variable	n	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Access	117	3	5	4,21	0,477	-0,376	-0,237
Skills	118	2	5	4,46	0,586	-1,398	1,910
Support	116	1	5	4,14	0,829	-1,213	1,407
Assistance	118	2	5	4,07	0,628	-0,870	0,144
Expansion	118	1	5	3,87	1,053	-0,799	-0,395

Variable	n	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Objectives	118	1	5	3,85	0,888	-1,063	0,622
Outputs	116	1	5	3,25	1,209	-0,336	-0,896
Outcomes	117	1	5	3,36	0,866	-0,105	-0,452
Impact	116	1	5	2,76	1,252	0,064	-1,229

Source: Researcher's construction

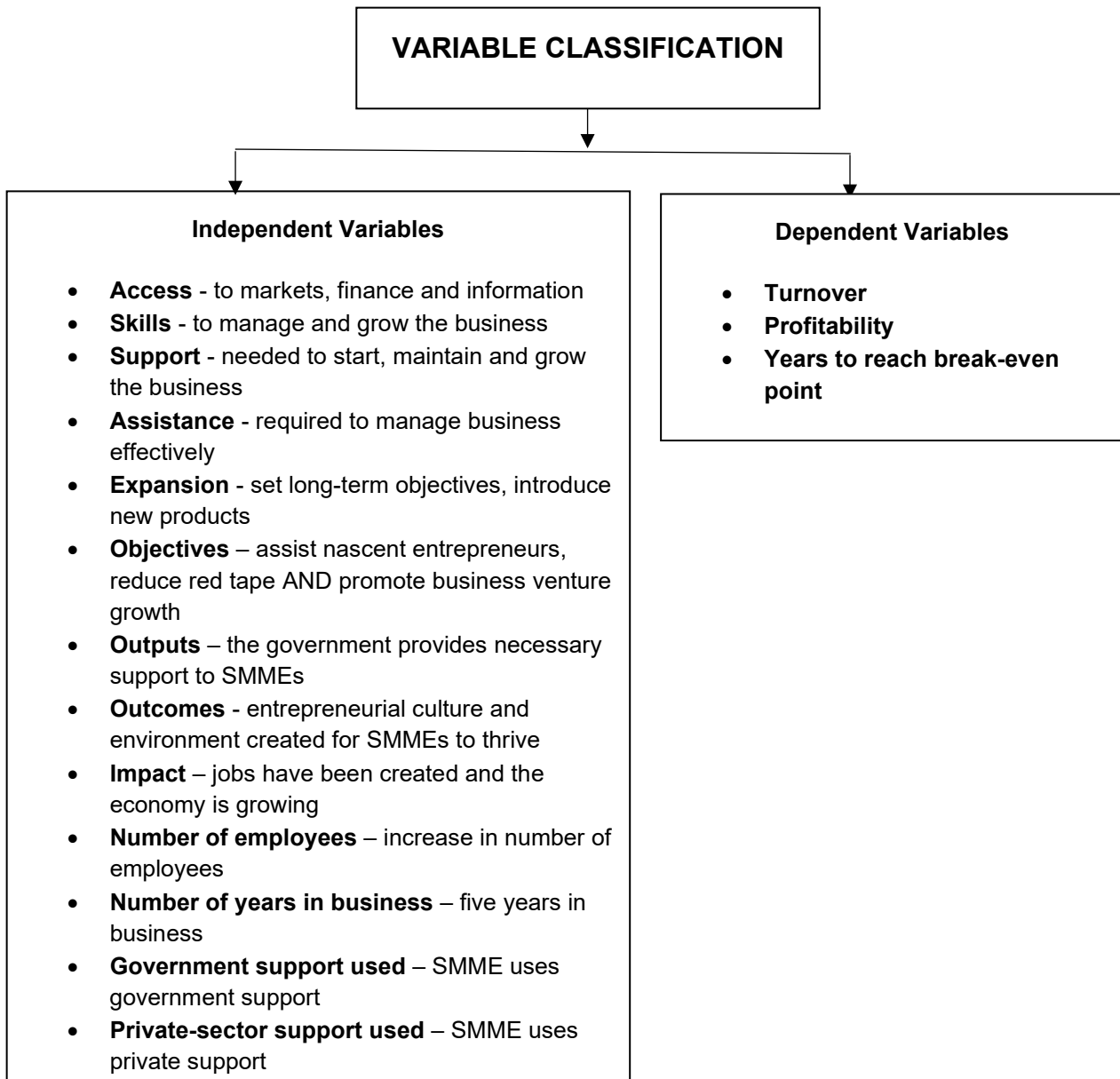
### 6.5.1 Skewness

The slant estimation of an ordinary spread is zero, normally inferring symmetric appropriation (Kim, 2013:52-54). A positive slant value shows that the tail on the right side of the circulation is longer than the left side, and the greater part of the values lie to one side of the mean. Conversely, a negative slant value shows that the tail on the left half of the circulation is longer than the right side, and the greater part of the values lie to one side of the mean (West *et al.*, 1995:60).

### 6.5.2 Kurtosis

Kurtosis is a proportion of the peakedness of a spread. In other words, kurtosis identifies whether the tails of a given distribution contain extreme values. West *et al.* (1995:61) propose a reference of substantial departure from normality as an absolute kurtosis value  $> 7$ . As shown in Table 6-9, the kurtosis of all the variables is below 2. Since it is below 7, it does not contain any extreme values, meaning the distribution of all variables is mesokurtic (close to normality).

Figure 6-25 provides a graphic illustration of variables involved in the analysis.



**Figure 6-25: Study variable classification**

Source: Researcher's construction

Each one of the above factors—with its connected models as introduced in Figure 6-25—is discussed in this section. The Spearman correlation coefficient was used to clarify the strength of the connection between the factors. This is a non-parametric proportion of rank connection (measurable reliance between the rankings of two factors). It evaluates how well the connection between two factors can be depicted by using a monotonic function.

There are no repeated data values. A perfect Spearman correlation of +1 or -1 occurs when each variable is either perfectly positively or perfectly negatively associated with the other (Lehman, 2005:212).

## **6.6 INFERENCE STATISTICS**

### **6.6.1 ANOVA**

ANOVA is a statistical technique that isolates noticed fluctuation information into various parts to use for extra tests. A single direction ANOVA is used for at least three gatherings of information to acquire data about the connection between the dependent and independent variables (Cooper & Schindler, 2015:454). The common perception is that gender, age and qualifications of the entrepreneur have a significant impact on their understanding of the SMME framework. In this study, an analysis of variance was performed to determine if age, gender and qualifications of high growth entrepreneurs has a significant impact on their understanding of the South African SMME framework. The results of the analysis are presented in Table 6-10 below:

**Table 6-10: ANOVA between subjects' age, gender and qualifications with reference to the independent variable 'knowledge of SMME policy framework'**

Independent Variable	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Significance	Partial Eta Squared	Non-cent. Parameter	Observed Power <sup>a</sup>
<b>Gender</b>	Objectives	0,011	1	0,011	0,016	0,901	0,000	0,016	0,052
	Outputs	0,896	1	0,896	0,611	0,436	0,006	0,611	0,121
	Outcomes	5,395	1	5,395	9,183	<b>0,003</b>	0,084	9,183	0,851
	Impact	3,571	1	3,571	2,217	0,140	0,022	2,217	0,314
<b>Age</b>	Objectives	1,286	2	0,643	0,906	0,408	0,018	1,812	0,203
	Outputs	2,224	2	1,112	0,759	0,471	0,015	1,518	0,176
	Outcomes	1,785	2	0,893	1,519	0,224	0,029	3,038	0,317
	Impact	2,466	2	1,233	0,765	0,468	0,015	1,531	0,177
<b>Qualification</b>	Objectives	2,129	3	0,710	0,999	0,397	0,029	2,998	0,265
	Outputs	3,167	3	1,056	0,721	0,542	0,021	2,162	0,199
	Outcomes	7,079	3	2,360	4,016	<b>0,010</b>	0,108	12,049	0,826
	Impact	1,259	3	0,420	0,261	0,854	0,008	0,782	0,098

a. Computed using alpha = .05; The mean difference is significant at the 0,05 level; 95% confidence interval

Source: Researcher's construction

As depicted in Table 6-10, at a significance level of  $\leq 0,05$ , both gender and qualification have a significant statistical impact on the outcomes of the South African SMME framework. Gender, age and qualifications, do not significantly impact the the objectives, outputs and impact of the SMME framework.

Table 6-11 and Table 6-12 provide further details on which gender and qualification level have a significant effect on the outcomes of the SMME framework.

**Table 6-11: ANOVA between dependent variables and gender**

Dependent Variable		Mean Difference (I-J)	Std. Error	Significance <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>	
					Lower Bound	Upper Bound
Objectives	Male	0,022	0,174	0,901	-0,323	0,366
	Female	-0,022	0,174	0,901	-0,366	0,323
Outputs	Male	-0,195	0,249	0,436	-0,690	0,300
	Female	0,195	0,249	0,436	-0,300	0,690
Outcomes	Male	<b>-.478*</b>	0,158	<b>0,003</b>	-0,792	-0,165
	Female	<b>.478*</b>	0,158	<b>0,003</b>	0,165	0,792
Impact	Male	-0,389	0,261	0,140	-0,908	0,129
	Female	0,389	0,261	0,140	-0,129	0,908

Based on estimated marginal means

\*. The mean difference is significant at the <0,05 level

b. Adjustment for multiple comparisons: Bonferroni correction

Source: Researcher's construction

Males scored significantly lower than females on their knowledge of the outcomes of the SMME framework. This is a surprising find since most businesses are run and managed by males, so one would expect them to have a better knowledge of the overall SMME framework.

**Table 6-12: The effect of education on knowledge of the SMME framework**

Dependent Variable		Mean Difference (I-J)	Std. Error	Significance	95% Confidence Interval for Difference	
					Lower Bound	Upper Bound
Objectives	Matric	0,139	0,245	1,000	-0,520	0,797
	Diploma	-0,139	0,245	1,000	-0,797	0,520
	Degree (bachelor's degree/ BTech)	-0,453	0,267	0,554	-1,171	0,265
	Postgraduate (honours, master's, doctoral)	-0,174	0,229	1,000	-0,792	0,444
Outputs	Matric	-0,150	0,351	1,000	-1,097	0,796



Dependent Variable		Mean Difference (I-J)	Std. Error	Significance	95% Confidence Interval for Difference	
					Lower Bound	Upper Bound
	Diploma	0,150	0,351	1,000	-0,796	1,097
	Degree (bachelor's degree/ BTech)	-0,364	0,383	1,000	-1,396	0,667
	Postgraduate (honours, master's, doctoral)	-0,160	0,330	1,000	-1,047	0,727
<b>Outcomes</b>	Matric	0,163	0,223	1,000	-0,436	0,762
	Diploma	-0,163	0,223	1,000	-0,762	0,436
	Degree (bachelor's degree/ BTech)	<b>-0,761</b>	0,243	<b>0,013</b>	-1,414	-0,108
	Postgraduate (honours, master's, doctoral)	-0,472	0,209	0,155	-1,034	0,090

Source: Researcher's construction

As can be seen from Table 6-12, entrepreneurs with a bachelor's degree/BTech scored significantly lower, which has a significant effect on the knowledge of the SMME framework's outcome.

### 6.6.2 Correlation analysis

It is important to indicate that during the quantitative data analysis stage, the dependent and independent variables were dealt with separately in order to evaluate the strength of the relationship between them. In order to test whether the knowledge of the SMME framework has a significant impact on business performance, the researcher had to first ascertain whether the HGE have knowledge of the SMME framework and whether they have utilised some of the support provided by Government and the private sector. The results of this analysis are presented in paragraphs 6.2.3 and 6.3. The correlation analysis in this section was then performed to test the relationship between the independent variables and to determine whether

knowledge of the SMME framework has an impact on business performance (turnover and years it took to reach break-even point).

The focus of this analysis was on significant correlations, as outlined in Table 6-13. The descriptions of the variables are outlined in more detail in the questionnaire. Table 6-13 shows the HGE's correlation between the independent and dependent variables outlined above.

