CHAPTER TWO ENTREPRENEURSHIP AND BUSINESS MANAGEMENT LEARNING CHALLENGES

Chapter Outline

2.1 INTRODUCTION

The theoretical justification for focusing on the entrepreneurship and business management challenges is derived from successive SA GEM Reports concerning the low education levels of entrepreneurs as well as the low Total Entrepreneurship Index of South Africa (Driver, *et al.*, 2001; Foxcroft, *et al.*, 2002; Orford, *et al.*, 2003; Orford, *et al.*, 2004). South African entrepreneurship and small business literature (Nieuwenhuizen, et al., 2003; Brink, et al., 2003; Isaacs, 2005) also emphasise the problems that exist within South Africa to develop sustainable business ventures due to limitations that entrepreneurs and small businesses experience.

This study utilised the transcendental realist research methodology approach (see chapter four for a detailed discussion) to determine the focus for the literature review. Following the transcendental methodology the nature of the support environment was developed (see Figure 4.2) which also provided the focus for the literature review. Although the controversies and debates within the support environment especially with regard to the questioning of the effectiveness and scepticism of the value of support in the literature (Storey, 1994; Storey & Westhead, 1994; Westhead & Storey, 1997; Gibb, 1993) is recognised these controversies and debates fall outside the scope of this study as a result of using the transcendental model as a guide for the literature review.

The relevance and value of discussing the entrepreneurial and small business learning challenges in the context of this study lie in the contention that support practitioners need to understand the environment within which their clients operate. It is argued that the practitioner should, for example, be able to distinguish between entrepreneurial and small business ventures as well as the different needs and challenges each of these venture types are faced with. It is proposed that the ability to distinguish between entrepreneurial and small businesses will ensure that the practitioner provides relevant and meaningful support.

This chapter is discussed under the following headings: business development services (BDS), defining entrepreneurship and small businesses, distinguishing between entrepreneurial and small businesses, the need for growth, venture life cycle challenges, failures and turnaround. It is argued that all of these knowledge issues are major determinants for successful venture development and growth and thus also important factors for practitioner knowledge competencies.

2.2 BUSINESS DEVELOPMENT SERVICES (BDS)

The realisation of the importance of entrepreneurship and small businesses has motivated the Donor Committee for Enterprise Development to develop and support initiatives for small business creation in developing economies. The Donor Committee for Enterprise Development was established in October 1979 at a meeting in Berlin, convened at the invitation of the World Bank. Participants were representatives of bilateral and multilateral donor organisations from around the world who are engaged in programmes of assistance in the development of small-scale enterprises in developing countries. Participants currently include 20 bilateral agencies from 16 countries, 16 multilateral agencies (including African, Asian, and Inter-American Development Banks), and 3 international development organisations (Donor Committee for Enterprise Development, 2006). The objectives of the Donor Committee for Enterprise Development are:

- enhancing information on the programmes of participating agencies in the field of small enterprise development;
- sharing experiences and lessons learned in the implementation of projects coordinating efforts and establishing common guidelines in these fields (Donor Committee for Enterprise Development, 2006).

These support initiatives were initially mainly geared to the establishment of support programmes on a macro level with the emphasis being placed on access to business development service (BDS) programmes (Tomecko, 2000:2).

BDS refers to non-financial support such as training, consulting, information and advice as opposed to financial services such as credits and loans (International Labour Organisation, 2000:2). Research into the quality of business development services provision has to date focused mostly on the nature of services that are provided on an organisational level to entrepreneurs and small businesses (Allal, 1999:6; Barton, 1999:12; Trulson, 1999:4; White, 1999:3; Anderson, 2000:4; Tanburn, 2000:6; Tolentino, 2000:3; Tomecko, 2000:3).

The early support focus was thus more supply driven with the emphasis placed on making various programme initiatives available to as many recipients as possible. Due to the limited success of these interventions, critics such as Anderson (2000), Gibson (2000), McVay and Miehlbradt (2001) proposed a more market driven approach to the provision of BDS. It appears, however, that this concern still remained mainly with the effective provisioning of access to services that eventually resulted in the development of “The Performance Agreement Framework” (McVay, 1999:1). The development of the Performance Agreement Framework was sponsored by the Donor Committee Development and appears to have been developed as a tool to evaluate the effectiveness of Donor Committee member funded service providers in the field of business development services. In the framework, performance goals and indicators are categorised according to whether they assess the overall BDS market, assess BDS suppliers, or assess BDS customers (McVay, 1999:1). At the same time, to accommodate more traditional ways of thinking about performance, each category is matched with an overall goal that BDS programmes are typically trying to achieve, such as:

- outreach, meaning both the number of SMEs reached (scale) and the effort to provide services to people not served by existing markets (access);
- sustainability of BDS provider institutions; and

- the cost-effectiveness of programme activities, and impact on SMEs (McVay, 1999:1).

Within these three broad categories, the framework proposes a goal that a BDS programme might be trying to achieve, as well as the indicators that would measure success in reaching that goal (McVay, 1999:1). The Performance Agreement Framework appears to address the macro concerns with regard to quality BDS delivery to SMEs and specifically the service provider's ability to provide this service. However, the skills and competencies of the individual practitioners was not a focus of the framework as the concern was for sustainability of organisations as service providers of business development services. This study aims to put the focus on the skill and competency requirements of individual practitioners as service providers to entrepreneurs and small businesses.

2.3 DEFINING ENTREPRENEURSHIP AND SMALL BUSINESSES

Entrepreneurial and small business support practitioners must have a sound knowledge of what an entrepreneur and small business profile look like. It is this knowledge that will assist them to provide quality and relevant information. It appears that the skills and competencies that individuals require to start a new venture are initially entrepreneurial, then, as the venture becomes successful and grows, a more managerial approach is necessary (Greenbank, 2000:206; Watson, 2001:7; Wickham, 2001:23). The challenge for small business owners is to develop entrepreneurial companies, which are also growth oriented. This growth orientation demands of small business owners or aspirant business owners either to possess, develop, or have access to the required skills or competencies to achieve the objective of growth for their businesses (Kuratko & Hodgetts, 1998:44; Dana, 2001:405; Zimmerer & Scarborough, 2002: 20; Kuratko & Welsch, 2004: 3).

