UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

The key success factors in growing a small and medium enterprise (SME) in South Africa

Shaun Rozyn

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration

14 November, 2007

ABSTRACT

This research identified the critical success factors in the growth of small businesses in South Africa against the theories of small business growth. The study applied both quantitative and qualitative research methodology to identify which factors contributed most to the growth of the sample of 131 small businesses in Gauteng province. This was done by (1) identifying the mean characteristics of small businesses that had experienced their first disruption to growth after establishment, (2) identifying the dominant reasons for the growth challenges, (3) identifying the tools and/or actions employed to transgress the first challenge to growth and (4) comparing these actions to small businesses that had not experienced challenges to their growth. Small businesses facing growth challenges were found to be between one and three years old, have 36 staff, have sales revenue of R13,5 million and sales growing at 25% per annum. The most common mitigation tools and/or actions were to hire more staff, hire competent professional management, source external professional assistance in the form of a mentor and restructure reporting lines.

This research found that the focus of small business development should focus on these types of businesses because of their propensity to grow faster and employ more staff. This study also emphasised the growth aspirations of the owner/ manager. Lastly a management model for small businesses was presented.

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in this or any other University.

……………………………………….

Shaun Rozyn

14 November 2007

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

ACKNOWLEDGEMENTS

I hereby wish to acknowledge the following persons for their support during the writing of this report:

Firstly, to my wife, Kelly Rozyn who became my wife during the writing of this report which might not have been the most prudent decision in retrospect. Regardless, my deepest thanks for all your support, love, patience and late night cups of tea. This paper is dedicated to you. Thank you my angel.

Secondly, to all the small business owners who completed questionnaires, made time available to be interviewed and for their willingness to share their journeys with me I am eternally grateful.

Lastly, to my research supervisor Dr. Mandla Adonisi for his guidance, encouragement and respect for the research process, I thank you. I also have to acknowledge the support of Prof. Margaret Sutherland and Dr. Helena Barnard for guidance on statistical analysis.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

TABLE OF CONTENTS

Page

LIST OF TABLES

Page

LIST OF FIGURES

Page

LIST OF APPENDICES

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

South Africa despite macroeconomic stability and a sound policy framework continues to suffer from an unacceptably high rate of unemployment and a rate of economic growth lower than other developing countries. The growth of small businesses through entrepreneurship has been presented as a solution to this problem. Unfortunately, for various reasons, the business environment in South Africa has not been conducive to small business growth in that only twelve percent of small businesses established survive past their first four years after establishment.

This study recognises the importance that small businesses play in the economy and that more assistance and research should be focused on assisting small business owners to progress past the establishment phase and into a phase of growth and sustainability. This research will identify the critical success factors that promote the growth of small business in South Africa by (1) identifying the characteristics of small businesses when their growth is challenged, (understand the reasons for the challenge to growth and the mitigation techniques/ actions applied, (3) understand the actions why some small businesses did nit have growth challenges, and (4) critically contrast the two groups to develop a model on sustainably growing a small business.

1.2 Context of Study

A number of studies have confirmed the importance that small businesses have had on growing income and increasing national employment. According to Deakins and Freel (1998), the British Department of Trade and Industry (DTI) have estimated that small businesses employing fewer than twenty employees make up almost 98% of all enterprises in the United Kingdom. According to Julien et al (2001), small businesses that progress through the growth phase successfully generate 41% of all new employment in the Quebec province of Canada, 48% in Italy, 56% in Spain and 80% in Sweden. Research has also been conducted into development assistance, Beck, Dumiguc-Kunt and Levine (2003) estimate that the World Bank alone has allocated $10 billion to small business development for developing countries specifically as drivers of economic growth in challenging environments and the employment benefits especially in regional economies.