**Table 6-13: Correlation between independent and dependent variables**

IV = Independent Variable

DV = Dependent variable

		IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	DV	DV	DV		
		Access	Skills	Support	Assistance	Expansion	Objectives	Outputs	Outcomes	Impact	No. of employees	No. of years in business	Government support used	Private-sector support	Turnover	Profitability	Years to reach break-even point		
Spearman's Rho	Access	Correlation Coefficient	1,000																
		Sig. (2-tailed)																	
		N	117																
	Skills	Correlation Coefficient	.488**	1,000															
		Sig. (2-tailed)	0,000																
		N	117	118															
	Support	Correlation Coefficient	.464**	.648**	1,000														
		Sig. (2-tailed)	0,000	0,000															
		N	116	116	116														
	Assistance	Correlation Coefficient	.598**	.677**	.633**	1,000													
		Sig. (2-tailed)	0,000	0,000	0,000														
		N	117	118	116	118													
	Expansion	Correlation Coefficient	0,015	-0,022	-0,089	-0,005	1,000												
		Sig. (2-tailed)	0,870	0,815	0,340	0,959													
		N	117	118	116	118	118												
	Objectives	Correlation Coefficient	.246**	.240**	.185*	.221*	0,163	1,000											

IV = Independent Variable  
DV = Dependent variable

		IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	DV	DV	DV
		Access	Skills	Support	Assistance	Expansion	Objectives	Outputs	Outcomes	Impact	No. of employees	No. of years in business	Government support used	Private-sector support	Turnover	Profitability	Years to reach break-even point
Outputs	Sig. (2-tailed)	0,008	0,009	0,046	0,016	0,077											
	N	117	118	116	118	118	118										
	Correlation Coefficient	-0,014	0,074	0,008	0,027	.229 <sup>†</sup>	.310 <sup>**</sup>	1,000									
	Sig. (2-tailed)	0,886	0,433	0,932	0,772	0,014	0,001										
	N	115	116	114	116	116	116	116									
Outcomes	Correlation Coefficient	.244 <sup>**</sup>	0,177	0,163	0,140	0,166	.469 <sup>**</sup>	.533 <sup>**</sup>	1,000								
	Sig. (2-tailed)	0,008	0,056	0,082	0,133	0,073	0,000	0,000									
	N	116	117	115	117	117	117	116	117								
Impact	Correlation Coefficient	0,057	0,159	0,070	0,117	0,087	.338 <sup>**</sup>	.305 <sup>**</sup>	.530 <sup>**</sup>	1,000							
	Sig. (2-tailed)	0,546	0,091	0,462	0,214	0,357	0,000	0,001	0,000								
	N	113	114	112	114	114	114	113	114	116							
No. of employees	Correlation Coefficient	-0,127	-0,172	-0,149	-0,068	.199 <sup>†</sup>	-0,074	0,131	-0,010	0,057	1,000						
	Sig. (2-tailed)	0,178	0,067	0,116	0,468	0,033	0,433	0,168	0,912	0,550							
	N	114	115	113	115	115	115	113	114	112	116						
No. of years in business	Correlation Coefficient	0,068	-0,147	-.235 <sup>†</sup>	0,089	0,139	-0,140	0,009	0,045	0,074	.232 <sup>†</sup>	1,000					
	Sig. (2-tailed)	0,469	0,115	0,012	0,342	0,136	0,133	0,925	0,634	0,439	0,013						

IV = Independent Variable  
DV = Dependent variable

		IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	DV	DV	DV
		Access	Skills	Support	Assistance	Expansion	Objectives	Outputs	Outcomes	Impact	No. of employees	No. of years in business	Government support used	Private-sector support	Turnover	Profitability	Years to reach break-even point
Turnover	N	115	116	114	116	116	116	114	115	113	114	117					
	Correlation Coefficient	-0,173	-0,106	-.196 <sup>†</sup>	-0,136	0,110	0,026	0,092	0,031	0,164	.268 <sup>**</sup>	.322 <sup>**</sup>			1,000		
	Sig. (2-tailed)	0,063	0,256	0,036	0,145	0,240	0,780	0,326	0,738	0,081	0,004	0,000					
Profitability	N	116	117	115	117	117	117	115	116	114	116	116			118		
	Correlation Coefficient	-0,030	-0,008	0,058	-0,096	-0,133	-0,055	-0,147	-0,104	-0,083	-0,073	-.246 <sup>**</sup>			-0,088	1,000	
	Sig. (2-tailed)	0,746	0,929	0,536	0,302	0,151	0,558	0,118	0,268	0,381	0,438	0,008			0,346		
Years to reach break-even point	N	116	117	115	117	117	117	115	116	113	115	115			117	117	
	Correlation Coefficient	0,128	-0,051	0,023	-0,023	0,015	0,010	-0,074	0,033	-0,013	0,018	0,087			0,073	-0,109	1,000
	Sig. (2-tailed)	0,172	0,586	0,808	0,803	0,877	0,915	0,435	0,724	0,888	0,847	0,355			0,437	0,245	
Government support used	N	115	116	115	116	116	116	114	115	113	115	115			117	116	117
	Correlation Coefficient	0,091	0,215	.268 <sup>†</sup>	0,248	-0,043	-0,238	-0,177	-0,203	-0,089	0,006	-0,073	1,000		-.422 <sup>**</sup>	-0,083	0,000
	Sig. (2-tailed)	0,487	0,094	0,038	0,052	0,739	0,063	0,171	0,113	0,491	0,966	0,573			0,001	0,523	1,000
Private-sector support used	N	61	62	60	62	62	62	61	62	62	61	62	62	62	61	61	60
	Correlation Coefficient	0,081	0,180	-0,102	0,102	-0,161	0,107	-0,137	0,023	0,006	0,068	-0,178	.424 <sup>**</sup>	1,000	-.279 <sup>†</sup>	-0,018	0,045
	Sig. (2-tailed)	0,536	0,166	0,440	0,435	0,215	0,412	0,296	0,859	0,964	0,612	0,174	0,006		0,031	0,893	0,737
	N	60	61	59	61	61	61	60	61	60	58	60	40	61	60	60	59

IV = Independent Variable

DV = Dependent variable

IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	IV	DV	DV	DV
Access	Skills	Support	Assistance	Expansion	Objectives	Outputs	Outcomes	Impact	No. of employees	No. of years in business	Government support used	Private-sector support	Turnover	Profitability	Years to reach break-even point	

\*\* . Correlation is significant at the 0,01 level (two-tailed)

\* . Correlation is significant at the 0,05 level (two-tailed)

Source: Researcher's construction

### 6.6.2.1 Access to markets, financial support, infrastructure and information

- Entrepreneurs who rated **Access** as important also rated **Skills** to manage and grow the business as important (significant correlation of .488). This makes sense as there is no point in having access to all these resources but lacking the skills necessary to grow the business. One can only capitalise on these resources if they are competent in identifying a gap in the market and the correct channels to take goods/services to the market and accessing the appropriate financial support.
- There is also a strong correlation between the **Access** and **Support** needed to start, maintain, grow and manage a business during its declining phase (significant correlation of .464). The entrepreneurs believed that to start, maintain and grow a business to sustainability, it is important to have access to markets, financial support, infrastructure and information.
- There is also a very strong correlation between the **Access** and **Assistance** required to manage a business effectively (significant strong correlation factor of .598). Assistance refers mainly to that required to start and manage a business to sustainability or when it is declining. Entrepreneurs believed access to markets, financial support, infrastructure and information is especially important when starting a business and managing it to sustainability.
- There is a significant (weak) correlation between the **Access** and **Objectives** of small business policy (correlation factor of .246). This means that entrepreneurs who rated access to resources agreed (though not strongly) with the SMME policy's objectives, which include assisting with business venture growth, reducing red tape, stimulating the entrepreneurial culture and targeting nascent entrepreneurs. Though the low correlation factor is surprising, as one expected the entrepreneurs to welcome these objectives, these high-growth entrepreneurs probably expected government policy to focus more on assisting existing businesses rather than start-ups. They believed the government is not doing enough to support growing businesses and focusses more on new ventures.
- There is a significant (weak) correlation between the **Access** and **Outcomes** of the small business policy (correlation factor of .244). The entrepreneurs did not believe

that the government has done enough to meet the outcomes of the small business policy, for example, increase the demand for SMME products, improve SMME delivery capacity and improve the regulatory environment. This low correlation factor makes sense because one cannot effectively use the existing infrastructure and access to markets with inadequate delivery capacity, a non-responsive regulatory environment and insufficient entrepreneurial activity amongst women and youth.

#### 6.6.2.2 Skills to manage and grow the business

- There is a significant (strong) correlation between the **Skills** to manage a business and the **Support** needed to start, maintain and grow the business and manage it during its declining phase (correlation of .648). This correlation makes sense as skills to choose initial products or services, develop a business plan, manage risks and be responsive to customer needs are required at all stages of business development and growth. In fact, one would have expected to see a stronger correlation between these variables.
- There is a significant (very strong) correlation between the **Skills** and **Assistance** required to manage a business effectively (correlation factor of .677). This correlation makes sense as the skills outlined above support any assistance given to register the business, find new markets, innovate products and services, and develop a strategy.
- There is a significant (weak) correlation between the **Skills** and **Objectives** of small business policy (correlation factor of .240). This means that entrepreneurs who rated skills to manage the business agreed (though not strongly) with the SMME policy's objectives. Though the low correlation factor is surprising, as one expects entrepreneurs to welcome these objectives, these high-growth entrepreneurs probably expected government policy to focus more on assisting existing businesses rather than start-ups. They believed the government is not doing enough to support growing businesses and focusses more on new ventures.

#### 6.6.2.3 Support needed to start, maintain and grow the business

- There is a significant (very strong) correlation between the **Support** to manage the business and the **Assistance** required to register the business, find new markets,



produce innovative products and services and develop a strategy (correlation factor of .633). This strong correlation between the two variables makes sense as the support needed to start, maintain and grow a business follows the assistance needed to start the business and find new markets. The researcher expected to find a much stronger correlation between the two variables as they are both necessary for business growth.

- There is a significant (weak) correlation between the **Support** and **Objectives** of small business policy (correlation factor of .185). This means entrepreneurs did not strongly believe that the support provided by the SMME policy will help the government meet the SMME policy's objectives. This is not surprising as high-growth entrepreneurs probably expected the government policy to focus more on supporting existing businesses rather than start-ups. They believed the government is not doing enough to support growing businesses and focusses more on new ventures.
- There is a significant (strong) negative correlation between the **Support** and the **Number of years in business** (correlation factor of -.235). This means that businesses that rate government support as high do not stay in business for long. This is probably because entrepreneurs tend to work harder to secure and grow their businesses when they had spent their own money growing the businesses than when the government provided support. This means that government-supported businesses do not stay in business as long as those not supported by the government. This is probably because the entrepreneurs have not taken too much risk, and as soon as they encounter obstacles, they quit.
- There is a significant (weak) negative correlation between **Support** and **Turnover** (correlation factor of -.196). This correlation supports the correlation between **Support** and the **Number of years in business** discussed above. As the government supports less-profitable businesses, they naturally do not stay in business for too long. As the entrepreneurs have not taken many risks, they are unlikely to be innovative in keeping the business afloat.
- There is a significant (weak) correlation between **Support** and **Government support used** (correlation factor of 0,268). This means that entrepreneurs who rated support high also indicated they had used government support. This is interesting as the

researcher expected a much stronger correlation between those who rated support and those who used it. The low correlation factor is probably due to lack of access to support, which could be due to lack of information and other factors.

#### **6.6.2.4 Assistance required to manage the business effectively**

There is a significant (weak) correlation between the **Assistance** and **Objectives** of small business policy (correlation factor of .221). This means entrepreneurs did not strongly believe that the assistance provided by the SMME policy will help the government meet the SMME policy's objectives, which include assisting with business venture growth, reducing red tape, stimulating the entrepreneurial culture and targeting nascent entrepreneurs. This is not surprising as high-growth entrepreneurs probably expected the government policy to focus more on assisting existing businesses rather than start-ups. They believed the government is not providing sufficient assistance to growing businesses and focusses more on new ventures.

#### **6.6.2.5 Expansion—setting long-term objectives**

- There is a significant (weak) correlation between the **Expansion** and **Outputs** of small business policy (correlation factor of .229). This means entrepreneurs did not strongly believe there is a firm alignment between the factors contributing to their business expansion and the outputs of the small business policy.
- There is a significant (weak) correlation between the **Expansion** and the **Number of employees in the business** (correlation factor of .199). This means the factors outlined as contributing to business expansion did not significantly contribute to an increase in the number of employees. For these businesses to increase their number of employees, they do not necessarily need to introduce a new product/service. They must, however, expand markets for existing products, and sales must increase by more than the inflation rate.

#### **6.6.2.6 Objectives of the SMME policy**

- There is a significant correlation between the **Objectives** and **Outputs** of the small business policy (correlation factor of .310). This means the entrepreneurs concurred (not strongly) that when properly executed, the small business policy's objectives will

yield its outputs. This, however, does not mean they agreed with both the policy's objectives and outputs insofar as their businesses are concerned. As shown in Table 6-13, there are negative (non-significant) correlations between the objectives of the small business policy growth and the number of employees, number of years in business and profitability. There is a positive (insignificant) correlation between the objectives of the small business policy and turnover. These entrepreneurs believed that the objectives of the small business policy are geared towards assisting start-up entities rather than HGEs.

- There is a significant (strong) correlation between the **Objectives** and **Outcomes** of the small business policy (correlation factor of .469). This means the entrepreneurs believed that when properly executed, the small business policy's objectives will yield its outcomes. This, however, does not necessarily mean they agreed with both objectives and outcomes of the policy insofar as their businesses are concerned.
- There is a significant (weak) correlation between the **Objectives** and **Impact** of the small business policy (correlation factor of .338). This means the entrepreneurs believed that when properly executed, the small business policy's objectives will have the desired impact as outlined in the policy. This, however, does not necessarily mean they agreed with the objectives or the impact of the policy insofar as their businesses are concerned.

#### **6.6.2.7 Outputs of the SMME policy**

There is a significant (strong) correlation between **Outputs** and **Outcomes** of small business policy (correlation factor of .553). This means entrepreneurs believed there is an alignment between outputs and outcomes of the small business policy. Again, this does not necessarily mean they agreed that these outputs are geared towards the sustainability and growth of their businesses. This is further explained by the insignificant correlation between the outputs and the growth of the number of employees, number of years in business, turnover and profitability of their businesses.

#### 6.6.2.8 Number of employees

- There is a significant (weak) correlation between an increase in the **Number of employees** and the **Number of years in business** (correlation factor of .232). This means that the longer one stays in business, the lower the new employment rate. This specifically refers to businesses that have been in existence for more than five years. It is, therefore, vital that business growth be attained during the first five years of establishment as this is the time the business is likely to increase its staff complement. Beyond five years, the employment rate declines as the business mechanises and capitalises on the economies of scale.
- There is a significant (weak) correlation between an increase in the **Number of employees** and **Turnover** (correlation factor of .268). This means that growth beyond five years is attained using fewer resources (such as human capital) than previous growth (rand-for-rand increase in turnover).