2.3.1 Entrepreneurship

There is in the literature no generally agreed definition of entrepreneurship. This study accepts and supports the definition of the University of Pretoria which states that

> an entrepreneur is someone who sees a need in the market, gathers the resources required and creates and grows a business to satisfy these needs in the market. The entrepreneur takes the risk of the venture and is rewarded with profit if it is successful.
>
> (University of Pretoria, 2003:6)

The University of Pretoria's definition of entrepreneurship is accepted as it covers all elements of entrepreneurship as identified by Kruger (2004:35). Kruger (2004) after content analysing various definitions in the literature, identified recognition of a market need, gathering of resources, creating and growing businesses and risk taking as key elements of entrepreneurship.

Elements such as the characteristics of opportunity identification and growing the venture are supported by Maasdorp and Van Vuuren (1998:25), Timmons (1999:87), Rae (2000:149), Wickham (2001:37), Hisrich and Peters (2002:39) and Hall (2004:1). The entrepreneur's propensity for risk-taking is also supported by Longenecker, Moore and Petty (2000:9) as well as Nieuwenhuizen, Groenewald and Nieuwenhuizen (2003:9).

Other distinguishing characteristics associated with entrepreneurship are strategic planning ability (Robinson, 1982; Robinson & Pearce, 1984; Ibrahim, 1993:3; Mosakowski, 1993:2; Casson, 1996:2; Rue & Ibrahim, 1998:24; Bhide, 1999a:57; Stancill, 1999:89; Nieman & Bennett, 2002:10; De Vries & Nieman, 2003:134; Wickham, 2003:163); innovative behaviour, including creativity (Carland, Hoy, Boulton & Carland, 1984:358; Timmons, 1999:39; Watson, 2001:50; Nieman & Pretorius, 2004:6); the ability to perform business planning, including bootstrapping (Bhide, 1999b:149; Block & MacMillan, 1999:117; Sahlman, 1999:29; Pretorius, 2003:264; Rogoff, 2004:5); and the ability to network (Robinson, 1982; Ostgaard & Birley 1996:37; Smith, 1999:25; Fadahunsi, Smallbone & Supri, 2000:228; Adams, 2003:165; Ahlström-Söderling, 2003:444).

Hatch and Zweig (2000:71) also found in their research a set of other common interrelated characteristics which they refer to as the entrepreneurial spirit, that is, the desire for control, a strong will to succeed, perseverance and decisiveness. In another study, Davis and Long (1999:25) identified innovative ideas, entrepreneurial personality characteristics, business plans and long term strategies as forming part of the technical skills that entrepreneurs require.

Joachim and Wilcox (2000:14) also found certain qualities are constant in entrepreneurs, that is, openness to innovation, a dogged persistence in the face of adversity, and reaction time.

A distinction is also made between different types of entrepreneurs. The South African Executive Reports (GEM) (Driver, *et al.*, 2001; Foxcroft, *et al.*, 2002; Orford, *et al.*, 2003; Orford, *et al.*, 2004) distinguish between two types of entrepreneurs, namely, opportunity entrepreneurs who are pursuing a business opportunity and necessity entrepreneurs who have no better choice of work. The typologies, opportunity and necessity entrepreneurs were first proposed by Reynolds (2001). Langan-Fox and Roth (1995:209) also identified three psychological profiles which they organised in three clusters, namely:

- management entrepreneurs who they describe as low in need for achievement but high in power and also having a high level of internal locus of control;
- pragmatist entrepreneurs who are middling on most psychological variables but lack a high internal locus of control;

- need achiever entrepreneurs who are high in need for achievement but low on job satisfaction, activism, power and need for influence.

Erikson (2003:106) also refers to novice, portfolio and serial entrepreneurs, which essentially also implies different categories of competencies in entrepreneurship. Rosa (1998) views serial and portfolio entrepreneurs as sub-types of the entrepreneurial typology “habitual entrepreneurs”. The typology “habitual entrepreneur” was initially focussed on by MacMillan (1986:241). A Habitual entrepreneur is defined as someone who has had experience in multiple business start-ups, and simultaneously is involved in at least two businesses (Rosa, 1998:43). Rosa also contrasts habitual entrepreneurs with novice entrepreneurs who have newly inherited, established or purchased just a single business (Rosa, 1998:43). It appears from the literature sources quoted above that although the focus is on different typologies and/or characteristics of entrepreneurship, the requirement of success is either implied or ignored.

This discussion on entrepreneurship indicates that the entrepreneur is a certain type of individual who exhibits certain behaviours. From an entrepreneurship and small business support perspective, it is then necessary to seek answers to the question whether entrepreneurship can be taught. Smith (2000:48) answers this question in the affirmative and concluded from her research that entrepreneurs are not born and that the required skills for entrepreneurship can be taught. This is also confirmed by authors such as Dollinger (2003), Timmons (1999), Hisrich and Peters (2002).

This discussion proposes that support practitioners must be able to assess whether individuals exhibit the characteristics required for successful entrepreneurship. The ability to do an assessment as well as the ability to determine what entrepreneurial skills the practitioners are dealing with will enable them to provide relevant support. The most important characteristics and the different entrepreneurial types as discussed in the literature are summarised in

Table 2.1. It shows that entrepreneurial characteristics consist of specific behaviours and attitudes.