Unfortunately, in South Africa, entrepreneurial activity has been decreasing. In the Global Entrepreneurship Monitor (2006) research which ranks the entrepreneur activity in 50 countries, South Africa dropped from 20th (out of 34 countries) to 34th (out of 35 countries). The research also found that only twelve percent of Small and Medium Enterprises (SME's) survive beyond four years from being a start-up organisation to becoming established as sustainable businesses. In South Africa, only five percent of adults between the ages of 18 and 64 own and manage a business that is older than three and a half years old. This contrasts with countries such as Brazil, Thailand, Greece and China were this number is 10% (GEMS 2006). Most important is the finding that only 3,9% of firms in the start-up phase employ any staff. The primary job creators are the firms that employ 20 persons and more.

The challenges of sustainably growing a small business is has also been extensively studied which has extended across the social sciences to include the areas of economics, psychology and organisational behaviour. These studies have attempted to better understand the motivations of the entrepreneur, industry effects, preconditions to growth and access to resources. This study will contribute to this literature. Despite this plethora of research, the critical success factors, specifically in South African small business growth is poorly understood with even luck being presented as on of these factors. This research will therefore contribute to the debate on how best to support small business development and isolate critical success factors in growing a sustainable small business in South Africa.

.

1.3 Significance of the study

On a macro level, the significance of this research will be the development of a management model of how best to promote the growth of small businesses from start-up to establishment. From a micro perspective, the significance of this research is to assist the small business owner with practical implementable tools that can be applied as critical success factors when challenges to growth emerge. These benefits will affect both the entrepreneur and their dependents, the employees of the small business, the communities where these businesses are situated as well as regional economies.

1.4 Definition of terminology and constructs

The research of small business development has transcended a number of academic subject areas including economics, psychology and organisational behaviour. The following terminology and constructs require clarification:

1.4.1 An entrepreneur

For the purposes of this research, Kirby's (2002) definition of an entrepreneur is:

> "an individual who establishes and manages a business for the principle purpose of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic

management practices in the business.

1.4.2 Small business owner

More recent studies (Hakkert, Kemp and Zoetermeer 2006) have begun to use the term "small business owner" as an alternate term for the term entrepreneur as there is: "very little agreement about what are the motives and therefore the correct definition of an entrepreneur". A small business owner can be defined as (Zeelie 2001):

> "an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be a primary source of income and will consume the majority of the owner's time and resources. The owner perceives the business as an extension of his or hers personality intricately bound with family needs and desires".

1.4.3 A small business

To quantify the term "small", previous studies have used age, sales revenue, sales growth, number of staff and profit growth. For the purposes of this research, a small business is:

> " a business entity that employs less than 200 employees".

1.4.4 Organisational growth

Organisational growth according to Hakkert, Kemp and Zoetermeer (2006) is:

> "a process were the firm changes from a small, informal, simple and unstructured firm to a bigger, often more formal, complex, structured organisation.

Zeelie (2001) states that: "often a firm starts (very) small and needs to grow to a certain size to become economically viable (e.g. the minimum efficient scale). The two most widely used metrics of growth in the literature are sales revenue growth and the increase in employment. For this study, the growth of an organisation is measured as the:

> "… increase in the rand value of sales over a given period.

Sales growth is considered to be the best measure of growth due to its high generality and that is used most extensively a measure of performance by small business managers.

1.4.5 Challenges to growth

A number of studies have attempted to develop a name for the events or chain of events that manifest themselves as contrary to the sustainable development of small businesses. For this study, challenges to growth can be defined as the (Cope 2001:8):

> "critical events…both positive and negative with certain perceptual and chronological parameters that are memorable to the individual concerned and has perceived significance in personal or business terms, or in both".