#### 6.6.2.9 Number of years in business

- There is a significant (weak) correlation between the **Number of years in business** and **Turnover** (correlation factor of .322). This means that the longer one stays in business, the more one's turnover will increase. This is not surprising as a business that has survived for more than five years should have marketing strategies and plans to increase its sales through new markets or products or increasing the market share of existing products.
- There is a significant (weak) correlation between the **Number of years in business** and **Profitability** (correlation factor of -.246). This means that the longer one stays in business, the less profitable the company becomes. This indicates that as much as businesses continue for longer and their turnover increases, as demonstrated above, their profitability will not necessarily increase. This indicates that unless the business capitalises on the economies of scale and the increase in turnover mentioned above is not accompanied by an increased unit price or a reduction in production cost per unit, profitability will decline.

#### 6.6.2.10 Government support used

There is a significant (strong) correlation between **Government support used** and **Private-sector support used** (correlation factor of .424). This means that those businesses that have used government support have also used private-sector support. This speaks to the issue of entitlement (SMMEs are entitled to receiving government and private-sector support even if their businesses are not growing). The use of government and private-sector support and the relationship between support and growth is discussed further in Section 6.6.3 below

#### 6.6.2.11 Turnover

- There is a significant (strong) correlation between **Turnover** and **Government support used** (correlation factor of -.422). This means that entities that received government support do not have an increase in turnover. As alluded to earlier, this is probably because the government carries much of the risk, and entrepreneurs have nothing to lose if these businesses fail. The relationship between support (government and private) and business growth is discussed further in Section 6.6.3 below.
- There is a significant correlation between **Turnover** and **Private-sector support used** (correlation factor of -.279). This means that entities that received private-sector support do not have an increase in turnover. As mentioned earlier, this is probably because the entrepreneur does not carry much of the risk and does not have much to lose if the business fails. The relationship between support (government and private) and business performance is discussed further in Section 6.6.3 below.

#### 6.6.2.11 Years to reach break-even point

There is no correlation between **Years to reach break-even point** and **Turnover** and **Profitability** (company performance). The researcher expected an entity that reaches the break-even point earlier in its growth lift cycle to do better than those that reach it later.

### 6.6.3 Regression analysis

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. It can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them (Corporate finance Institute, 2021). In this research the regression analysis was performed to predict the relationship between turnover (dependent variable), and support, impact and government support; and profitability (dependent variable) and number of years in business.

In Model 1, the stepwise logistic model was performed, and significant predictors were retained. Nine predictors, namely Access, Skills, Support, Assistance, Expansion, Objectives, Outputs, Outcomes and Impact, were entered into the first model (Turnover). The predictors Support and Impact were retained. See Table 6-14.

Table 6-14: Logistic regression analysis of turnover: Model 1

Wald Test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds Ratio
Constant	0,978	1,062	0,849	1	0,357	
Support	-0,630	0,253	6,208	1	0,013	0,533
Impact	0,367	0,172	4,553	1	0,033	1,444
<b>Test</b>			<b>X<sup>2</sup></b>	<b>df</b>	<b>p</b>	
<b>Overall model evaluation</b>						
Likelihood ratio test			9,9182	2	0,007 *	
Wald test			8,9369	2	0,011 5*	
Score			9,6718	2	0,007 9*	

Wald Test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds Ratio
Goodness-of-fit test						
Hosmer-Lemeshow test			6,5628	8	0,584 5	

Source: Researcher's construction

The overall model evaluation tested the likelihood ratio. Both the Wald and Score tests yielded similar conclusions: the logistic model was more effective than the null model ( $p < .05$ ). The statistical significance of individual regression coefficients was tried using the Wald chi-square statistics test. Support and Impact were significant predictors of turnover ( $p < .05$ ).

The probability of belonging to or falling into a group of turnover above R5 million is decreased for entrepreneurs who rated support as important or extremely important, with beta = -0,630 and an odds ratio or likelihood of 0,533.

The probability of belonging to or falling into a group of turnover above R5 million is decreased for entrepreneurs who rated impact as important or extremely important to them, with beta = 0,367 and an odds ratio or likelihood of 1,444.

Goodness-of-fit statistics measure the appropriateness of a logistic model against the actual outcomes. The Hosmer-Lemeshow test yielded a  $\chi^2(8)$  of 6,5628 and was insignificant ( $p > .05$ ), suggesting that the data fits the expected pattern well. To put it differently, the null hypothesis of a good model fit to data was acceptable as demonstrated in Table 6-15 below.

Table 6-15: Logistic regression analysis of turnover: Model 2

Wald Test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds Ratio
<b>Constant</b>	1,2040	0,6583	3,3451	1	0,0674	
<b>Government Support</b>	-2,015	0,7835	6,6133	1	0,0101	7,20
<b>1 = Non-financial</b>						
<b>Test</b>			<b>X<sup>2</sup></b>	<b>df</b>	<b>p</b>	
<b>Overall model evaluation</b>						
Likelihood ratio test			7,6926	1	0,0055*	
Wald test			7,4286	1	0,0064*	
Score			6,6133	2	0,01*	
<b>Goodness-of-fit test</b>						
Hosmer-Lemeshow			0,000	0		

Source: Researcher's construction

The overall model evaluation tested the likelihood ratio. Both the Wald and Score tests yielded similar conclusions: the logistic model was more effective than the null model ( $p < .05$ ).

Government support used was a significant predictor of turnover ( $p < .05$ ). The probability of belonging to or falling to a group with a turnover above R5 million is decreased for entrepreneurs who rated non-financial support as important or extremely important, with beta = -2,015 and an odds ratio or likelihood of 7,20.

Table 6-16, the logistic regression analysis of profitability, is shown below.



Table 6-16: Logistic regression analysis of profitability

Wald Test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds Ratio
Constant	0,6286	0,4378	2,0615	1	0,1511	
Number of years in business	1,3680	0,5431	6,3452	1	0,0118	3,927
0 = Under 5						
1= 5 years and above						
Test			X <sup>2</sup>	df	p	
<b>Overall model evaluation</b>						
Likelihood ratio test			6,0161	1	0,0142*	
Wald test			6,9511	1	0,0084*	
Score			6,3452	2	0,0118*	
<b>Goodness-of-fit test</b>						
Hosmer-Lemeshow			0,000	0		

Source: Researcher's construction

The overall model evaluation tested the likelihood ratio. Both the Wald and Score tests yielded similar conclusions: the logistic model was more effective than the null model ( $p < .05$ ).

The number of years was a significant predictor of profitability ( $p < .05$ ). The probability of belonging to or falling to a group of non-profitable SMMEs is increased for entrepreneurs who had been in business for five years and longer, with beta = 1,3680 and an odds ratio or likelihood of 3,93. This is a surprising finding; the probable reason is that the longer entrepreneurs are in business, the less innovative they become. They settle into a particular way of doing things and become complacent.

## 6.7 CONCLUSION

In this chapter, research findings based on responses received from the participants who completed and submitted their questionnaires were presented. Throughout this chapter, the study results were presented in tables and figures and were divided into descriptive and inferential statistics. Entrepreneurs' personal and business venture demographics were presented and discussed. Various statistical methods identified in Chapter 5 were used to analyse the research data.

Descriptive statistics regarding support services provided and an evaluation of the objectives, outcomes, outputs and impact of South Africa's small business policy were presented. The high Cronbach's alpha values confirmed the reliability of the questionnaire. The Spearman correlation analysis was used to test the relationship between the independent and dependent variables, and the results were presented and discussed. The dependent variables identified in the correlation analysis were used in the inferential statistics. The stepwise logistic regression analysis (Wald chi-square test) was performed to test the explanatory variables' significance in the model, and the results were presented and discussed.

Important research findings highlighting the significant relationships from the ANOVA tests and correlation and regression analysis were presented. The researcher believes that this study's findings and conclusions will contribute to the study of HGEs and hopefully spur on policymakers to develop support focussed on HGEs in South Africa.

The findings from this chapter have been used to formulate the conclusions and recommendations presented in Chapter 7. The study's limitations and suggestions for further study are presented. The study objectives and hypothesis are revisited, and conclusions made.

## **7 CHAPTER 7: RESEARCH FINDINGS**

### **7.1 INTRODUCTION**

As indicated in paragraph 1.1, policymakers want to know how they can use their limited resources efficiently to develop their economies to compete, generate jobs, increase incomes and provide improved products and services. Increasing the number of HGEs is becoming a focal point for industry policy in developed countries but less so in developing economies. As discussed in Chapter 4, continuing on the current trajectory of increasing the number of small businesses and hoping the number of HGEs will also increase has proved ineffective. Transactional forms of support for HGEs has limited impact, at least in the post-start-up phase. In developed economies, the entrepreneurship ecosystem approach has emerged as a response, as it acknowledges that HGEs thrive in unique types of supportive environments and need distinct specialised support (Mason & Brown, 2013b).

The motivation for this study was policymakers' continued insistence on supporting start-up entities and the extraordinarily little attention given to providing support for high-growth entities. To foster HGEs' growth and development, policymakers must understand the determinants of these businesses and the variables that enhance their growth. Despite divergent views on which types of policies and programmes (wholesale versus targeted) are more effective for SMME development, there is general support for developing conditions that nurture the emergence and growth of entities that meaningfully contribute to economic growth. This study sought to contribute to the understanding of how a knowledge of the SMME policy framework impacts business performance.

### **7.2 OVERVIEW OF THE STUDY**

Theories of entrepreneurship were discussed in detail in Chapter 2, and the researcher concluded that entrepreneurship theories are inter-disciplinary and influenced by a multitude of factors. Because entrepreneurship is a multifaceted phenomenon that is not easy to describe and is affected and influenced by a multiplicity of factors, theories of entrepreneurship alone cannot account for all the possible factors that influence entrepreneurship. Other factors that may influence entrepreneurship include an abundance or scarcity of resources, unstable

political environments, political interventions in the economy, different education levels and standard in various countries, geo-coefficient levels and unstable currencies (for example, hyper-inflation).

In Chapter 3, a detailed analysis of the state of entrepreneurship in South Africa was undertaken. Compared to other developing countries worldwide, South Africa's business environment was considered relatively conducive to conducting business and was ranked 84th out of 190 countries (World Bank, 2020:4). However, despite various policies and programmes aimed at stimulating economic growth, the current environment remains difficult and risky, and failure rates remain stubbornly high. In its 2013 year-end report, the dti acknowledged that the failure rate is very high amongst start-up businesses (dti, 2013). The various constraints SMMEs in South Africa face were discussed, and the researcher outlined what other countries are doing to foster SMME development and proposed solutions for South Africa.

Chapter 4 dealt with the concept of growth and determinants of HGEs. This chapter provided reasons why the study of HGEs is important for emerging economies. Characteristics and determinants of HGEs were discussed, and a justification for a different definition of HGEs for emerging markets was put forward. Various HGE growth indicators were discussed and growth indicators and measurement periods were proposed.

In Chapter 5, research objectives, hypotheses and research methodology were discussed. Data research instruments and collection methods were discussed, and the statistical tools used to analyse the data were also outlined. The accessible population in the form of the two high-growth programmes was discussed.

In Chapter 6, research findings were presented and analysed using ANOVA tests and correlation and regression analysis. These findings were used as a basis for either accepting or rejecting the hypotheses outlined in Chapter 5. In addition, these findings were used as a basis for formulating the conclusions and recommendations outlined in this chapter.

### 7.3 RESEARCH OBJECTIVES REVISITED

This research study had the following two objectives:

- 1) Objective 1: To evaluate high-growth entrepreneurs' knowledge of the SMME policy framework.

This research objective emanated from Research Question 1: What is high-growth entrepreneurs' level of knowledge by of the SMME policy framework?

In order to respond to the above research question and objective, the researcher formulated the following hypotheses:

- **Null hypothesis (H1<sub>0</sub>):** The age of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework;
- **Null hypothesis (H2<sub>0</sub>):** The gender of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework; and
- **Null hypothesis (H3<sub>0</sub>):** The qualifications of the entrepreneur do not have a material effect on their knowledge of the SMME policy framework.

- 2) Objective 2: To determine how this knowledge impacts businesses performance.

This research objective emanated from Research Question 2: How does such knowledge impact business performance?

In order to respond to the above research question and objective, the researcher formulated the following hypotheses:

- **Null hypothesis (H4<sub>0</sub>):** The number of years it takes to reach the break-even point does not have a material impact on the rate of business performance;
- **Null hypothesis (H5<sub>0</sub>):** There exist no material statistical differences between the number of years in business and performance;

- **Null hypothesis (H6<sub>0</sub>):** There exist no material statistical differences between the kind of support received by HGEs during their growth phase and their performance; and
- **Null hypothesis (H7<sub>0</sub>):** There exist no material statistical differences between knowledge of the SMME policy framework and business performance.

These hypotheses were tested using the ANOVA and correlation and regression analysis tests outlined in Chapter 6. The decision of whether to accept or reject these hypotheses is presented below.

## 7.4 HYPOTHESES TESTING

Section 7.3 outlined the research objectives and hypotheses formulated to respond to the two research questions. This section sets out the results of the hypotheses testing.

In order to respond to the first objective, the evaluation of HGE entrepreneurs' knowledge of the SMME policy framework was conducted to determine if the age, gender and qualifications of an entrepreneur have a significant effect on their knowledge of the SMME policy framework. The results of the hypotheses testing for this research objective are as follows.

### 7.4.1 Null hypothesis (H1<sub>0</sub>)

The age of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework. This is shown in Table 7-1.

**Table 7-1: Age frequency table**

	Age	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 – 29	7	5,8	5,9	5,9
	30 – 39	45	37,5	38,1	44,1
	40 – 49	43	35,8	36,4	80,5
	50 – 59	19	15,8	16,1	96,6
	60 – 69	3	2,5	2,5	99,2
	70 or older	1	.8	0,8	100,0

Age	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Total</b>	118	98,3	100,0	
<b>Missing System</b>	2	1,7		
<b>Total</b>	120	100,0		

Source: Researcher's construction

In order to perform the analysis, some categories were merged because of few counts. Table 7-2 shows the reclassified categories:

**Table 7-2: Reclassified age categories**

Source	Age	Frequency	
<b>Age</b>	1	20-39	46
	2	40-49	40
	3	> = 50 years	21

Source: Researcher's construction

The ANOVA results for each of the affected variables and the interaction effect are shown in Table 7-3.