Table 2.1 Entrepreneurial characteristics and entrepreneurial types (Own compilation based on reported sources)

Entrepreneurial characteristics	Entrepreneurial types
• Opportunity identification	• Opportunity entrepreneurs
• Resource gathering	• Necessity entrepreneurs
• Creativity	• Management entrepreneurs
• Innovation	• Pragmatist entrepreneurs
• Risk-taking	• Need achiever entrepreneurs
• Expanding and growing business	• Habitual entrepreneurs
• Strategic and business planning	• Serial entrepreneurs
• Networking	• Portfolio entrepreneurs
• Determination and tenacity	
• Problem solving	

Whilst it might be appropriate to use a particular typology of entrepreneur within a specific context the indiscriminate application of the term “entrepreneur” should be guarded against. In this regard Rosa (1998:43) states that the term “entrepreneur” already pre-assumes some entrepreneurial behaviour in the establishment of a venture, which can be methodologically unsatisfactory in some contexts. Rosa (1998) proposes the phrase “founder” as being more neutral.

2.3.2 Small Business

Hogarth-Scott and Jones (1993:18) state that no universal acceptance of a definition of the term “small business” exists and that the definition to be chosen depends on the use to which it is put and the context in which it appears. Zimmerer and Scarborough (2002:24) agree that there is no universal definition of “small business” (the United States Small Business Administration has more than 800 definitions of “small business” based on industry categories). A popular delineation of a "small business" according to them is one that employs fewer than 100 people.

Carland, *et al.* (1984:358) see a small business as "any business that is independently owned and operated, but is not dominant in its field and does not engage in any new marketing or innovative practices".

Small business owners are often seen as individuals who establish and manage their businesses for the principal purpose of furthering personal goals and ensuring security. The activities of artisan/craftsman, administration/managers and security/family are indicated as characteristics of small business ownership (Watson, 2001:50).

The South African definition of "small business" is listed in the National Small Business Act, Act 102 of 1996. The Act offers an official definition of "small business" in South Africa. Nieuwenhuizen (2003:10) sees this definition as covering all sectors of the economy, as well as all types of enterprises, and consisting of two parts – qualitative and quantitative criteria. In terms of the qualitative criteria, which relate to the ownership structure of the business, a small business must:

- be a separate and distinct entity;
- not be part of a group of companies;
- include any subsidiaries and branches when measuring the size;
- be managed by its owners;
- be a natural person, sole proprietorship, partnership or legal person, such as a close corporation or company.

The qualitative criteria are presented in the Schedule to the National Small Business Act, Act 102 of 1996, and classify businesses into micro, very small, small and medium enterprises, using the following guidelines in respect of different sectors of the economy:

- total full-time paid employees;
- total annual turnover;
- total gross asset value (excluding fixed property).

The need for support to small businesses is given prominence, at least at a policy level by Government. This is evident from an undated policy document of the Department of Trade and Industry that states that the acquisition of relevant vocational, technical and business skills is generally regarded as one of the most critical factors for success in small business. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and better earning enterprises (DTI, undated: 23).

2.4 DISTINGUISHING ENTREPRENEURIAL VENTURES FROM SMALL BUSINESSES

The need to provide focused and relevant support to entrepreneurs and small business owners indicates the importance of distinguishing between entrepreneurial ventures and small businesses. Both small business and entrepreneurial activity are critical to the performance of the economy, but they seem to serve different economic functions. Thatcher (1996:20); Wickham (2001:24) and Poutziouris (2003:185) state that they pursue and create new opportunities differently, they fulfil the ambitions of their founders and managers in different ways, and they present different challenges to economic policy makers. Both need entrepreneurial action for start-up, but the small business venture will tend to stabilise at a certain stage and grow with inflation only (Nieuwenhuizen, 2003:10; De Vries & Nieman, 2003:134).

Small businesses appear not to be driven by growth as an objective (Scott & Bruce, 1987:45; Thompson, 1999:279; Nieman & Bennett, 2002; Nieman, 2003:232; Nieman & Pretorius, 2004:4). According to Watson (2001:50), they see themselves as successful when their businesses are profitable. He states that autonomy and security are the primary objectives of some owners of small businesses and quite often the small business only supports a certain life style. Entrepreneurial ventures are businesses where the principal objectives are profitability and growth (Scott & Bruce, 1987:45; Smallbone, Leigh & Noth, 1995:46; Thompson, 1999:279; Timmons, 1999; Wickham, 2001:24; Hisrich & Peters, 2002:66; Zimmerer & Scarborough, 2002:4; Nieman, 2003:233; Nieman & Pretorius, 2004:17). Three characteristics distinguish entrepreneurial ventures from the small business (Wickham, 2001:24), namely:

- Innovation: Entrepreneurial ventures thrive on innovation, be it a technological innovation, a new product or a new way of producing, offering a service, marketing or distributing, or even the way in which an organisation is structured or managed. Small businesses are usually only involved in delivering an established product or service.
- Potential for growth: Due to its innovative approach, an entrepreneurial venture has a great deal more potential for growth than a small business. It is in a position to create its own market. The small business operates in an established industry and is unique only in terms of its locality. It operates within a given market.
- Strategic objectives: The entrepreneurial venture will usually set itself strategic objectives in relation to:
    1. market targets;
    2. market development;
    3. market share; and
    4. market position.

The small business is rarely concerned with the entrepreneurial characteristics mentioned above. Its objectives seldom go beyond survival, sales and profit targets (Wickham, 2001:42; Mazzerol, 2003:27; Nieuwenhuizen, 2003:10).

The difference between entrepreneurship and small business is also reflected in the difference in mindsets. Kuratko and Welsch (2004:40) refer to the entrepreneurial and management mindsets and discuss these differences with regard to decision-making assumptions, values, beliefs and the approach to problems.