1.5 Conclusion

Chapter one has outlined both the need for this research, the context in which it will be conducted, the significance of this research to burning issues in the South African society and the terminology that will be applied. It is only by understanding the myriad of internal and external factors as well as their configurations that will allow us to develop an integrated model of the critical success factors in growing a small business. This research will draw on literature from both the areas of economics, psychology and organisational behaviour to address both motivational, behavioural and utility maximising behaviour of the small business owner. Chapter two will review all the literature relevant to understanding the critical success factors for small business growth. Chapter three will present four research questions which this study will address. Chapter four will discuss the research methodology applied in this study. Chapter five will present the findings from the research. Chapter six will integrate the findings and the literature review to present what are the critical success factors in small business growth. Lastly, Chapter seven will present the recommendations of the research as well as a model which will assist small business owners and managers to understand the growth of small businesses and manage them accordingly.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The growth of firms and small businesses has been one of the most researched topics in the management sciences which extends across the subject areas of economics, psychology and organisational behaviour. Researchers have used these subject areas as the basis to understand the configuration how best to allocate scarce and costly resources to both the needs of the market and in response to the uncertainty of the external environment. This chapter will discuss the various theories of firm and small business growth. These theories include the resource-based view (RBV) of the firm, the motivations view of the firm, the strategic adaptation view of the firm and the life-cycle stages view of the firm. Each of these theories will be critically discussed with specific reference to their implications for small business growth.

The life cycle theory will be used as the foundation of this research to isolate the characteristics and actions of firms between establishment and existence, namely, the growth phase. A number of articles will then be presented on quantitative and qualitative research conducted at the industry level. This will allow the researcher to make comparisons and highlight differences in the findings of this study which will be presented in chapter six. Lastly, this chapter will review three pieces of research that address specifically the growth challenges for small businesses in South Africa. In this way, the full breadth and depth of this subject area can be presented which will form the basis of analysis for the quantitative and qualitative findings from this research.

2.2 Theories of organisational growth

The creation and growth of businesses have been studied from as early as the 1960's. Spanning the divergent subject areas of economics, psychology and organisational development, the four dominant theories of firm growth are: (1) the resource-based view (RBV) of the firm, (2) the strategic adaptation view of the firm, (3) the motivation view of the firm, and (4) the life cycle view of the firm. The first three theories focus primarily on the specific variables contributing to the numeric growth of firms but with differing methods used to measure this firm growth (Hakkert, Kempp and Zoetermeer 2001). Life-cycle theory starts from the view that firm growth is a continuum or cycle and attempts to explain the changes that growth brings to the business and tools including the methods that could be applied to address these changes. The effects of the growth on the business and consequently the business owner are the main concern of the life-cycle view.

The rest of the chapter will discuss the four growth theories to provide a basis to understand the growth of small businesses and the growth perspectives of the entrepreneur. Aspects of the research methodology applied in these studies will also be presented to be used in this study.

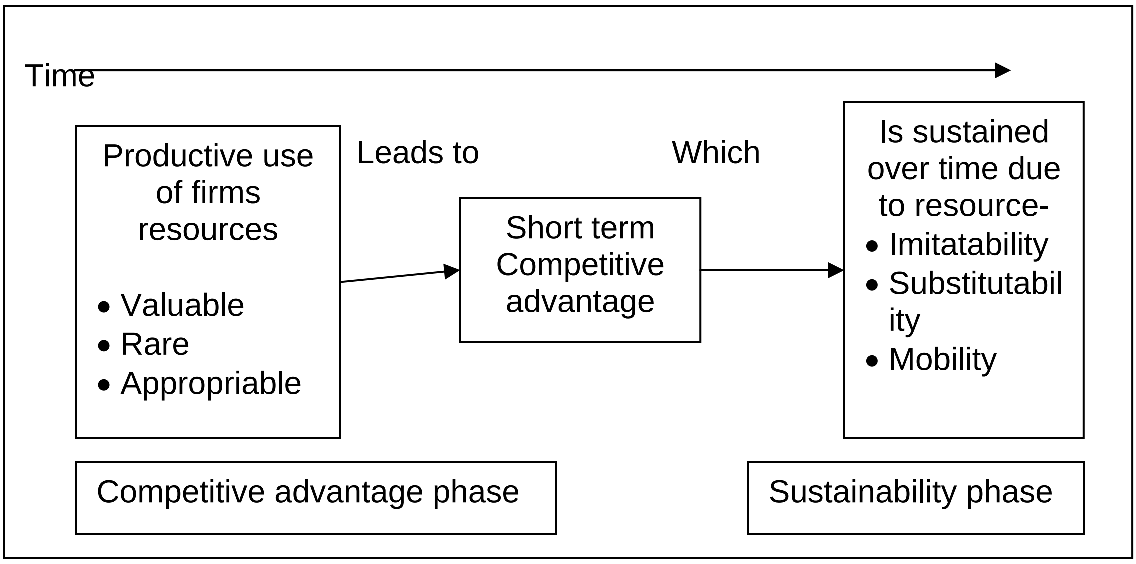
2.2.1 The resource-based view of firm growth