**Table 7-3: Age pairwise comparison**

Dependent Variable	Age category	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
<b>Objectives</b>	20-39	4,006	0,130	3,748	4,265
	40-49	3,752	0,138	3,478	4,026
	>= 50 years	3,873	0,191	3,494	4,252
<b>Outputs</b>	20-39	3,327	0,187	2,955	3,698
	40-49	3,124	0,198	2,730	3,517
	>= 50 years	3,521	0,274	2,977	4,066
<b>Outcomes</b>	20-39	3,538	0,119	3,303	3,773
	40-49	3,242	0,126	2,993	3,491
	>= 50 years	3,440	0,174	3,095	3,785
<b>Impact</b>	20-39	2,970	0,196	2,580	3,359
	40-49	2,717	0,208	2,305	3,130
	>= 50 years	2,564	0,288	1,993	3,135

Based on estimated marginal means

The mean difference is significant at the .05 level

Source: Researcher's construction

Table 7-4 shows how Age impacts knowledge of the SMME policy framework.

**Table 7-4: Test of between subject effects on age**

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Non-cent. Parameter	Observed Power <sup>e</sup>	
<b>Age</b>	<b>Objectives</b>	1,286	2	0,643	0,906	0,408	0,018	1,812	0,203
	<b>Outputs</b>	2,224	2	1,112	0,759	0,471	0,015	1,518	0,176
	<b>Outcomes</b>	1,785	2	0,893	1,519	0,224	0,029	3,038	0,317
	<b>Impact</b>	2,466	2	1,233	0,765	0,468	0,015	1,531	0,177

e. Computed using alpha = .05

Source: Researcher's construction

Table 7-4 shows no significant correlation between the age of the entrepreneur and knowledge of the SMME framework. The entrepreneur's age, therefore, has no bearing on knowledge of the SMME policies of the country.



*Based on the analysis above, the null hypothesis (H1<sub>0</sub>) is accepted, and the alternative hypothesis is rejected. There is thus no significant correlation between the age of the entrepreneur and knowledge of the SMME framework.*

This is an interesting and surprising finding given that successful entrepreneurs are not young but middle-aged, as demonstrated in Figure 6-7. This therefore suggests that knowledge of the SMME policy framework alone will not lead to a successful business venture. Research shows that for entrepreneurs who have prior employment experience in a specific sector, their chance of success increases by up to 125% compared to those with no sector experience (Azoulay et al., 2018:79).

South Africa has an unemployment rate of 74,4% amongst its youth population and is focussing its SME development initiatives on this segment of the population (Stats SA, 2021:44). This finding indicates knowledge of the SMME framework is closely associated with experience of the entrepreneur irrespective of their age.

#### **7.4.2 Null hypothesis (H2<sub>0</sub>)**

The gender of the entrepreneur does not have a significant effect on their knowledge of the SMME policy framework. See Table 7-5.

**Table 7-5: Gender frequency table**

Source	Gender	Frequency
<b>Gender</b>	1 Male	63
	2 Female	44

Source: Researcher's construction

The ANOVA results for each of the affected variables and the interaction effect are shown in Table 7-6.

**Table 7-6: Gender pairwise comparison**

Dependent Variable	Source	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
Objectives	Male	3,888	0,122	3,645	4,131
	Female	3,866	0,128	3,612	4,121
Outputs	Male	3,226	0,176	2,878	3,575
	Female	3,421	0,185	3,055	3,787
Outcomes	Male	3,168	0,111	2,947	3,388
	Female	3,646	0,117	3,414	3,878
Impact	Male	2,556	0,184	2,190	2,921
	Female	2,945	0,193	2,561	3,329

Based on estimated marginal means

The mean difference is significant at the .05 level

Source: Researcher's construction

Table 7-7 shows how Gender impacts understanding of SMME policy framework.

**Table 7-7: Test of between subject effects on gender**

Dependent Variable		Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference	
					Lower Bound	Upper Bound
Objectives	Male	0,022	0,174	0,901	-0,323	0,366
	Female	-0,022	0,174	0,901	-0,366	0,323
Outputs	Male	-0,195	0,249	0,436	-0,690	0,300
	Female	0,195	0,249	0,436	-0,300	0,690
Outcomes	Male	<b>-.478*</b>	0,158	<b>0,003*</b>	-0,792	-0,165
	Female	<b>.478*</b>	0,158	<b>0,003*</b>	0,165	0,792
Impact	Male	-0,389	0,261	0,140	-0,908	0,129

Dependent Variable		Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference	
					Lower Bound	Upper Bound
	Female	0,389	0,261	0,140	-0,129	0,908

Based on estimated marginal means

\*. The mean difference is significant at the .05 level

b. Adjustment for multiple comparisons: Bonferroni

Source: Researcher's construction

Table 7-7 shows a significant correlation between gender and knowledge of the SMME framework (outcomes). The gender of the high-growth entrepreneur, therefore, has a significant impact on the knowledge of the SMME policy framework of South Africa.

*Based on the analysis above, the null hypothesis (H2<sub>0</sub>) is rejected, and the alternative hypothesis is accepted. There is a significant correlation between the gender of the entrepreneur and knowledge of the SMME framework.*

This research finding supports the view that the relationship between gender and small business performance is complex, but that gender still appears to be a significant determinant even after other key factors are controlled for (Rosa, Carter & Hamilton; 1996: 463–478). As demonstrated in Figure 6-1 the majority of HGEs this survey are males (60%). The South African Government therefore needs to intensify its entrepreneurial education programmes amongst the women population if it has to increase the number of high growth entrepreneurs in the country.

### **7.4.3 Null hypothesis (H3<sub>0</sub>)**

The qualifications of the entrepreneur do not have a significant effect on their knowledge of the SMME policy framework, as shown in Table 7-8.

**Table 7-8: Qualifications frequency table**

Source	Qualification	Frequency
<b>Qualification</b>	1 Matric	22
	2 Diploma	26
	3 Degree (bachelor's degree/B.Tech)	19
	4 Postgraduate (honours, master's, doctoral)	40

Source: Researcher's construction

The ANOVA results for each of the affected variables and the interaction effect are shown in Table 7-9.

**Table 7-9: Qualifications ANOVA breakdown**

Dependent Variable		Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>	
					Lower Bound	Upper Bound
<b>Objectives</b>	Matric	0,139	0,245	1,000	-0,520	0,797
	Diploma	-0,139	0,245	1,000	-0,797	0,520
	Degree (bachelor's degree/BTech)	-0,453	0,267	0,554	-1,171	0,265
	Postgraduate (honours, master's, doctoral)	-0,174	0,229	1,000	-0,792	0,444
<b>Outputs</b>	Matric	-0,150	0,351	1,000	-1,097	0,796
	Diploma	0,150	0,351	1,000	-0,796	1,097
	Degree (bachelor's degree/BTech)	-0,364	0,383	1,000	-1,396	0,667
	Postgraduate (honours, master's, doctoral)	-0,160	0,330	1,000	-1,047	0,727

Dependent Variable		Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>	
					Lower Bound	Upper Bound
Outcomes	Matric	0,163	0,223	1,000	-0,436	0,762
	Diploma	-0,163	0,223	1,000	-0,762	0,436
	Degree (bachelor's degree/BTech)	<b>-0,761*</b>	0,243	<b>0,013*</b>	-1,414	-0,108
	Postgraduate (honours, master's, doctoral)	-0,472	0,209	0,155	-1,034	0,090

Based on estimated marginal means

\*. The mean difference is significant at the .05 level

b. Adjustment for multiple comparisons: Bonferroni

Source: Researcher's construction

Table 7-10 shows a pairwise comparison of qualifications.

Table 7-10: Pairwise comparison of qualifications

Dependent Variable	Source	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>		
					Lower Bound	Upper Bound	
Objectives	Matric	Diploma	0,139	0,245	1,000	-0,520	0,797
		Degree (bachelor's degree/B.Tech)	0,453	0,267	0,554	-0,265	1,171
		Postgraduate (honours, master's, doctoral)	0,174	0,229	1,000	-0,444	0,792
	Diploma	Matric	-0,139	0,245	1,000	-0,797	0,520

Dependent Variable	Source	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>			
					Lower Bound	Upper Bound		
	Degree (bachelor's degree/B.Tech)	Degree (bachelor's degree/B.Tech)	0,315	0,257	1,000	-0,377	1,006	
		Postgraduate (honours, master's, doctoral)	0,035	0,220	1,000	-0,557	0,628	
		Matric	-0,453	0,267	0,554	-1,171	0,265	
	Degree (bachelor's degree/B.Tech)	Diploma	-0,315	0,257	1,000	-1,006	0,377	
		Postgraduate (honours, master's, doctoral)	-0,279	0,238	1,000	-0,920	0,362	
		Matric	-0,174	0,229	1,000	-0,792	0,444	
	Postgraduate (honours, master's, doctoral)	Diploma	-0,035	0,220	1,000	-0,628	0,557	
		Degree (bachelor's degree/B.Tech)	0,279	0,238	1,000	-0,362	0,920	
		Diploma	-0,150	0,351	1,000	-1,097	0,796	
	<b>Outputs</b>	Matric	Degree (bachelor's degree/B.Tech)	0,364	0,383	1,000	-0,667	1,396
			Postgraduate (honours, master's, doctoral)	0,160	0,330	1,000	-0,727	1,047
			Diploma	0,150	0,351	1,000	-0,796	1,097
Diploma		Matric	0,150	0,351	1,000	-0,796	1,097	

Dependent Variable	Source	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>			
					Lower Bound	Upper Bound		
	Degree (bachelor's degree/B.Tech)	Degree (bachelor's degree/B.Tech)	0,515	0,369	0,997	-0,479	1,508	
		Postgraduate (honours, master's, doctoral)	0,311	0,316	1,000	-0,541	1,162	
	Degree (bachelor's degree/B.Tech)	Matric	-0,364	0,383	1,000	-1,396	0,667	
		Diploma	-0,515	0,369	0,997	-1,508	0,479	
		Postgraduate (honours, master's, doctoral)	-0,204	0,342	1,000	-1,125	0,717	
	Postgraduate (honours, master's, doctoral)	Matric	-0,160	0,330	1,000	-1,047	0,727	
		Diploma	-0,311	0,316	1,000	-1,162	0,541	
		Degree (bachelor's degree/B.Tech)	0,204	0,342	1,000	-0,717	1,125	
	Outcomes	Matric	Diploma	0,163	0,223	1,000	-0,436	0,762
			Degree (bachelor's degree/B.Tech)	.761*	0,243	0,013*	0,108	1,414
			Postgraduate (honours, master's, doctoral)	0,472	0,209	0,155	-0,090	1,034
		Diploma	Matric	-0,163	0,223	1,000	-0,762	0,436

Dependent Variable	Source	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>		
					Lower Bound	Upper Bound	
Impact	Degree (bachelor's degree/B.Tech)	Degree (bachelor's degree/B.Tech)	0,598	0,234	0,072	-0,032	1,227
		Postgraduate (honours, master's, doctoral)	0,309	0,200	0,758	-0,230	0,848
		Matric	-.761*	0,243	0,013*	-1,414	-0,108
	Degree (bachelor's degree/B.Tech)	Diploma	-0,598	0,234	0,072	-1,227	0,032
		Postgraduate (honours, master's, doctoral)	-0,289	0,217	1,000	-0,872	0,294
		Matric	-0,472	0,209	0,155	-1,034	0,090
	Postgraduate (honours, master's, doctoral)	Diploma	-0,309	0,200	0,758	-0,848	0,230
		Degree (bachelor's degree/B.Tech)	0,289	0,217	1,000	-0,294	0,872
		Diploma	0,189	0,369	1,000	-0,803	1,181
	Matric	Degree (bachelor's degree/B.Tech)	0,336	0,402	1,000	-0,745	1,418
		Postgraduate (honours, master's, doctoral)	0,240	0,346	1,000	-0,690	1,170
		Diploma	-0,189	0,369	1,000	-1,181	0,803



Dependent Variable	Source	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval for Difference <sup>b</sup>		
					Lower Bound	Upper Bound	
	Degree (bachelor's degree/B.Tech)	Degree (bachelor's degree/B.Tech)	0,148	0,387	1,000	-0,894	1,189
		Postgraduate (honours, master's, doctoral)	0,052	0,332	1,000	-0,841	0,944
	Degree (bachelor's degree/B.Tech)	Matric	-0,336	0,402	1,000	-1,418	0,745
		Diploma	-0,148	0,387	1,000	-1,189	0,894
		Postgraduate (honours, master's, doctoral)	-0,096	0,359	1,000	-1,062	0,869
	Postgraduate (honours, master's, doctoral)	Matric	-0,240	0,346	1,000	-1,170	0,690
		Diploma	-0,052	0,332	1,000	-0,944	0,841
		Degree (bachelor's degree/B.Tech)	0,096	0,359	1,000	-0,869	1,062

Based on estimated marginal means

\*. The mean difference is significant at the .05 level

b. Adjustment for multiple comparisons: Bonferroni

Source: Researcher's construction

Table 7-10 shows a significant correlation between the entrepreneur's qualifications and knowledge of the SMME framework (outcomes). The qualifications of the high-growth entrepreneur, specifically having a bachelor's degree, has a significant impact on the knowledge of the SMME policy framework of South Africa.