Whilst there appear to be differences between entrepreneurship and small business, Gibb (2002:238) argues for a stronger conceptual approach to exploring the relationship between an “owner-managed” business and entrepreneurship. Some of the key conditions under which “owner-managed” businesses operate provide the basic stimuli of entrepreneurial behaviour (Gibb, 2002:238). This study focuses on the differences between entrepreneurship and small business as the objective is to identify knowledge criteria for support practitioners. It is suggested that such knowledge criteria will enable support practitioners to provide meaningful support services.

Table 2.2 Differences between entrepreneurial and management mindsets (Kuratko & Welsch, 2004:41)

	Managerial Mindset	**Entrepreneurial Mindset**
Decision-making assumptions	The past is the best predictor of the future. Most business decisions can be quantified.	A new idea or an insight from a unique experience is likely to provide the best estimate of emerging trends.
Values	The best decisions are those based on quantitative analyses. Rigorous analyses are highly valued for making critical decisions.	New insights and real-world experiences are more highly valued than results based on historical data.
Beliefs	Law of large numbers: Chaos and uncertainty can be resolved by systematically analysing the right data.	Law of small numbers: A single incident or several isolated incidents quickly become pivotal for making decisions regarding future trends.
Approach to problems	Problems represent an unfortunate turn of events that threaten financial projections. Problems must be resolved with substantiated analyses.	Problems represent an opportunity to detect emerging changes and possibly new business opportunities.

Entrepreneurial ventures and small businesses also differ with regard to the emphasis they put on strategic orientation, commitment to seize opportunities, commitment of resources, control of resources and management structure (Birley & Westhead, 1993:38; Awe, 2000:1; Kuratko & Welsch, 2004:44). Kuratko and Welsch (2004:44) distinguish between the characteristics and pressures of the entrepreneurial and administrative focus areas.

Table 2.3 The entrepreneurial and administrative focus (Kuratko & Welsch, 2004:44)

	Entrepreneur Focus		Administrative Focus	
	Characteristics	**Pressures**	**Characteristics**	**Pressures**
Strategic orientation	Driven by perception of opportunity	Diminishing opportunities; rapidly changing technology; consumer economics; social values; political rules	Driven by controlled resources	Social contracts; performance measurement criteria; planning systems and cycles
Commitment to seize opportunities	Revolutionary, with short duration	Action orientation; narrow decision windows; acceptance of reasonable risks; few decision constituencies	Evolutionary with long duration	Multiple constituencies; negotiation about strategic course; risk reduction; coordination with existing resource base
Commitment of resources	Many stages, with minimal exposure at each stage	Lack of predictable resource needs and control over environment; social demands for appropriate use of resources; foreign competition	A single stage, with complete commitment out of decision	Need to reduce risk; incentive; compensation; turnover in managers; capital budgeting systems; formal planning systems
Control of resources	Episodic use or rent of required resources	Increased resources; specialized, long resource life compared with need; risk of obsolescence; inherent risks; inflexibility of commitment	Ownership or employment of required resources	Power, status, and financial rewards; coordination of activity; efficiency measures; inertia and cost of change; industry structures
Management structure	Flat, with multiple informal networks	Coordination of key non-controlled resources; challenge to hierarchy; employees' desire for independence	Hierarchy	Need for clearly defined authority and responsibility; organisational culture; reward systems

The distinction between entrepreneurial ventures and small businesses is an important consideration for support practitioners. Knowledge of the differences between different types of ventures will ensure that support practitioners provide relevant and focused support to entrepreneurs and small business ventures. The differences between ventures and the requirement for targeted support have brought the realisation that each entrepreneur and small business venture is unique. A study by Watson, Hogarth-Scott and Wilson (1998) confirmed that even among very small businesses there are considerable differences in aspects like the personal backgrounds and experiences of owners, their motivation, their objectives in running a business, and their growth orientations.

Mead and Liedholm (1998:61) further support the unique needs of entrepreneurs in their study based on developing countries, which found that the entrepreneurs who participated in their survey were diverse and heterogeneous. They go further to state that among the universe of micro and small enterprises, there are various possible target groups, each with different contributions to make to the country's welfare and with different support needs. According to them, those designing micro and small enterprise assistance programmes need to recognise these differences, determine which group corresponds most closely with their own priorities and then craft interventions that are most appropriate to the needs of that particular group (Mead & Liedholm, 1998:70).

2.5 UNDERSTANDING THE NEED TO GROW

Growth is viewed in the literature (Smallbone, *et al*., 1995:44; Timmons, 1999; Wickham, 2001:303; Nieman,2003:232; Kuratko & Welsch, 2004:39; Nieman & Pretorius, 2004:23; Baron & Shane, 2005:10) as an important requirement for the success of a business and five growth stages are identified, namely, pre-start-up, start-up or infancy, breakthrough or growth stage, maturity, and decline or rejuvenation.

Growth is viewed as central in entrepreneurial ventures and each growth stage also poses its own challenges to the entrepreneurial and small business venture (Scott & Bruce, 1987:46; Nieman & Pretorius, 2004:23). It is also recognised that growth brings new challenges and, quite often, also crises. For practitioners, it is therefore important to understand what happens when a firm grows and how the entrepreneur has to adapt his or her management style and focus through the stages of the venture's life cycle. Meaningful support is influenced by the realisation that the entrepreneur directly influences the firm's growth orientation as measured by profitability goals, product/market goals, human resource goals, and flexibility goals (Kuratko & Welsch, 2004:40). An understanding of the key factors of the specific managerial actions necessary during the growth stages, namely control, responsibility, tolerance of failure, and change (Kuratko & Hodgetts, 1998:502; Baron & Shane, 2002:30) also appears to be important in the provision of meaningful support.

Due to the multifaceted nature of organisations, the growth and development of a venture must also be viewed from four major perspectives (Wickham, 1998:303):

- financial growth (the increase in value);
- strategic growth (the strategic interaction with the environment);
- structural growth (changes in internal systems and assets of the venture);
- organisational growth (changes in the organisation's processes, culture and attitudes).