The resource based view (RBV) of firm growth was first developed by Penrose (1959) and refined by Wernerfelt (1995). The theory has its roots in neo-classical economic theory, specifically how a firm can attract economic rents in a market economy to stimulate growth. At the heart of this theory is that the competitive advantage of a firm lies in the application of its internal resources. According to Penrose (1959):

> There is a close relation between the various kinds of resources with which a firm works and the development of the ideas, experience and knowledge of its managers and entrepreneurs and we have seen how changing experience and knowledge affect not only the productive services available from resources but also “demand” as seen by the firm. Unused productive services are, for the enterprising firm, at the same time a challenge to innovate, an incentive to expand and a source of competitive advantage. They facilitate the introduction of new combinations of resources, innovation within the firm.

Barney (1991: 101) describes these resources of the firm as: “....those assets, capabilities, organisational process, firm attributes, information, knowledge…that are controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. In the refinements by Wernerfelt (1995), the "VRIN criteria" were developed to further explain the requirements for the resources to provide a short run competitive advantage. The VRIN criteria requires that resources could provide competitive advantage if they were (1) valuable, (2) rare, (3) in-imitable and (4) non-substitutable. Modern studies have further defined resources to include (1) human capital, (2) physical capital and (3) intellectual capital (Mahoney 2004:12). The theoretical model is graphically illustrated in figure 1:

Figure 1: Model of the Resource based view of the firm



Source: Wernerfeldt (1985)

According to Dierickx and Cool (1989), these characteristics are individually necessary but not sufficient conditions for a sustainable competitive advantage. The arrangement of resources was found to be central on a firm's ability to attract economic rents but competitive advantage can only be derived when the arrangement of these resources creates value and not being implemented by competitors in the present or possible future. Barney (1991) similarly found that competition only ends when a competitor firm's actions do not affect the firm's strategy it is then that the firm's strategy and subsequent growth is deemed to be sustainable.

The RBV of form growth has been criticised in two areas. The first area has come from Porter (1985) who although agreeing that resources are an essential element to competitive strategy, through research found that the configuration of the resources, the impact of external forces and the use of above average returns in the long-run as a measure of sustainable growth were most important. Priem and Butler (2001) found the RBV to be self-verifying in that securing a valuable resource generally will lead to some form of growth (i.e. such as holding the rights to a rich mineral deposit). They emphasise that in general, different resource configurations tend to generate the same value and therefore there must be additional factors that produce competitive advantage.

2.2.2 The strategic adaptation view of firm growth

The strategic adaptation view of firm growth in firms builds on the RBV of the firm but is concerned with the ability of the firm to switch market and product focus depending on the external environment. According to Mckee in Schindehutte and Morris (2001):

> "Adaptation can be defined as the actions of the business owner and his/her team in processing information inputs from the environment and making rapid adjustments to this feedback".