*Based on the analysis above, the null hypothesis ( $H_{30}$ ) is rejected, and the alternative hypothesis is accepted. There is a significant correlation between the qualifications of the entrepreneur and knowledge of the SMME framework.*

This finding concurs with a study conducted by Bosire & Etyang (2003:5-20) that shows that higher education levels are associated with more knowledge and skills on the practice of business. This implies that more education widens the scope of perception, hence enhancing the individual's abilities to perform certain tasks better. Improved entrepreneurial abilities are likely to enable one to overcome the various constraints that would otherwise inhibit entry into self-employment. These abilities and other competencies required for successful business practices could be enhanced through deliberately designed entrepreneurship development programmes in educational institutions. Countries where such programmes have been initiated have recorded an increased supply of entrepreneurs and performance of their economies (Luvanga, 1998:11-18; Shane, 2002).

In order to respond to the second objective, the evaluation of how knowledge of the SMME policy framework impacts business performance was conducted. The results of hypotheses testing for this research objective is as follows.

#### **7.4.4 Null hypothesis ( $H_{40}$ )**

The number of years it takes to reach the break-even point does not have a material impact on the rate of business performance.

In order to explain the strength of the relationship between the variables, the Spearman correlation coefficient test was conducted.

**Table 7-11: Correlation between years to reach break-even point and performance**

		Spearman Correlation Test	Dependent Variables	
Test	Independent Variable		Turnover	Profitability
Spearman's Rho	Years to reach break-even point	Correlation Coefficient	0,073	-0,109
		Sig. (2-tailed)	0,437	0,245
		N	117	116

Correlation is significant at the 0,01 level (2-tailed)

Correlation is significant at the 0,05 level (2-tailed)

Source: Researcher's construction

Table 7-11 shows no significant correlation between the number of years it takes to reach the break-even point and business growth rate, using turnover and profitability as growth indicators. The number of years it takes to reach the break-even point, therefore, has no material impact on the rate of business growth. This is a surprising finding, as the researcher expected that an entity that reaches the break-even point earlier in its growth trajectory would perform better than those that did not.

*Based on the analysis above, the null hypothesis ( $H_{40}$ ) is accepted, and the alternative hypothesis is rejected. The number of years it takes to reach the break-even point, therefore, has no material impact on the rate of business growth.*

Various studies estimates that businesses making a new product take at least three years on average to become profitable (Entrepreneur South Africa, 2013). Occasionally, a company makes a profit from a new product before three years. But these instances are rare and the times it takes to reach break even point depends on many factors, including the type of business and the industry within which it operates. A home-based online business may reach breakeven sooner as it requires little money to start up. An online business only requires an internet connection and a computer—or even just a tablet or smartphone, while a manufacturing company may take many years to reach breakeven point (Entrepreneur South Africa, 2017).

### 7.4.5 Null hypothesis (H50)

There exist no material statistical differences between the number of years in business and performance as shown in Table 7-12 below.

Table 7-12: Logistic regression analysis—profitability over time

Walt test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds ratio
Constant	0,6286	0,4378	2,0615	1	0,1511	
No of years in business	1,3680	0,5431	6,3452	1	0,0118	3,927
0 = under 5 years						
1 = 5 years or more						
Test			X <sup>2</sup>	df	p	
Overall model evaluation						
Likelihood ratio test			6,0161	1	0,0142*	
Wald test			6,9511	1	0,0084*	
Score			6,3452	2	0,0118*	
Goodness-of-fit test						
Hosmer-Lemeshow			0,000	0		

Source: Researcher's construction

The number of years was a significant predictor of profitability ( $p < .05$ ). The probability of belonging to or falling into a group of non-profitable SMMEs is increased for entrepreneurs who had been in business five years and longer, with beta = 1,3680 and an odds ratio or likelihood of 3,93. This is a surprising finding; the probable reason is the longer the entrepreneurs are in business, the more complacency sets in, and they become less innovative. This finding is also supported by Figure 4.3 which shows turnover levels decreasing for entities that have existed for more than 15 years. The analysis also revealed that most HGEs are in the R5 million to R20

million bracket, as presented in Figure 6.16 This is the most difficult band for HGEs to grow out of.

Table 7-12 shows a significant correlation between the number of years in business and business performance.

*Based on the analysis above, the null hypothesis ( $H_{50}$ ) is rejected, and the alternative hypothesis is accepted. There is a significant correlation between the number of years in business and business performance.*

Previous studies show that there is direct correlation between age of the business and profitability. These studies theorise that a high rate of return provides a firm with funds that may insulate it against failure in hard times. It also provides the opportunity for further growth through internal funding or access to debt and new equity. Profits may, further, be invested in doing existing tasks better or adapting to changes in the market, such as diversification strategies rather than pursuing growth per se (Hogarth, Michaud, Doz & van der Heyden, 1991:17).

Against these positive associations, measures to increase short term profitability may also impact on the long term investment and survival of a firm, although the persistence of profits hypothesis suggests that firms that have high rates of return relative to competitors at the beginning of the period have a high probability of maintaining this into the future (Panza, Ville & Merrett, 2017).

For South Africa to achieve high returns on its SME development initiatives, it must implement meritocratic SME policies and focus on entities that have a proven track record as demonstrated in this study.

#### **7.4.6 Null hypothesis ( $H_{60}$ )**

There exist no material statistical differences between the kind of support received by HGEs during their growth phase and their performance.

Table 7-13: Logistic regression analysis between support provided and business performance

Walt test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds ratio
Constant	1,2040	0,6583	3,3451	1	0,0674	
Government support	-2,015	0,7835	6,6133	1	0,0101	7,20
0= financial						
1= non-financial						
Test			X <sup>2</sup>	df	p	
<b>Overall model evaluation</b>						
Likelihood ratio test			7,6926	1	0,0055	
Wald test			7,4286	1	0,0064	
<b>Goodness-of-fit test</b>						
Hosmer-Lemeshow			0,000	0		

Source: Researcher's construction

Government support was a significant predictor of turnover ( $p < .05$ ). The probability of achieving turnovers above R5 million is decreased for entrepreneurs who rated non-financial support as important or extremely important, with beta = -2,015 and an odds ratio or likelihood of 7,20.

Table 7-13 shows a significant correlation between non-financial support and business performance. This is probably because entrepreneurs believed they are entitled to business support provided by the government and, therefore, do not work as hard to ensure business success.

*Based on the analysis above, the null hypothesis (H<sub>0</sub>) is rejected, and the alternative hypothesis is accepted. There is a significant correlation between non-financial support and business performance.*

The firm growth perspective suggests that the sources of advice and the kind of information used by SMEs are a function of growth and maturity of the firm. For example, founders of new firms, who may be deficient in knowledge and resources required to grow their business, will often turn to outside sources for advice (Smeltzer, van Hook & Hutt, 1991). Accountants, lawyers and bankers are common choices since bookkeeping, legal, insurance, and financial knowledge, and understanding of legal and statutory requirements, may be capabilities that the new firm does not possess (Dyer & Ross, 2008). As a firm matures, owners tend to favour more specialized business information (McGee & Sawyerr, 2003) and may engage in advice seeking and information search related to marketplace decisions on product quality, product lines and pricing (Pineda, Lerner, Miller, & Phillips, 1998). The focus of firm attention may also expand beyond the 'immediate' micro-environment (customers, markets, and competitors) to the 'remote' macro-environmental marketplace, which includes socio-cultural, demographic, political, regulatory, and technological trends (Mohan-Neil, 1995). The explicit pursuit of business growth is also expected to stimulate SMEs to use external assistance (Mole, North & Baldock, 2017). Several studies have explored this relationship and drawn attention to questions regarding the direction of causality (i.e. whether growth leads to seeking advice or whether advice stimulates growth).

South Africa has a plethora of non financial support programmes in both the private and public sectors. However, most of these programmes are focussed on start-up or early stages of business development and are transactional in nature. The author proposes that the country should have more non financial support programmes dedicated to high growth entities and these programmes must be run and managed by experienced industry mentors.

#### **7.4.7 Null hypothesis (H70)**

There exist no material statistical differences between the knowledge of the SMME policy framework and business performance.

The stepwise logistic model was performed to test this hypothesis. The predictors were Access, Skills, Support, Assistance, Expansion, Objectives, Outputs, Outcomes and Impact. Support and Impact were significant predictors and were retained.

Table 7-14 shows a logistic regression analysis between knowledge of the SMME policy framework and business performance.

Table 7-14: Logistic regression analysis between knowledge of the SMME policy framework and business performance

Walt test						
Predictor	B	SEB	X <sup>2</sup>	df	p	eB Odds ratio
Constant	0,978	1,062	0,849	1	0,357	
Support	-0,630	0,253	6,208	1	0,013	0,533
Impact	0,367	0,172	4,553	1	0,033	1,444
<b>Test</b>			<b>X<sup>2</sup></b>	<b>df</b>	<b>p</b>	
<b>Overall model evaluation</b>						
Likelihood ratio test			9,9182	2	0,0070	
Wald test			8,9369	2	0,0115	
Score			9,6718	2	0,0079	
<b>Goodness-of-fit test</b>						
Hosmer-Lemeshow			6,5628	8	0,5845	

Source: Researcher's construction

The probability of achieving turnover above R5 million is decreased for entrepreneurs who rated support as important or extremely important, with beta = -0,630 and an odds ratio or likelihood of 0,533.

The probability of achieving turnovers above R5 million is decreased for entrepreneurs who rated impact as important or extremely important, with beta = 0,367 and an odds ratio or likelihood of 1,444.

Table 7-14 shows a significant correlation between knowledge of the SMME policy framework and business performance. This is probably because these entrepreneurs believed they are



entitled to business support provided by the government, and therefore, do not work as hard to ensure business success.

*Based on the analysis above, the null hypothesis ( $H_{70}$ ) is rejected, and the alternative hypothesis is accepted. There is a significant correlation between knowledge of the SMME policy framework and business performance.*

This finding supports the previous research that SME business support has a positive impact on firm performance, employment creation, and labor productivity (Arráiz, Henríquez & Stucchi, 2013:277-293). The meta-analysis found that interventions aimed at spurring SME performance had positive impact on firm performance indicators as well as employment generation, labor productivity, exports, and investment. Evidence shows encouraging results regarding the impact of business support on primary outcomes such as SME performances, employment creation, and labour productivity as well as on secondary outcomes such as exports, innovation, and investment (Cravo & Piza, 2016:30).

## **7.5 LIMITATIONS OF THE STUDY**

The researcher recognises that this study has limitations in that design or methodology characteristics impacted and/or influenced the application or interpretation of the research findings. The following seven study limitations were noted:

- Population size—there are only two known high-growth programmes in South Africa that the government funds. Therefore, the researcher had access to the 120 entities that formed part of these programmes. There may be more entities that qualify under the definition of HGEs, as defined by these programmes; however, the accessible population consisted of only the entities in the two programmes.
- South African focus—the study focussed only on HGEs in South Africa. The confined geographic nature of the study could, therefore, limit the application and generalisation of the research findings to other mixed economies or developing countries. However, given the limited time and resources available to the researcher, it was by design that the study focussed on South Africa.

- Focus on metropolitan areas—the application to form part of the entities in the two programmes was based online. As a result, entities that had easier access to technology and resources mainly operate in more affluent areas of South Africa. The research findings could have been different if more entities from less developed areas were represented in the study.
- Response bias—all the entities that participated in this study were part of a government-sponsored programme. The fact that they were beneficiaries of a government programme could affect their view towards the government and response to questions posed in the questionnaire. It is possible that research findings, especially towards the government's small business policy, could have been different if entities that were not part of any government support programme were included in this study.
- The nature of growth—participation in these programmes requires SMMEs to meet a minimum turnover threshold. The assumption is that this turnover threshold was achieved through organic growth, and the possibility of acquisition growth was ignored.
- Language—the questionnaire was administered in English. Though most respondents were from metropolitan areas and, in most cases, had fair to good command of the English language, the fact that questionnaires were not in their vernacular languages might have impacted the responses given.
- The current economic climate—South Africa has been experiencing sluggish economic growth of less than 2% since 2014 (Stats SA, 2019b:1), far lower than most emerging markets. Given the current economic conditions, most SMMEs are struggling to grow and achieve or maintain profitability. This might have impacted the research results as most SMMEs need more government support during tough economic conditions.

## **7.6 THE CONTRIBUTIONS OF THE STUDY**

The study sought to evaluate high-growth entrepreneurs' knowledge of the South African SMME policy framework and the impact of such knowledge on business performance. Although some studies have been done on evaluating entrepreneurs' knowledge of small business policies in South Africa, no similar studies on HGEs had been performed. The contribution of this study is divided into two sections, namely academic and policy contribution.

### **7.6.1 Academic contribution**

The study of entrepreneurship has evolved over the years, and researchers have provided various definitions of what an entrepreneur is. The researcher believes that as the world and the nature of doing business change, so should the definition of an entrepreneur. Entrepreneurship as a concept should also develop. In Section 2,1, the researcher proposed a definition of the terms entrepreneur and entrepreneurship.

Apart from the study conducted by the World Bank in 2019, research on HGEs has traditionally be done in developed countries. As a result, the definition of HGEs was formulated based on economic conditions prevailing in these countries. In Chapter 4, the researcher proposed a definition of HGEs for emerging economies. However, the researcher advises caution when applying this definition as economic dynamics vary from country to country. Necessary adjustments to the definition may need to be made to consider the circumstances of each economy. Sweden, for example, advised caution on the use of the OECD definition of HGE as the definition excludes almost 95% of surviving entities in Sweden (Daunfeldt, Halvarsson & Johansson, 2012:5).

Another factor that determines the definition of HGEs is the period of measurement. Various countries use different periods, and this study provides guidelines on how a measurement period in emerging markets should be determined.