Support practitioners need therefore to know what is demanded from both the entrepreneur and the venture if they are to provide any meaningful support. Growth demands of the entrepreneur to possess the ability to build an adaptive organisation (Watson & Everett, 1993:65; Osborne, 1995:4; Kuratko & Welsch, 2004:41) that would remain entrepreneurial (Timmons, 1999:210) and have the capacity to take the required investment and strategic decisions (Nieman & Pretorius, 2004:30; Hisrich & Peters, 2002:498). A further requirement is the need for a business plan (Block & MacMillan, 1999:117; Rogoff, 2004:5;

Pretorius & Shaw, 2004:221). According to Kuratko and Welsch (2004:42) successful venture growth also demands of the entrepreneur to remain entrepreneurial in nature while adopting certain administrative behaviours. They state that the transition from entrepreneurial to administrative mindset depends on the entrepreneur's ability to make the transition, and that a number of problems can arise in making this transition, especially if the enterprise is characterised by such factors as:

- a highly centralised decision-making system;
- an overdependence on one or two key individuals;
- an inadequate repertoire of managerial skills and training; and
- a paternalistic atmosphere.

These characteristics, while often effective in the start-up and survival phases of a new venture, pose a threat to the development of the firm during its growth stage (Kuratko & Welsch, 2004:42).

2.5.1 Problems Associated with Growth

Despite the advantages of growth to the venture, the practitioner must realise that growth is not always positive and it is important to be vigilant with regard to the problems associated with rapid growth (Mole, 2000:3). If attention is not paid to the dangers of rapid growth the business venture can experience difficulties and the following problems associated with rapid growth may arise:

- covering up of weak management, poor planning, or wasted resources;
- dilution of effective leadership;
- causing the venture to stray from its goals and objectives;
- communication barriers between departments and individuals;
- training and employee development are given little attention;
- stress and burnout;
- delegation is avoided and control is maintained by only the founders, creating bottlenecks in management decision-making;

- quality control is not maintained (Hisrich & Peters, 2002:489).

In view of the above it seems important that support practitioners are able to encourage growth and that they are also knowledgeable about the risks and problems associated with rapid growth. It is this knowledge and these skills that will then ensure that support practitioners are able to provide targeted and quality support. This need for targeted support during the growth phase is further highlighted by Cope and Watts (2000:104) as well as research done by Morrison and Bergin-Seers (2002:388), who are of the view that owners of growth companies must not only be responsive to adaptation and change but also be able to learn new behaviours and learn to think in radically different ways.

2.5.2 Key Issues for Growth

The key issues concerning growth that support practitioners must understand and know if they are to provide any meaningful advice and guidance to entrepreneurs and small business ventures are summarised in Table 2.4. These issues would also assist the support practitioner to assess whether they have taken into account all relevant factors when providing assistance to entrepreneurs who and small business owners who are interested in growth.

Table 2.4 Key growth issues to be considered by support practitioners when assisting entrepreneurs and small business ventures (Adapted from Scott & Bruce, 1987; Timmons, 1999; Longenecker, *et al.*, 2000; Cope & Watts, 2000; Hisrich & Peters, 2002; Kuratko & Welsch, 2004; Nieman & Pretorius, 2004)

Growth stages and factors influencing growth	**Characteristics of a growing firm**	**Requirements for growth**	**Key factors to be considered during the growth stages**
Pre-start-up: Starting resources of the entrepreneur • Characteristics of the firm at the beginning • The strategy **Start-up**: • Timing • Flow of funds • Start of business **Breakthrough/growth stage**: • Cash flow • Production • Delivery • Appointment of personnel **Maturity**: Delegation and time management are key issues to consider here. Other issues are: • Expense control • Productivity • Entry into niche markets **Decline/rejuvenation**: Decline is not inevitable and will only occur if the business does not constantly develop new and innovative ideas.	• Market domination • Differentiation • Product leadership • Flexibility • Innovation • Future oriented • Export • Related growth	• Desire for growth must be reflected in the entrepreneurial vision. • Potential for growth must be reflected in the mission of the venture. • The direction of growth must be indicated in the business strategy. • Growth must be managed and it requires planning, organising, directing and control activities. • The achievement of growth is a result of the decision-making processes that go with the venture.	• Control • Responsibility • Tolerance of failure • Adaptability • Change

Table 2.4 highlights the important factors that influence growth within each of the five venture life cycle stages. Table 2.4 also indicates that personal and behavioural issues as well as factors within the venture influence growth. It appears therefore that support practitioners also require knowledge of the different attitudes and behaviours that influence each growth stage. The dominant knowledge, attitudes and behaviours within each venture stage are listed in Table 2.5.

Table 2.5 Dominant knowledge, attitudes and behaviours within each venture stage (Adapted from Scott & Bruce, 1987; Timmons, 1999; Cope & Watts, 2000; Hisrich & Peters, 2002; Kuratko & Welsch, 2004; Nieman & Pretorius, 2004)

Pre-start-up	Start-up	Growth	Maturity	Decline
• Idea generation • Innovation • Creativity • Opportunity development • Motivation • Achievement orientation • Determination to succeed • Business planning • Problem solving • Assessment skills	• Opportunity development • Resource accumulation • Marketing • Production • Financial planning • Strategic planning • Cash flow management	• Management • Delegation • Control • Marketing • Financial planning • Cash control • Production • Distribution • Change management • Strategic planning	• Management • Marketing • Distribution • Expansion of markets • Financial planning • Cost control • Strategic planning • Change management	• Diagnoses • Assessment and evaluation • Cash flow management • Strategic planning • Change management

Table 2.5 indicates that entrepreneurial-type attitudes and knowledge such as innovativeness, creativity, idea generation and opportunity development are more dominant in the earlier stages of the venture life cycle. As the venture develops, more managerial knowledge and attitudes are required, such as cash flow management, delegation and strategic planning. Knowledge of marketing,

production planning and distribution are key requirements throughout the venture life cycle (Smallbone, *et al.*, 1995:44; Kuratko & Welsch, 2004:48; Pretorius & Nieman, 2004:40). The relevance of this information to support practitioners is the fact that they are able to assess and determine appropriately what the entrepreneur or venture is lacking at a particular venture stage. This ability to assess properly will enable practitioners to provide relevant advice or support.