In the context of small business growth, Schindehutte and Morris (2001) refers to adaptation as:

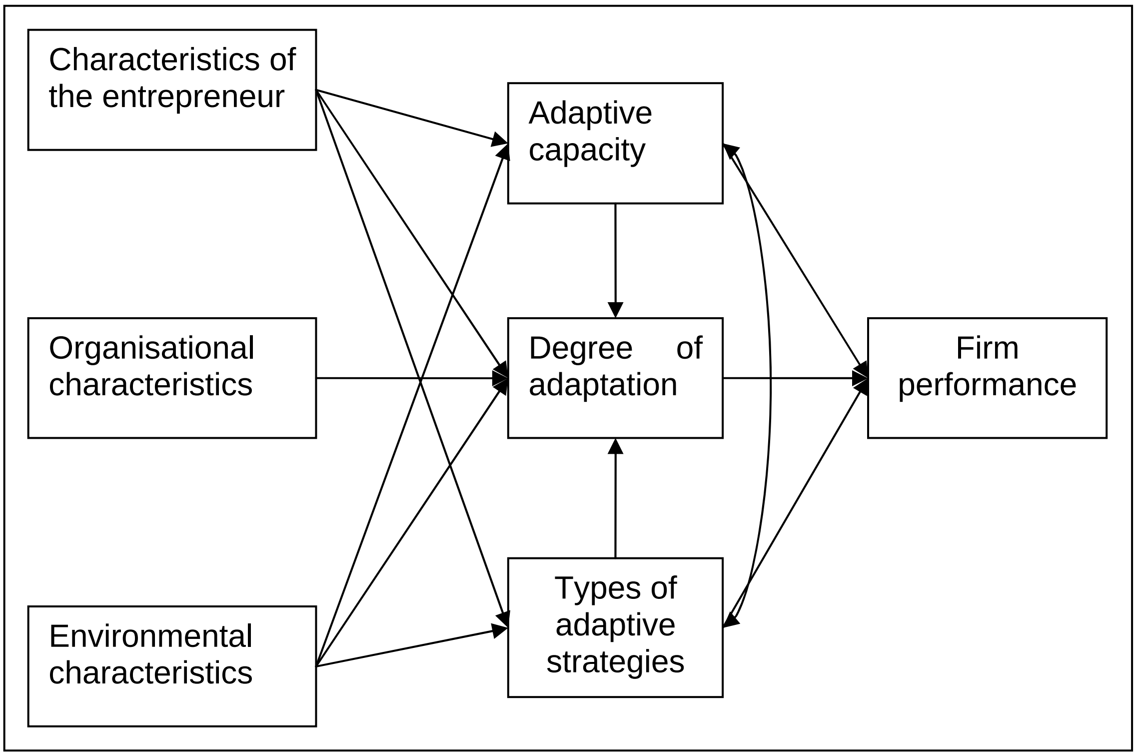
> The substantive modifications of core elements that constitute the business concept as the venture evolves.

Adaptation theory is an extension of economic contingency theory. Contingency theory states that environmental conditions dictate the adjustments management must make over time to the strategy and structure of the firm as presented in figure 2. As stated by Drucker (1995):

> "When a new venture does not succeed, more often than not it is in a market other than the one it was intended to serve with products and services not quite those with which it had not set out, bought in large part by customers it did not even think of when starting and used for a host of purposes besides the ones the ones for which the products were designed".

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Figure 2: Model of the adaptive strategy view of firm growth



Source: Schindehutte and Morris (2001)

The focus is therefore to change the strategic posture to achieve a better fit between the organisation and its environment. This adaptation according to Schindehutte and Morris (2001) can refer to changes to products or services offered, customer profile, marketing, distribution channels, personnel, financial systems and physical plant requirements. This change though is usually incremental and continued change as opposed to dramatic interventions leading to the transformation of the organisation.

Critics of that adaptation growth theory such as Hrebiniak and Joyce (1985) found that individual goal-driven behaviour is much less of a predictor of organisational growth than environmental selection. The ability to dominate a market in this manner would possibly only be facilitated by a dominant market share, vertical alignment up the value chain and/ or a form of market collusion. The second view which cannot be called a criticism but rather a challenge is that the abilities of a firm are essential to facilitate an adaptive strategy. It is this view that led to research on the learning organisation as termed by Venkataraman and Van de Ven (1998) where the growth outcome of firms rely on an intimate understanding of both the firm and the competitive forces in the external environment.