Historically, most researchers in this area are economists, and growth indicators have been focussed on job creation. Where financial measures were used, they did not consider the

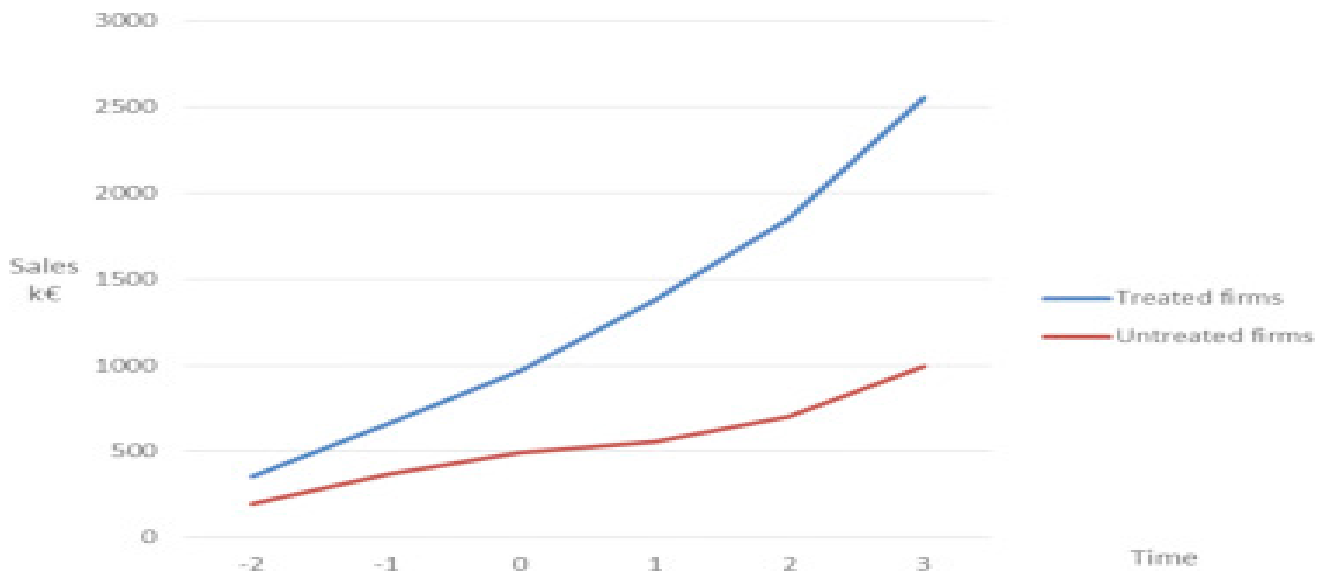
year-on-year financial accounting adjustments necessary to give a true reflection of the entity's financial position. Given that turnover and job creation are measures often used, the researcher provided a method to provide for the year-on-year financial adjustments, mainly due to bad debts and the provision for bad debts.

### **7.6.2 Policy contribution**

Governments must understand the factors that enable the development of an environment conducive to achieving higher economic growth rates and/or mechanisms to foster business growth. As a result, global attention has shifted from start-up entities to HGEs as they can innovate and scale within a relatively short timeframe, thereby generating disproportionate value in the form of increases in company value, employment and income and improved products or services (OECD, 2018:7).

This study will assist policymakers to gauge high-growth entities' level of knowledge of small business policies. This is important as, more often than not, policies do not fail because they are necessarily bad but because they are not correctly implemented. Either the beneficiaries of those policy interventions do not understand the government's objectives, or the government does not present interventions that beneficiaries need.

It can be ascertained from the research findings that the support needed by HGEs to scale up their business is different from the support needed by small business in general, as outlined by Moos's (2014) research report. The researcher hopes that the research findings will enable policymakers to give disaggregate support to SMMEs and design special policies and programmes to give support to each phase of business growth. As shown in Figure 6.21 and Figure 6.23, the nature of support used by HGEs is mostly general, non-financial support. This is mostly relational support associated with strategy development, sector-specific mentorship and leadership development. The blanket support approach implemented thus far has not generated the expected results, and continuing in this direction will lead to a waste of limited resources. A shift must be made from focussing on increasing the number of start-up entities to supporting existing businesses with the potential to scale up and create jobs. Figure 7-1 demonstrates the differences between entities in Finland provided with specialised support relevant to HGEs and those not supported.



**Figure 7-1: Mean sales of treated and unsupported entities in Finland**

Source: Errko & Rannikko (2015:39)

There is a popular belief, given the long history of racial segregation in South Africa, that only White-owned businesses can scale up. The majority of entities that participated in the two high-growth programmes were owned by Black people. This study demonstrated that with the right support, this number could even be higher going forward.

In South Africa, the various elements of the entrepreneurial ecosystems are well developed. Unfortunately, these elements work in silos and do not work together to form a well-coordinated ecosystem. Effective ecosystems are dynamic and evolve; thus, in the beginning, the focus should be on start-ups and then evolve to more complex support as the ecosystem matures, for example, human resource development, internationalisation and access to growth capital. This study has demonstrated that the South African ecosystem also needs to provide growth-oriented support to SMEs.

## **8 CHAPTER 8: RECOMMENDATIONS AND CONCLUSION**

### **8.1 RECOMMENDATIONS FOR FURTHER STUDY**

#### ***8.1.1 Impact of HGEs on job displacement***

Most studies on general SMME development and HGEs focus on jobs created within those entities or segments of the market. Besides a few studies conducted in developed countries, not enough attention has been given to measuring the extent of job displacement. There would be great value in a holistic measurement of net job creation.

#### ***8.1.2 Impact of HGEs on job creation***

The measurement of HGEs' contribution to job creation will remain incomplete until there is a proper analysis of their impact on job creation along the whole value chain (upstream and downstream). As HGEs scale up and produce more goods and services, they must increase their inputs. This leads to the increased production capacity of smaller entities, which then take on more employees to meet increased demand. Their goods and services, in most cases, are inputs for entities higher up in the production value chain, and the availability of inputs also creates demand and jobs for their customers. As current HGEs scale up, they mostly have to use technology to be competitive and efficient. The majority of jobs may not be created within these entities but throughout the value chain as a result of their growth.

#### ***8.1.3 Value for the money spent on SMME development***

As indicated above, the focus of HGE development is on job creation. Although this is important, HGEs' contribution to other economic and social imperatives (social impact and direct and indirect taxes) is often ignored. A comprehensive study on the value derived from supporting HGEs would help support the need to develop policies directed at fostering their growth. Given the many priorities competing for limited fiscal resources, entities like the National Treasury will benefit from such studies as they would show value for the money they spent on supporting HGEs.

#### **8.1.4 Assessment of South Africa's policy and programmes**

South Africa has a well-developed ecosystem to foster SMME development. However, this ecosystem seems to reinforce the notion that all SMMEs are the heartbeat of the economy and that the start-up phase requires the most focus and attention in the value chain of business growth. This could not be further from the truth, as demonstrated by the number of failed businesses post the start-up phase. A thorough study of the effectiveness of the South African ecosystem, contrasting it with evidence of business performance throughout the business growth value chain, will help the country identify focus areas needing the most support and develop specialist support appropriate to address identified gaps.

#### **8.1.5 Comparative impact of SMME policies on the economy**

Evidence suggests that HGEs contribute more to job creation than other forms of businesses. This suggests an increasing need to design high-growth policies to support the growth and development of high-growth new entities. Except for a few studies conducted in countries like Finland, not much research has been conducted in other jurisdictions to confirm these policies' effectiveness. Given the limited resources available to governments, a high-growth policy must compete with other more inclusive entrepreneurship policies. It is, therefore, important to demonstrate that such policies are effective and give value for money before they are implemented at scale around the world.

### **8.2 GENERAL RECOMMENDATIONS**

This study has demonstrated that there is a case to be argued for developing policies and practical interventions to support HGEs in South Africa. The current non-discriminatory policies that support interventions provided to different stages of the business growth value chain have not yielded the desired results as evidenced by the high SME failure rate. The research findings outlined in paragraph 6 clearly indicate that high growth entrepreneurs do not believe the current SME policies are geared towards fostering business growth. They believe they are more appropriate for start up entities. The researcher proposes the following.

### 8.2.1 Policy recommendations

South Africa needs a comprehensive review of the SMME policy framework to determine which policies are still relevant and effective, which ones need to be reviewed and retained, and which ones need to be discarded. This review must be done at not only the national level but also at provincial level.

South Africa also needs an entrepreneurial growth policy to support all areas that contribute to entrepreneurial development in the country. Table 8-1 distinguishes between the traditional SMME policy and growth entrepreneurial policy:

**Table 8-1: A differentiation between conventional and growth-focussed policies**

Conventional Enterprise Policies	Growth-focussed Policies
The primary unit of spotlight is on explicit entertainers such as people, business visionaries and geographic bundles of entities.	The fundamental unit of spotlight is on explicit kinds of business visionaries, organisations of businesspeople and environment framework.
Strategy goals are to produce more business-people and develop new businesses (more is always better).	The strategy objective is to zero in on high potential or commendable business visionaries with the biggest financial potential.
Strategy actors are focussed on non-exclusive arrangement intercessions, not on any phase of business development.	Strategy is focussed on associating segments inside environments to empower the framework to perform efficiently.
Fundamental types of help are 'transactional' types of help such as awards, tax incentives and endowments.	Fundamental types of help are 'relational' types of help, for example, network building, creation of associations between pioneering entertainers, institutional arrangement of needs, encouragement of companion-based connections.
Main push by policy makers is to generate and promote entrepreneurial sources of finance aimed at mainly start-ups	Acknowledgement that various organisations have diverse help necessities ranging from focussed non-monetary help to focussed subsidising, for example, obligation money, shared and crowdfunding. As organisations



Conventional Enterprise Policies	Growth-focussed Policies
	develop and upscale, various entities expect admittance to a 'financing elevator' and 'cocktails' of various subsidising sources.
The age of new, firm-based, protected innovation and advancement was viewed as crucially significant. The spotlight was especially on R&D and the insurance of licensed innovation rights. Solid support of innovation, and advancement inside cutting-edge areas.	Encouraging associations with clients, end clients, providers and colleges. Expanding the acknowledgement of unprotected and 'open' wellsprings of development. Advancement is permeable, rising above numerous areas and entities—both new and conventional.
The degree of strategy making is, for the most part, 'top down'. The execution of strategy is embraced at the public level; however, a few activities are regressed.	The majority of fundamental arrangements are instituted at the local or regional level. Multi-scalar arrangement structures arise.

Source: Brown *et al.* (2014) (adapted)

South Africa must consider developing a policy dedicated to supporting HGEs. When developing this policy, the government must consider broader country policies, such as the NDP 2030, as criteria for selecting HGEs that will have the desired impact on the economy.

Policies to support HGEs must consider two factors: buffering and bridging. Buffering means governments provide resources to young entities to shelter them against a lack of internal resources and external resource dependencies. These measures include tax breaks and the provision of non-financial support services such as legal counsel, accounting, marketing, free office space and prioritised access to government contracts. Bridging provides linkages between young entities and important external stakeholders, including facilitating networking sessions with big and small businesses, introducing business angels and venture capitalists and fully paid for trips to international fairs (Amezcuca, Grimes, Bradley & Wilklund, 2013:1994-2007). The researcher acknowledges that the BBBEE codes of good practice are one way in

which the government of South Africa tries to facilitate bridging between big and small businesses, especially small businesses owned by previously marginalised black people.

Meritocratic SMME policies focus on building capacity within small businesses, introduce responsibility and accountability, impose milestones and spur the growth of these young entities, as demonstrated in Chapter 4. South Africa should improve the coordination between SMME support agencies and strengthen ecosystems. It is recommended that coordination must also be extended to provincial and municipal levels as these are spheres of government closer to the SMMEs.

There is a general view by South African government agencies that if an entity had received government support in the past, it should be barred from receiving any support going forward. The researcher recommends that further support should be allowed for, as long as there is no 'double-dipping' during the same stage of business growth.

### **8.2.2 Practical recommendations**

The following can be achieved by developing a HGE policy:

- Foster entrepreneurship as a credible career, thereby fostering a culture of entrepreneurship, especially amongst the youth at schools and universities. The DSBD must work together with the education departments and promote entrepreneurial education, especially in public schools;
- To support service delivery to the small business fraternity, the DSBD must undertake entrepreneurship training for its staff members to improve their entrepreneurial intensity. Their innovative, proactive and risk-taking skills and abilities must be at levels that match those of their client base; and
- More programmes to support HGEs should be established with support focussed on elements identified as important by the study respondents.

## **8.3 CONCLUSIONS**

The literature review and study findings support the view that the blanket statement that SMMEs are the greatest creators of jobs in most economies is incorrect. Certain types of

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SMMEs—HGEs—generate a larger pool of net new jobs than other types of young entities. Section 4.2 showed that while the number of SMMEs in South Africa is increasing, the SMME fatality rate amongst young entities is also increasing, as is unemployment.

The overemphasis on promoting start-ups and ignoring effective support to existing entities that show the greatest potential to scale up is costing the country in terms of job creation and other economic benefits (such as taxes) derived from spending more on supporting HGEs. Exceptional value cannot be created without growth, and post-start-up growth faces tremendous challenges which are generally more difficult to overcome than simply starting a venture (Isenberg & Brown, 2014). Scott (2009:143) opines that there is no evidence to support the view that increasing the number of start-ups leads to economic growth. He argues that economic growth creates an abundance of opportunities that lead to an increased number of start-ups. He further argues that investing more time and money into creating an additional average new business than contributing a dollar or an hour to developing a normal existing business is a substandard use of assets. Throughout the last 60 years, there have been developments in how governments in developed nations embrace modern and pro-high-growth SME policies (Warwick, 2013:40).