2.6 VENTURE LIFE CYCLE CHALLENGES

The literature (Scott & Bruce, 1987; Helms & Renfrow, 1994:45; Longenecker, *et al.*, 2000:446; Nieman & Pretorius, 2004:40) indicates that the understanding and management of growth are essential to gain understanding of the concept of venture life cycle and its underlying characteristics. The life cycle follows the evolution of a new business venture from its pre-start-up (incubation) stage until its decline or rejuvenation. Knowing what can be expected at the different stages of growth helps the entrepreneur to anticipate challenges that may lie ahead and plan for them (Cope & Watts, 2000:104; Nieman, 2003:232).

The relevance for support practitioners to understand the life cycle concept is confirmed in the literature (Helms & Renfrow, 1994:45; Kuratko & Hodgetts, 1998:493), which indicates that insight is required into the developmental processes of the small business, thus enabling the firm to cope with change. The determination of the developmental stage of the venture allows for proactive planning and ensures that benefits are gained by change (Helms & Renfrow, 1994:45). The life cycle model implies that certain issues change during the different life cycle stages, which have a definite influence on the business venture (Scott & Bruce, 1987; Helms & Renfrow, 1994; Kuratko & Hodgetts, 1998:493; Cope & Watts, 2000; Nieman & Pretorius, 2004:241).The changes that ventures undergo during the different life cycle stages are depicted in Table 2.6.

Table 2.6 Changes within the venture during the venture life cycle (Adapted from Kuratko & Hodgetts, 1998:493; Cope & Watts, 2000:24; Nieman, 2003:241)

Aspect	Start-up	Early growth	Later growth (expansion)	Maturity
Strategic objectives	Survival	Maintenance of profitability and acquiring resources	Growth via expansion	Return on investment and market value
Structure	Informal	Functional	Decentralised	Matrix or product groups
Control systems	Direct market feedback	Standards and cost centres	Profit centres and formal reporting	Planning and investment centres
Management style	Creative	Leading	Delegating	Coordinating
Role of the entrepreneur	Owner-worker	Owner-worker	General manager	Controller
Function of the entrepreneur	Direct supervision	Overall supervision	Indirect control	Controlling interest
Focus of the entrepreneur	Make and sell	Efficient operations	Market expansion	Consolidation and innovation

Table 2.6 indicates the changes that take place within the venture during the different life cycle stages. The support practitioner should note that the challenges that the entrepreneur face at start-up are different from the challenges of later stages. This knowledge will ensure that the support practitioner provides relevant advice as and when required depending on the circumstances of a particular venture life cycle stage. As the venture develops there are certain key issues that need to be taken into account. These core issues are summarised in Table 2.7.

Table 2.7 Core issues to be considered over the venture life cycle (Nieman & Pretorius 2004:67)

	Pre-start-up	Start-up	Growth stage	Maturity	Decline/rejuvenation
1.Positioning					
Concept offering	Concept is researched and developed	No change unless a major problem arises	Little change unless follower improve it	Improvements to the original unless concept become irrelevant	Product becomes irrelevant in the market
Communication	Pre-testing is done on a small scale	Awareness programme to create market interest	Advertising and promotion aimed at repeat sales/loyalty	Price focused advertising to beat competition	No potential exists to advertise after-sales service
Price	Price of the concept is researched and depends on whether it is a new product or new market	Two options: 1. Enter at high price and 2. Decrease as competitors follow or enter at low price to gain market share from existing competitors	Reduce price slowly to gain market share and make it difficult for followers	Price at its lowest level due to the high level of competition	Price only covers the variable cost
Distribution	Channels to be used are planned and researched	Selective distribution is done through the most relevant outlets	Maximising channels to attempt intensive distribution. Lack of cash may hamper this	Optimal use of all possible channels	Decrease distribution to selective channels only
2. Marketing environment					
Competition	None for new product. If a new market is entered, different levels must be established	No competition for new product but in new market it may be strong	Competitors see the potential and start to copy the idea and enter the market (followers)	Many competitors with similar products and even improved products	Poor competitors start to exit the market
Target market customers	Do not know about the concept offering yet	Become aware of the existence and some (the innovators) try the products	If they like it – they do re-buy and will pay the asking price. More people now buy	They shop based on comparison, as there is a large variety to choose from. They may become aware of competitive products	Customers are aware of other products they can use and are very sensitive
Suppliers	Suppliers are identified and	Suppliers require cash on delivery	Suppliers become unwilling to give limited	Suppliers are willing to give more credit and	Same