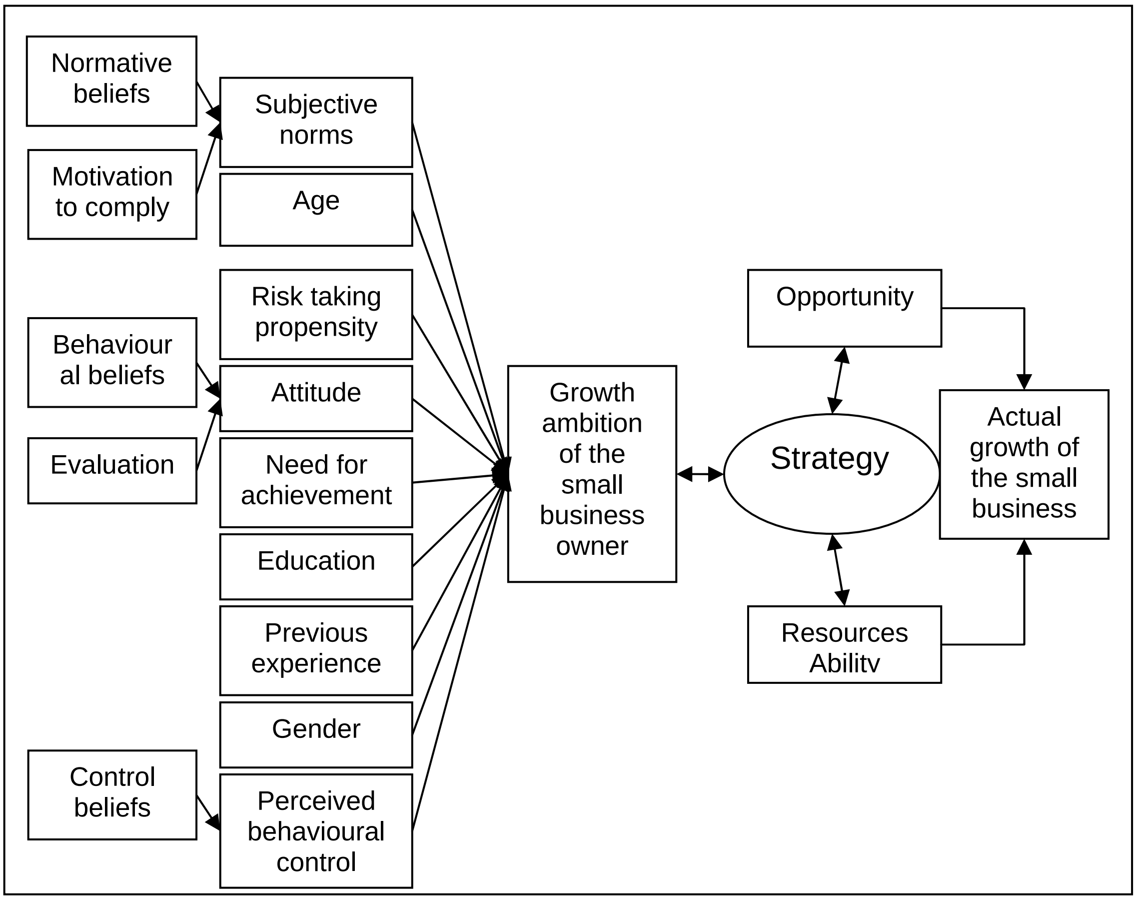
2.2.3 The motivation view on organisational growth

This Motivation view of firm growth relies on research from economics and psychology. The theory discusses that growth of the firm depends firstly, on the intentions of the entrepreneur and secondly, on how the entrepreneur perceives the risks in the external environment. With some relation to RBV literature, the theory requires that the entrepreneur can extract economic rents from his or her efforts.