In the last two decades, OECD countries have seen an increase in the number of policy initiatives and the level of funding committed to foster high-growth entities in a process termed the 'developmental' state (Rodrik, 2004:5). These changes are a fundamental departure from conventional enterprise policies to growth-oriented business development policies and substantial changes in the unit of focus, how it operates and how it interconnects with other policies. As a result of the policy changes in these countries, policymakers are now strongly focussed on encouraging support dedicated to fostering the development of high-growth entities (Mason & Brown, 2013b). The justification for this focus is that HGEs promote productivity growth, meaningfully contribute to employment, increase innovation and promote business internationalisation (Mason & Brown, 2013b).

It should, however, be noted that there are still divergent views on whether there should be policies targeted at identifying and supporting HGEs. Coad *et al.* (2014:93) argue that since there is no evidence to confirm that HGEs deliver persistent growth over time, it is therefore not

a good idea to develop public policy aimed at targeting them. Others, such as Scott (2009), take a firmer position and argue that non-meritocratic policies that promote all SMME activities are unproductive as research has shown that not all SMMEs contribute to economic development. They further argue that policy should be directed at discovering and supporting entities with the greatest potential to scale up and provide an environment conducive to the growth and development of such entities.

Various researchers in entrepreneurship policy agree that intensifying the impact potential of SMMEs is one of the most important contributors to economic growth (Brown *et al.*, 2014:18). It is, however, equally accepted that intensifying the impact does not necessarily guarantee the policies to facilitate the scaling up of young entities will be effective. The point of convergence amongst the various points of view is the desire to develop conditions that favour the rise of organisations driving job creation and beneficial development. The genuine estimation of innovative activity should be valued by all parties involved in economic development, more so those actively engaged in entrepreneurship and the policymakers supporting and shaping the entrepreneurial ecosystem. It must be mentioned that the literature review suggested that the South African small-business enabling environment is most certainly the best in the SADC region and amongst the best on the African continent.

This study has shown correlations between the kind of support provided to SMMEs and performance, and between the number of years in business and performance. This shows that surviving in business for several years will not change an SMME into an HGE if incorrect support (that is, generic support) is provided. The research also proved a correlation between knowledge of the SMME policy framework and performance. It is thus important that in order to foster the development of SMMEs, there should be a proper knowledge of the SMME framework. SMMEs cannot take advantage of the current support if they do not understand the government's SMME policies and procedures meant to provide an environment enabling them to grow. It is, therefore, not enough for the government to create an environment conducive to SMME development, especially if the SMMEs do not understand it.

When it comes to policy, given the triple challenge of inequality, poverty and unemployment that South Africa faces and given its shrinking fiscal base, the country cannot continue on its

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current trajectory and still hope to realise its objective of lifting most of its people out of poverty. South Africa is therefore at a stage where it must institute 'meritocratic SMME development policies' focussed on various, separated stages of business growth.

Notwithstanding the study's limitations, the researcher believes that this presents the most compelling case for further research of the impact of high-growth entrepreneurship in South Africa. The researcher concludes that policy initiatives that include characteristics commonly attributed to a high-growth entrepreneurship policy (such as meritocratic policies and interventions) can deliver a significant value and positively impact the economic growth of South Africa.

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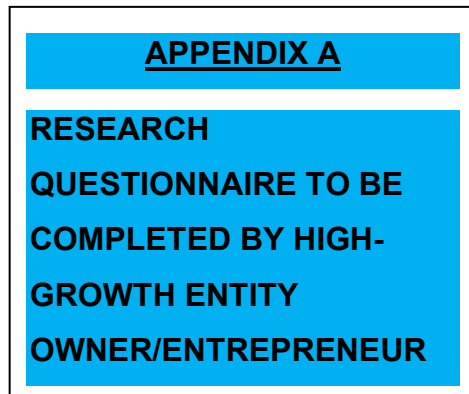


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## APPENDICES

Appendix A

Survey instrument: the questionnaire



Faculty of Economics and Management Sciences

**Department of Business Management**

Dear Respondent,

The following questionnaire is part of a doctoral research study on high growth entities in South Africa titled, *Evaluating high growth entrepreneurs' knowledge of the South African Small Medium and Micro Enterprise policy framework and impact of such knowledge on business performance*. This research study has the following two objectives:

- Evaluate knowledge of the SME policy framework by high-growth entrepreneurs.
- Determine how this knowledge impacts businesses.

The study involves an anonymous survey. The answers you give will be treated as strictly confidential. The results of the study will be used for academic purposes only.

Research conducted by: Zukile Nomafu

Tel: 087 094 4811

Email: [zukile@icloud.com](mailto:zukile@icloud.com)

Please contact my supervisor, Prof. Jurie van Vuuren, at [jurie.vanvuuren@up.ac.za](mailto:jurie.vanvuuren@up.ac.za) if you have any questions or comments regarding the study.

Instructions for completing the questionnaire:

1. Please read the questions and instructions carefully before answering.
2. Please answer the questions in the attached questionnaire as completely, objectively and honestly as possible. This should not take more than 30 minutes of your time.
3. Please mark the option which best reflects your answer with an (X) in the space provided.
4. Where asked for comments or to express your own opinion, please keep your answers brief but precise.
5. Please answer all the questions, as this will provide more information to the researcher so that an accurate analysis and interpretation of data can be made.

**PLEASE NOTE THAT YOUR PARTICIPATION IN THIS SURVEY IS VOLUNTARY AND YOU HAVE AN OPTION TO OPT OUT OF THIS SURVEY AT ANY TIME.**

RESEARCH QUESTIONNAIRE TO BE COMPLETED BY THE HIGH-GROWTH ENTREPRENEUR.

**Section A: Demographic details of the small business owner/entrepreneur**

Mark the option which reflects your answer the most accurately with an (X).

1. Indicate your gender.

Male	1
Female	2

2. Indicate your ethnic group.

Indian	1
Coloured	2
Black	3
White	4
Other (please specify)	5

3. Indicate the province that you are from.

Gauteng	1
Limpopo	2
Mpumalanga	3
North West	4
Northern Cape	5
Western Cape	6
Eastern Cape	7
Free State	8
Kwa-Zulu Natal	9

4. Indicate the metropolitan municipality that you are located in.

City of Cape Town	1
City of Ekurhuleni (Alberton, Boksburg, Benoni, Brakpan)	2
City of eThekweni (Durban)	3
City of Johannesburg (Johannesburg, Soweto)	4
City of Tshwane (Pretoria)	5
Buffalo City (East London)	6

Mangaung Metropolitan Municipality (Bloemfontein)	7
Nelson Mandela Metropolitan (Port Elizabeth)	8

5. Indicate your home language.

Afrikaans	1	Xitsonga	7
English	2	Setswana	8
IsiNdebele	3	Tshivenda	9
Sepedi	4	IsiXhosa	10
Sesotho	5	IsiZulu	11
siSwati	6	Other (please specify)	12

6. Indicate in which age category you fall under.

20 – 29	1
30 – 39	2
40 – 49	3
50 – 59	4
60 – 69	5
70 or older	6

7. Indicate your highest level of education.

Less than matric	1
Matric (Grade 12)	2
National Diploma (3 years)	3
Bachelor's Degree (3 years)	4
B.Tech Degree (4 years)	5
Honours Degree	6
Master's Degree	7
Doctoral Degree	8
Other (please specify)	9

8. Number of years in operation.

1 - 3	1
4 - 5	2

6 - 10	3
11 - 20	4
Above 20	

## Section B: Details of the business venture

Please indicate the number of employees in your business.

9. Number of employees in your business venture?	
The business has two employees, excluding the owner	1
The business has more than five employees, excluding the owner	2
The business has more than 20 employees, excluding the owner	3
The business has more than 50 employees, excluding the owner	4
The business has more than 200 employees, excluding the owner	5
10. In which industry does your business belong?	
Agriculture, forestry and fishing	1
Mining	2
Construction	3
Manufacturing	4
Transportation, communications, electric, gas and sanitary services	5
Wholesale trade	6
Retail trade	7
Finance, insurance and real estate	8
Services	9
Public administration	10
11. Form of ownership of your business venture?	
Sole proprietorship	1
Partnership	2
Close corporation	3
Company (private)	4
Company (public)	5
Business trust	6
Co-operative	7
Other (please specify)	8



12. Annual turnover/sales of your business venture?	
R250 000 – R1 000 000 per year	1
R 1000 001–R 2 500 000 per year	2
R 2 500 001–R 5 000 000 per year	3
More than R 5 000 000 per year	4
13. How long did it take your business venture to break even (income = expenses)?	
Not yet	1
3–6 months	2
7 months–one year	3
Longer than one year	4
14. How profitable is your business venture?	
Profitable (mostly have surplus money left after covering costs)	1
Just profitable (have little surplus money left after covering costs)	2
Break even (covering costs only)	3
Running at a loss (not covering costs)	4
Do not know	5
15. How many businesses are in direct competition with your business venture?	
Many businesses	1
Few businesses	2
No other businesses	3
16. Based on your answer to Question 15, please name three of your main competitors.	
a)	
b)	
c)	
17. Have you made use of any government support institutions to build or grow your business venture?	
Yes	1
No	2

18. If you answered YES to Question 17, which of the following elements did you require assistance with? (You can indicate all the applicable alternatives)	
General support to maintain the business	1
Access to funds to cover operating costs and expenses	2
Assistance to serve current markets profitably	3
Assistance to deal with a steady number of employees	4
Assistance to maintain the current customer profile	5
Assistance to maintain product/service competitiveness	6
Skills to manage the cash flow	7
Skills to plan and control the business to be stable	8
Skills to manage low risks associated with a small business	9
Skills to satisfy customer needs	10
19. Have you made use of any private-sector support institutions to build or grow your business venture?	
Yes	1
No	2
20. If you answered YES to Question 19, which of the following elements did you require assistance with? (You can indicate all the applicable alternatives)	
General support to maintain the business	1
Access to funds to cover operating costs and expenses	2
Assistance to serve current markets profitably	3
Assistance to deal with a steady number of employees	4
Assistance to maintain the current customer profile	5
Assistance to maintain product/service competitiveness	6
Skills to manage the cash flow	7
Skills to plan and control the business to be stable	8
Skills to manage low risks associated with a small business	9
Skills to satisfy customer needs	10
21. What do you believe contributed most to your business success?	
Government support, as indicated in Question 17	1
Being part of a preferred supplier programme for the government	2
Obtaining a substantial private contract	3
Personal drive/determination and hard work	4

Other (please specify)	5
------------------------	---

22. What is your average number of customers per day?

Number of customers per day	
1 - 5	1
6 - 10	2
11 - 20	3
Above 20	4

23. What is your average number of customers per month?

Number of customers per day	
1 - 10	1
10 - 20	2
20 - 30	3
Above 30	4

24. How many employees do you expect to have within five years?	
The business has two employees, excluding the owner	1
The business has more than five employees, excluding the owner	2
The business has more than 20 employees, excluding the owner	3
The business has more than 50 employees, excluding the owner	4
The business has more than 200 employees, excluding the owner	5

**Section C: Details of the needs of small business owners/entrepreneurs**

25. Indicate how important you think the following factors are to your business venture.

	Item	Not important at all	Fairly important	Moderately important	Very important	Extremely important
<b>Access to</b>						
25.1.	Local markets	1	2	3	4	5
25.2.	Overseas markets	1	2	3	4	5
25.3.	Financial support including access to capital and loans when initially starting a business	1	2	3	4	5
25.4.	Roads, electricity, transport and communication facilities	1	2	3	4	5
25.5.	Information regarding economic, market and government regulations and programmes	1	2	3	4	5
25.6.	Additional funds to increase assets	1	2	3	4	5
25.7.	Mentorship and coaching	1	2	3	4	5
<b>Skills to</b>						
25.8.	Identify and choose an initial product or service for the market when planning a start-up	1	2	3	4	5
25.9.	Compile a business plan	1	2	3	4	5
25.10.	Do market research	1	2	3	4	5
25.11.	Deal with cash-flow problems	1	2	3	4	5
25.12.	Control and plan the growth of the business	1	2	3	4	5
25.13.	Manage risks as the business grows	1	2	3	4	5
25.14.	Be responsive to customer needs	1	2	3	4	5
<b>Support needed</b>						
25.15.	During the start-up process of a business	1	2	3	4	5

	Item	Not important at all	Fairly important	Moderately important	Very important	Extremely important
25.16.	In setting up and opening a business	1	2	3	4	5
25.17.	To manage a new business until it is 3½ years old	1	2	3	4	5
25.18.	To manage a business that is more than 3½ years old	1	2	3	4	5
25.19.	When the business is declining in terms of sales, number of customers and profit	1	2	3	4	5
<b>Assistance to</b>						
25.20	Register a business	1	2	3	4	5
25.21	Develop business to export products	1	2	3	4	5
25.22	Find new markets not exploited before	1	2	3	4	5
25.23	Outsource business functions such as human resource management	1	2	3	4	5
25.24	Manage customer relations	1	2	3	4	5
25.25	Innovate products/services	1	2	3	4	5
25.26	General management	1	2	3	4	5
25.27	Build and develop leadership skills	1	2	3	4	5
25.28	Be able to deal with legal matters	1	2	3	4	5
25.29	Do quality control	1	2	3	4	5
25.30	Strategy development	1	2	3	4	5

26. **RANK on a scale from 1 to 5** when support is needed at each phase of the business (**Number 1** being the phase when **most support** is needed, and **Number 5** being the phase when **least support** is needed).

	Phases of the business when support is needed	<b>RANK</b> from 1 (most) to 5 (least)
1.	Before the business is started	
2.	During the start-up process for the business	
3.	After the new business is established and is under 3½ years old	
4.	When the established business is more than 3½ years old	
5.	When the business is declining, e.g., sales drop	

27. What **other support** do you require besides the support listed in Question 25?

28. Indicate to what extent you agree or disagree with the following statements regarding the **expansion** of your business.