	negotiated with		credit based on payment record and sales volume	discounts to maximise own sales – they follow a push strategy	
Intermediaries	Potential intermediaries are identified	Intermediaries must be convinced to carry the product in their store	They now see the value and are more willing to carry the products	Other intermediaries may also want the products	They become selective again
3. Functions and issues					
Cash level	Zero level	Negative and deteriorating	Normally lowest level and improving from here on	Level is normally positive	Cash may decrease
Cash flow pressures	Own funds are spent on research and compilation of a business plan	Large outflows for capex, licences, etc. Sources of cash include mainly loans and shareholder funds	Optimal use of funding – high level of pressure is still strong due to fast growth and pressure on resources	Cash starts flowing out for maintenance and expanded distribution	Pressure due to lower sales
Key problems	Finding and convincing a lender to fund the venture	Marketing communication is desperately needed but the venture is "cash strapped"	Increased distribution is desperately needed but there is not enough cash to create capacity	Competing profitability with the pressure on price	Extending sales demand
Operations	In planning phase only	Establishment and initial production – many teething problems	Operations sorted out Pressure on enough capacity utilisation	Operations pressured by lower cost drive	Over capacity
Personnel	Entrepreneur focusing on everything with assistance of consultant	Entrepreneur alone or a small team	Pressure to employ more people but no cash for extra salaries	Enough people and possibly in need of retrenchment to decrease costs	Definite retrenchment or restructuring
Management and time consumers	Planning	Seeing potential customers and convincing them	Establishing more distribution channels and collecting debts	Cost control and improved productivity	Worry if not planned in advance
Focus of the strategy	Planning the entry strategy	Entering the market in the best way possible	Increase and maximise distribution channels	Seek expansion and gains in market share	Recover variable costs only

The core issues mentioned in Table 2.7 affect the whole nature of the venture such as the business idea or concept offering, the financial issues, the marketing focus as well as human resource, strategic and customer issues. Each venture stage also demands a different consideration of these issues, which confirms the dynamic nature of the venture. A support practitioner who has only a limited or no understanding of these core issues and their influence on the venture would not be able to support entrepreneurs and small businesses adequately.

2.7 FAILURE AND TURNAROUNDS

The high failure rate of start-up ventures indicates the need that entrepreneurs and small businesses might have to deal with failures and turnarounds. A support practitioner must therefore possess this knowledge as well so as to guide and support entrepreneurs and business ventures during the times that they experience problems.

2.7.1 Failure

Zimmerer and Scarborough (2002) identify the following common reasons for small business failure: management incompetence, lack of experience, poor financial control, failure to develop a strategic plan, uncontrolled growth, poor location, improper inventory control, incorrect pricing, and an inability to make the entrepreneurial transition (Zimmerer & Scarborough, 2002:27).

Trouble normally develops over time and typically results from an accumulation of fundamental errors (Smallbone, 1990:34; Osborne, 1993:18; Pretorius, 2003:260). These errors can be ascribed to the failure to pay attention to strategic, management and planning issues (Timmons, 1999:536; Lussier, 1995:1) as well as environmental issues (Lauder, Brocock & Petty, 1994:4; Zimmerer & Scarborough, 2002:27; Nieman & Pretorius, 2004:98). These errors normally develop over a period of time and it is the continued disregard for them that leads to venture failure. Table 2.8 highlights the major errors identified in the literature and, as can be seen, these errors touch on all aspects of the venture.

Table 2.8 Errors that influence entrepreneurial and small business venture failure (Adapted from Lauder, *et al.*, 1994:9; Timmons, 1999:536; Zimmerer & Scarborough, 2002:27; Nieman & Pretorius, 2004:98)

Strategic issues	**Management issues**	**Poor planning and financial systems, practices and controls**	**Environment issues**
Refers to the effectiveness of the venture within its environment. Strategic errors are: • Misunderstood positioning • Mismanaged supplier and customer relations • Diversification in unrelated business areas • Idea driven instead of opportunity driven • Disregard for cash flow impacts • Lack of analysis which results in lack of contingency planning • Insufficient sector experience • Unsubstantiated market potential expectations	Management errors mainly occur due to lack of focus and interest of entrepreneurs. Typical management errors are: • Slow financial feedback and control • Turnover in key management personnel • Wrong management focus • Lack of management structure • Lack of managerial competence • Failure to update market knowledge • Failure to adapt to new technologies	Refers to the decision-making and governing of the venture. Typical errors are: • Incorrect pricing • Poor credit granting policies • Poor use of leverage • Inadequate management reporting • Lack of cash budgets and projections • Lack of standard costing • Poorly understood cost behaviour • Under-capitalization	These include customers, suppliers, competitors and intermediaries from the venture's market environment. Other factors include political, economic, social, technological, globalisation and physical factors from the macro-environment. A change in one factor will not necessarily lead to total venture failure, but due to the interactions of these factors with one another, a change in a few interrelated factors may influence the venture quite severely.

Zimmerer and Scarborough (2002:31) state that common mistakes within the venture can be avoided if the entrepreneur knows his/her business in depth, develops a solid business plan, manages financial resources, understands financial statements, learns to manage people effectively, and keeps in tune with him-/herself (Zimmerer & Scarborough, 2002:31).

It is hypothesized that in South Africa there is a great need for support practitioners who are able to provide guidance when small businesses experience signs of failure. The South African GEM reports (Driver*, et al.*, 2001; Foxcroft*, et al.*, 2002; Orford, *et al.*, 2003; Orford, *et al.*, 2004) indicated that the country has a high number of entrepreneurs who lack education and training. It is therefore hypothesized that such entrepreneurs would lack the knowledge and skills either to identify the signs of failure or to address issues of failure themselves, which necessitates their having access to knowledgeable support practitioners who can provide them with the required guidance and support.

2.7.2 Turnarounds

The earlier the signs of failure are observed, the easier it is for the turnaround process to be effective (Osborne, 1993:18; Watson & Everett, 1993:35; Zimmerer & Scarborough, 2002:31; Pretorius, 2003:260; Kuratko & Welsch, 2004:170). The procedure essentially requires a decision to engage in the process of turning around from failure. The turnaround process will be successful if certain core focuses are kept in mind. It is a well-known fact that the failure rate among start-ups is very high and this indicates the need for support practitioners who have the skills and knowledge to deal with turnaround issues.