The motivations of the business owner is viewed from two perspectives. Based on the field of psychology that deals with choices, Hakkert, Kemp and Zoetermeer (2006) identified that firms must start small and grow to a certain size to become economically viable. From this point onwards, the small business owner has the freedom to grow the business further or not. A challenge is that many small business owners are often reluctant to change their roles. Hakkert et al (2006) ascribes this to two dimensions based on the person and on preference. From a personal point of view, an entrepreneur has certain beliefs in pursuing firm growth. Reasons may be to accumulate wealth, provide for a future generation and/or not having to work in a corporate environment. These then form the entrepreneur's attitudes to growth. Hakkert et al (2006) also found that the entrepreneur's perception of what the social environment thinks about performing a particular behaviour is also included. This is referred to as the social norm. The authors comment that in Japan for example, not being part of a large corporate is seen as a lesser occupation. Together, the attitude and social norm form what is referred to as the reasoned-action. Reasoned-action is then compared to behavioural control. Perceived behavioural control is the: "degree to which the small business owner thinks he can control growth. It is therefore the attitude, social norm and the perceived behavioural control that according to Hakkert et al (2006) predict the intentions of the entrepreneur to grow their business.

The second perspective has its roots in the field of economics and looks at maximising private returns from effort. The economic decision to grow a firm is built on the concept of rationality. Hakkert et al (2006) found that a small business owner: “calculates the expected utility (satisfaction) of all alternatives/ prospects by assigning a value to the consequences of the different alternatives of growth”. However the theory of bounded rationality states that individuals satisfy rather than optimise their decisions and decision making cannot therefore be understood if account is not made for the limited ability of individuals to evaluate their alternatives and for the complexity and uncertainty of the growth situation. By integrating the two perspectives the following diagrammatical model can be developed:

Figure 3: Model of the motivations view of firm growth



Source: Hakkert, Kemp and Zoetermeer (2006)

The value of the motivations theory is that it presents additional intangibles into the theory of how a firm grows. These factors include aspirations, growth attitude, growth intention and growth orientation (Wiklund and Shepard 2003). From motivations theory, Hakkert et al (2006) found four types of entrepreneurs in their research of small business owners. These are the:

- "Must growers": These are the entrepreneurs or small business owner that make the decisions from firm establishment until the firm is an economically viable entity.
- "Proactive growers": Once the small business has become economically viable, the small business owner searches actively for growth by looking for new opportunities.
- "Reactive growers": Here the owner is more reactive and passive and needs an external stimulus to grow.
- "Non growers": The motivations for the owner is not to grow as the complexity interferes with the preferences of the owner.

A criticism of the motivation theory by Wiklund and Sheperd (2003) is that by combining hard elements such as profitability with softer elements such as satisfaction and attitudes as the keys to the success of a small business owners, that isolating key success factors based on statistical analysis and clear lines of causality become extremely difficult. These writers point out though that logic dictates that these are essential elements in both the required characteristics in a small business owner and factors key to the growth of an organisation and so they cannot be discarded.

2.2.4. The life cycle view of firm growth

These theories on firm growth are based on the cycle of life drawn from the biological sciences (Lester and Parnell (2004) and that the progression of an organisation as a life can be compared to living organisms that progress through a number of life stages, each with discernable characteristics. A number of the canonical studies will be presented although the discussions will be restricted only to that stages that involve business growth until maturity.

2.2.4.1. The Greiner theory of firm growth

Greiner (1972) found that organisations generally progress through five identifiable "life" stages. In research conducted over ten years, Greiner (1972) found that growth problems in firms were: "rooted more in past decisions than in present events or market dynamics". According to Greiner (1972: 56), this was the first time research had:

> "identified a series of developmental phases through which companies tend to pass as they grow".