	Statement	<b>Definitely disagree</b>	<b>Probably disagree</b>	<b>Do not know</b>	<b>Probably agree</b>	<b>Definitely agree</b>
28.1.	A new product/service was introduced to your customers during the past year	1	2	3	4	5
28.2.	Long-term objectives (3-5 years) have been set for the business	1	2	3	4	5
28.3.	Sales increased more than inflation in the past year	1	2	3	4	5

## Section D: Details of the small business policy and evaluation

In order to answer the questions in Section D, please read the following paragraph in order to contextualise the meaning of a small business policy.

### National Government Small Business Policy

According to general understanding, any policy directed towards small businesses is considered a small business policy. The role of small business policy is to maintain and grow existing small businesses through funding, training and advisory services. Governments around the world have adopted similar frameworks for policy direction. Specifically, in their small and medium enterprise (SME) policy agendas, they prioritise the following:

- Improving the business environment for SMEs (reducing 'red tape');
- Improving the financial environment (access to financing or capital);
- Improving SME access to information (provision of economic, business, market, government regulatory and programme information);
- Facilitating SME access to markets, both international and domestic (tariff reductions, export subsidies and market information);
- Improving the competitiveness of small firms (skills, training, expertise and strategy consulting); and
- Fostering technology adoption, and research and development (R&D) activity (technology transfer, adoption of technology and innovation).

29. Indicate to what extent you agree or disagree with the following statements regarding the **objectives** of South Africa's small business policy.

	The government's small business policy aims to	Definitely disagree	Probably disagree	Do not know	Probably agree	Definitely agree
29.1.	Assist with business venture growth	1	2	3	4	5
29.2.	Motivate more new entrepreneurs to start businesses	1	2	3	4	5
29.3	Target nascent entrepreneurs/new business starters	1	2	3	4	5
29.4.	Focus on creating a favourable business environment (by, for example, reducing red tape)	1	2	3	4	5
29.5.	Stimulate entrepreneurship and an entrepreneurial culture or climate in the country	1	2	3	4	5

	<b>The government's small business policy aims to</b>	<b>Definitely disagree</b>	<b>Probably disagree</b>	<b>Do not know</b>	<b>Probably agree</b>	<b>Definitely agree</b>
29.6.	Achieve results in under four years	1	2	3	4	5
29.7.	Have a narrow, rather than a broad, definition of which institutional structures constitute the support environment	1	2	3	4	5
29.8.	Favour measures to support early phases of the entrepreneurial development process	1	2	3	4	5
29.9.	Influence the quantitative aspects such as the number of self-employed, small or new business ventures rather than the quality thereof	1	2	3	4	5

30. To what extent do you agree or disagree with the following statements about the **outputs** of South Africa's small business policy?

	<b>Statement</b>	<b>Definitely disagree</b>	<b>Probably disagree</b>	<b>Do not know</b>	<b>Probably agree</b>	<b>Definitely agree</b>
30.1.	Support reaches all regions of the country because the local network for small business development services has been strengthened	1	2	3	4	5
30.2.	The necessary support incentives are provided	1	2	3	4	5
30.3.	A dedicated network of SMME finance has been established	1	2	3	4	5

31. List any **other outputs** of South Africa's small business policy that are not mentioned in Question 29.



32. To what extent do you agree or disagree with the following statements about the **outcomes** of South Africa's small business policy?

	<b>Statement</b>	<b>Definitely disagree</b>	<b>Probably disagree</b>	<b>Do not know</b>	<b>Probably agree</b>	<b>Definitely agree</b>
32.1.	A demand has been created for small-enterprise products and services	1	2	3	4	5
32.2.	Small-enterprise competencies and delivery capacity have improved	1	2	3	4	5
32.3.	Enterprise networks, for example, between the government, public institutions and the private sector have strengthened	1	2	3	4	5
32.4.	The regulatory environment has improved	1	2	3	4	5
32.5.	An entrepreneurship culture has been fostered	1	2	3	4	5
32.6.	The number of business start-ups has increased	1	2	3	4	5
32.7.	The number of start-up obstacles has decreased	1	2	3	4	5
32.8.	There are changes in the level of entrepreneurial activity amongst women and the youth	1	2	3	4	5

33. List any **other outcomes** or results of South Africa's small business policy that are not mentioned in Question 31.

34. To what extent do you agree or disagree with the following statements about the **impact** of South Africa's small business policy.

	Statement	Definitely disagree	Probably disagree	Do not know	Probably agree	Definitely agree
34.1.	Jobs have been created, resulting in a reduced unemployment rate	1	2	3	4	5
34.2.	Economic growth of the country has increased	1	2	3	4	5

35. List any **other impacts** of South Africa small business policy that are not mentioned in question 33.

36.	Are you familiar with the entrepreneurship policy?	Yes	1	No	2
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37. In your opinion, how would an entrepreneurship policy differ from the current small business policy?

**THANK YOU VERY MUCH FOR COMPLETING THIS QUESTIONNAIRE.**

Appendix B

Letter of consent from SEDA

**NATIONAL OFFICE**

The Fields, Office Block A  
1066 Burnett Street  
Hatfield 0833  
PO Box 56714, Arcadia 0007

Tel: +27 12 441 1000  
Fax: +27 12 441 2064



15 February 2018  
Mr Zukile Nomafu  
51 Woodlands, Inchanga Road  
Craigavon, Fourways  
2191

Dear Mr Nomafu,

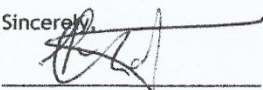
The purpose of this letter is to grant you permission to conduct research (surveys and/or face to face interviews) on High Growth Entities ("HGE") that are part of SEDA programmes towards your doctoral studies. Your research titled, "Determinants of high growth entities in South Africa" will amongst others entail:

- 1) Interrogation of knowledge of Government SME support policies;
- 2) Comparison of HGE that had received prior Government support against those that had not received any support;
- 3) Overall performance of companies within Seda high growth programmes;
- 4) Comparison of structure and performance of high growth programmes in South African against similar programmes around the world.

Seda is pleased to assist in this study and contribute to this important research. As discussed and agreed, you will provide Seda with a bound copy of your Thesis once the study has been completed.

Kindly note that this letter does not oblige Seda clients to participate in this study. However, their participation shall be upon their consent or based on voluntary basis. The information and knowledge solicited from Seda clients should not be used in any way except for academic purposes.

Sincerely,

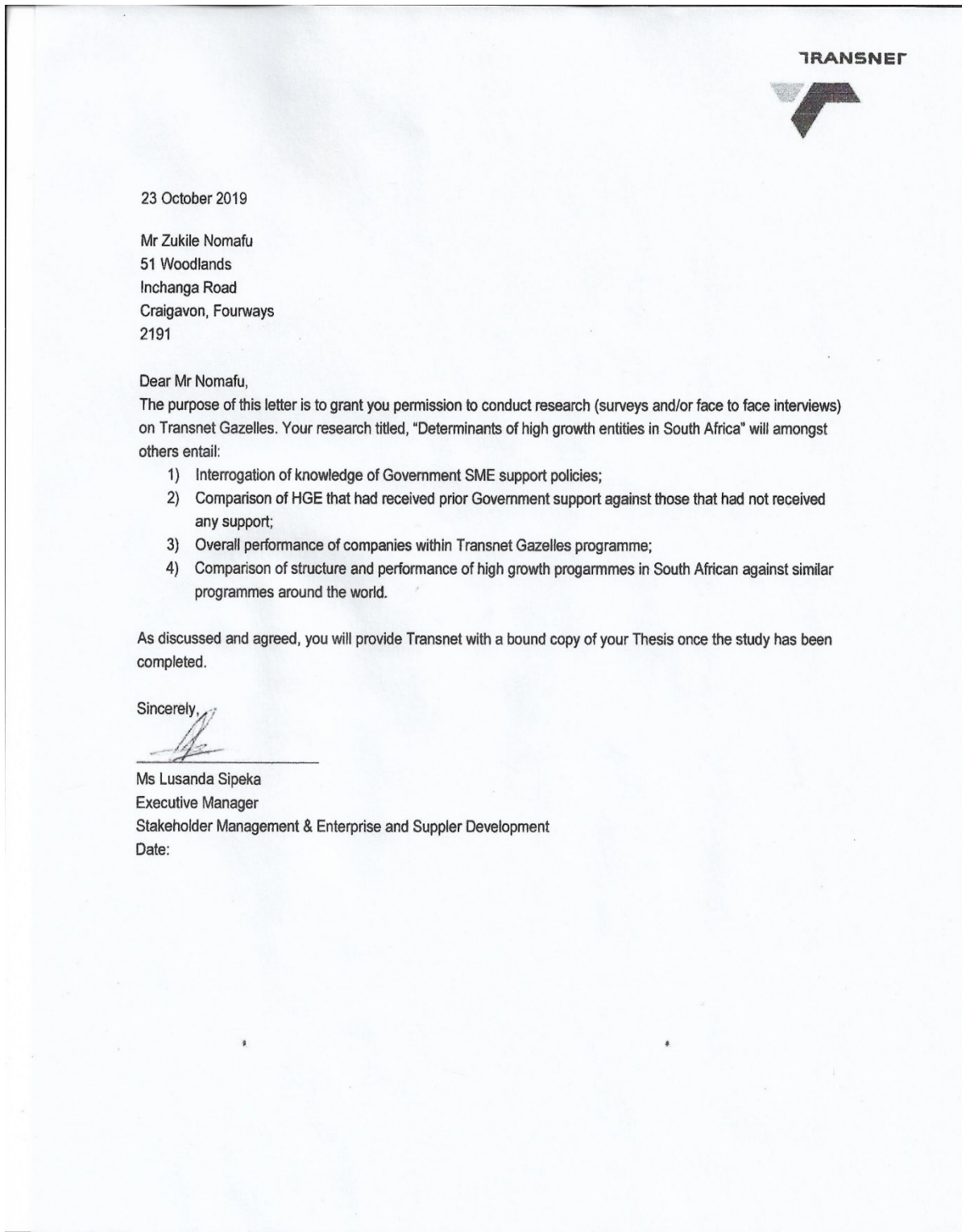
  
\_\_\_\_\_  
**Ntokozo Majola**

Executive Manager: Enterprise Development Division (EDD).

Board Members: Dr I Zwane (Board Chairperson) \* Dr M Venter (Deputy Chairperson) \* Ms Mandisa Tshikwatamba (Chief Executive Office)  
Ms P Lugayeni \* Mr D Thabaneng \* Mr M Mohoto \* Mr T Makhurva \* Ms Zanele Monnakgotla  
Ms Anjue Hirachund \* Mr \*J Lesejane (Non-Board Member and Standing Invitee)

Appendix C

Letter of consent from Transnet





Appendix D

Title registration



Faculty of Economic and Management Sciences

**POSTGRADUATE COMMITTEE**

7 June 2019

Prof JJ van Vuuren  
Department of Business Management

Dear Professor van Vuuren

**TITLE REGISTRATION**

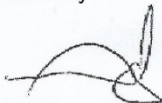
This serves to advise that the title submitted for the research of the candidate indicated below was approved by the Postgraduate Committee:

<b>Student:</b>	<b>Z Nomafu</b>
<b>Student number:</b>	17335788
<b>Degree:</b>	PhD (Entrepreneurship)
<b>Supervisor/Promoter:</b>	Prof JJ van Vuuren
<b>Co-supervisor/Co-promoter:</b>	-
<b>Approved title:</b>	Evaluating high growth entrepreneurs' knowledge of the South African SMME policy framework and impact of such knowledge on business performance
<b>Date approved:</b>	6 June 2019

**IMPORTANT:**

Please note that the next step in the research process is to obtain ethics clearance. In terms of the UP Guidelines for Ethical Research (S4083/00), ethics clearance is required before any research may be undertaken.

Sincerely




pp **PROF JH VAN HEERDEN**  
**CHAIR: POSTGRADUATE COMMITTEE**

cc: Prof AJ Antonites  
Student Administration

Fakulteit Ekonomiese en Bestuurswetenskappe  
Lefapha la Disaense tSa Ekonomi le Taolo

Appendix E

Ethics clearance



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

**RESEARCH ETHICS COMMITTEE**

Faculty of Economic and Management Sciences

**Approval Certificate**

6 August 2019

Mr Z Nomafu  
Department: Business Management

Dear Mr Z Nomafu

Your application for ethical clearance for the research project described below served before this committee on:

<b>Protocol No:</b>	EMS109/19
<b>Principal researcher:</b>	Mr Z Nomafu
<b>Research title:</b>	Evaluating high growth entrepreneurs' knowledge of the South African SMME policy framework and impact of such knowledge on business performance
<b>Student/Staff No:</b>	17335788
<b>Degree:</b>	Doctoral
<b>Supervisor/Promoter:</b>	Prof JJ van Vuuren
<b>Department:</b>	Business Management

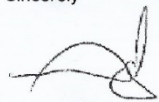
The decision by the committee is reflected below:

<b>Decision:</b>	Approved
<b>Conditions (if applicable):</b>	
<b>Period of approval:</b>	2019-07-08 - 2019-11-30

The approval is subject to the researcher abiding by the principles and parameters set out in the application and research proposal in the actual execution of the research. The approval does not imply that the researcher is relieved of any accountability in terms of the Codes of Research Ethics of the University of Pretoria if action is taken beyond the approved proposal. If during the course of the research it becomes apparent that the nature and/or extent of the research deviates significantly from the original proposal, a new application for ethics clearance must be submitted for review.

We wish you success with the project.

Sincerely



pp PROF JA NEL  
CHAIR: COMMITTEE FOR RESEARCH ETHICS

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Fakulteit Ekonomiese en Bestuurswetenskappe  
Lefapha la Disaense tša Ekonomi le Taolo