Table 2.9 Core principles of the turnaround process (Nieman & Pretorius, 2004:126)

Diagnoses: This process consists of a quick analysis of the status quo to gain understanding of the level of the failure and whether the slide can be reversed.
Intervention decision: This decision is based on the diagnoses and focuses on whether the opportunity is still worth pursuing. A quick analysis based on the following is done: market demand, concept offering, economic model, team and resources fit, competitive environment, and financing required to give positive cash flow.
Stabilising the venture: Stabilising the venture focuses on straightening out the management team, controlling the costs and improving the cash flow.
Strategic analysis: The strategic analysis focuses on the sales and positioning aspects of the venture. An extensive opportunity analysis should be undertaken to determine the core business that the venture should focus on. Such analysis considers the market, concept offering and competitive environment that will determine future sales. The team and resource fit, the economic model and financing required for the venture will also indicate whether the opportunity should be pursued any further. When the strategic analysis is completed, it must spell out how the income side of the venture will be approached as well as how sales volume is to be increased, based on the selected positioning.
Restructuring decisions and actions: Intervention options are prioritised and action plans based on the strategic analysis are drawn up.

Kuratko and Welsch (2004:175) refer to the need to understand different types of feasibility analyses in order to develop and support sustainable ventures. These analyses are Technical, Market, Financial, Organisational, and Competitive Feasibility analyses. It is contended that this knowledge is relevant not only at turnarounds but at all stages of the venture life cycle.

Table 2.10 Specific activities of feasibility analyses (Kuratko & Welsch, 2004:176)

Specific activities of feasibility analyses				
Technical feasibility analysis	**Market feasibility analysis**	**Financial feasibility analysis**	**Analysis of organisational capabilities**	**Competitive analysis**
Crucial technical specifications: • Design • Durability • Reliability • Product safety • Standardisation	**Market potential**: • Identification of potential customers and their dominant characteristic (e.g. age, income level, buying habits) • Potential market share (as affected by competitive situation) • Potential sales volume • Sales price projections	**Required financial resources**: • Fixed assets • Current assets • Necessary working capital	**Personnel requirements**: • Required skill levels and other personal characteristic of potential employees • These analyses are Technical, Market, Financial, Organisation, and Competitive Feasibility analyses **Managerial requirements**: • Determination of individual responsibilities • Determination of required organisational relationships • Potential organisational development • Competitive analysis	**Existing competitors**: • Size, financial resources, market entrenchment • Potential reaction of competitors to newcomer by means of price cutting, aggressive advertising, introduction of new products, etc. • Potential new competitors
Engineering requirements: • Machines • Tools • Instruments • Work flow	**Market testing**: • Selection of test • Actual market test • Analysis of market	**Available financial resources**: • Required borrowing • Potential funding • Cost of borrowing • Repayment conditions • Operation cost analysis • Fixed costs • Variable costs • Projected cash flow • Projected profitability		
Product development: • Blueprints • Models • Prototypes	**Market planning issues**: Preferred channels of distribution, promotion efforts, distribution points, packaging, price differentiation			
Product testing: • Lab. testing • Field testing				
Plant location: • Desirability characteristics • Environmental regulations				

Table 2.10 summarises the different feasibility analyses as identified by Kuratko and Welsch (2004:175) and shows the key elements for feasibility analyses to have a focus on the technical aspects, the market, financials, organisational capabilities and competitive analyses. It is suggested that knowledge of feasibility analyses will greatly enhance the ability of support practitioners to provide meaningful support during the turnaround stage.

2.8 CRITICAL ISSUES WITH REGARD TO THE FOCUS PROVIDED IN THE CHAPTER

This chapter used the model of the support practitioners' problem environment (Figure 4.2) as guide for the literature review. As a result the study, whilst recognising the influence of macro level issues (such as globalization, the policy and institutional environment as well as competition on entrepreneurship and small businesses), do not discuss these macro level issues in detail. The study focuses instead on the micro level issues such as the required behaviours, knowledge and skills which are required for successful venture development. It is contended that if the support practitioner is aware of what behaviours, knowledge and skills are required for successful venture development, they should also be in a position to provide meaningful support.

The deduction that support practitioners who are aware of what behaviours, knowledge and skills are required for successful venture development would also be able to provide meaningful support is not widely accepted in the literature. Storey and Westhead (1994:61) raised doubts as to whether support and particularly training contributes to the performance of small businesses. Westhead and Storey (1997) also regarded the effectiveness of support to small businesses with scepticism and it appears that this scepticism is mainly due to the difficulty of measuring the effectiveness of support interventions.

It is recognised that the varying and different needs of entrepreneurs and small businesses require of support practitioners to also possess a wide scope of knowledge and skills. Fuller-Love (2006:188) states that the varying and different needs of small businesses as well as the challenge to determine what type of support is required influences the outcome of support interventions.

There is no agreed definition of entrepreneurship and small business in the literature and in it is accepted that the definitions and discussion provided in this chapter might have overlooked some other issues. Gibb (1993:3) states in this regard that the lack of clear consensus on the definition of entrepreneurship and small business contributes to the confusion in the existing research on training. This study accepts that the lack of consensus referred to by Gibb (1993) would also have an influence on research with regard to support practitioner interventions.

2.9 SUMMARY

This chapter discusses the entrepreneurial and small business learning challenges that entrepreneurs and small business ventures are facing. It is argued that entrepreneurial and small business support practitioners must have extensive knowledge of the various entrepreneurial and business management challenges of their clients. The most important entrepreneurial and business management aspects discussed in this chapter are the definitions of entrepreneurship and small businesses, distinguishing between entrepreneurship and small businesses, the need to grow, venture life cycle challenges, failures and turnarounds. A brief description of BDS is also provided. The motivation for this discussion was drawn from the realisation that entrepreneurial and small business support practitioners must understand and know the environment within which their clients operate and as a result they must understand the knowledge, skills and competence criteria that are required and that impact on that environment. It is argued that the possession of entrepreneurial and small business skills and knowledge that are required for successful venture development and growth will enable support practitioners to provide meaningful and relevant support.