Each phase was found to begin with a period of evolution with steady growth and stability. This phase would come to an end typified by a revolutionary period of "substantial organisational turmoil and change". The resolution of this turmoil determined whether or not the organisation would move forward into the new phase of evolution or decline out of existence. Greiner's model was based on five critical growth dimensions namely: (1) Organisational age; (2) size; (3) stages of evolution; (4) stages of revolution, and (5) the growth rate of the industry.

Progressions through the revolutions were identified as essential management tasks with the challenge being to: "find a new set of organisational practices that will become the basis for managing the next period of evolutionary growth. The Griener model identified five distinctive phases each beginning with a period of evolution with the driving force (also called the dominant management problem) often being the cause of the disruption. The phases[1] in order were (1) creativity; (2) direction; (3) delegation; (4) coordination and (5) collaboration.

The stages will be briefly discussed. Start-up businesses usually have an owner/ manager or are established as a partnership and centred on a core product or service with a few clients (also the focus of Ciavarella 2001). Actions are primarily individualistic with energies focused primarily on serving the

[1] Of which only the first three stages will be discussed.

markets. As output expands, knowledge is required regarding finding efficiencies. Informal communication channels also need to be formalised as well as additional finance required for the expansion of the product line. The "departure from the good old days" according to Greiner (1972:8) causes the first crisis of leadership. Generally a strong manager is required or the owner-manager must adapt to bring the organisation together.

The second phase was called the phase of direction by Greiner (1972:8) where the new manager drives a period of sustained growth. Gradually, functions such as manufacturing and marketing become more specialised as staff compliments grow. In addition, accounting controls are introduced; communication becomes formalised and more impersonal and new managers begin to provide direction. Supervisory staffs become constrained by the centralised hierarchy and constrained by systems despite being functional experts. This causes the second crisis of autonomy. The general solution is to delegate decision-making power lower down the organisation. Unfortunately, lower level staffs are generally not formally empowered. Firms struggle to let go of their centralised structures and disgruntled staff leave the organisation.

The third phase of delegation is a period of greater decentralisation, with functional areas run as cost centres, performance incentives are paid, executives tend to manage by exception and communication is top-down and infrequent. Growth prospers but executives gradually start to see a shift of power in the organisation and leaders begin a process brought on by a crisis of control. From the research, organisations generally gravitate to a middle ground where coordination is required from owners as well as staff to find a new equilibrium which would lead to the next stage called the coordination phase.

Greiner believed that the answer to much of the growth pains would be programmes and structures that allow employees to periodically rest; reflect and revitalise themselves". It was from this framework that a host of life-cycle theory research emerged. Researchers attempted to explain the movement between phases and began to separate them selves into different schools of thought.

2.2.4.2 The Adizes theory on firm growth

Adizes (1979) first coined the term: life cycle theory (represented in figure 5), which stated that firms must pass through multiple discernable stages as they grow to maturity. He found that challenges at each stage of growth manifest themselves as problems that arise from the growth and success of the firm and from external changes in the markets, competitors, technology and the general business and political environment. More specifically, Adizes (1979: 8) stated that:

> "Organisations have life-cycles just as living organisms do; they go

through the normal struggles and difficulties accompanying each stage of the organisational life-cycle and are faced with the transitional problems of moving to the next phase of development. Organisations learn to deal with these problems by themselves or they develop abnormal diseases which stymie growth patterns that usually cannot be resolved without professional intervention".

The Adizes life cycle has ten stages namely (1) courtship, (2) infancy, (3) Go-go, (4) Adolescence, (5) Prime, (6) stable, (7) Aristocracy, (8) Early bureaucracy, (9) Bureaucracy, and (10) Death. According to Adizes (1979: 12), courtship occurs before the establishment of the firm and is in the mind of the entrepreneur. The attentions of the owner are future-based surrounded by enthusiasm and unrealistic thinking. The infancy stage reflects when thought is transferred into action. A basic business model guides the establishment of the small business. The focus is on boosting sales and trying to achieve a critical mass. Adizes emphasises the degree of hard work that is generally displayed by the owner .In addition, all decision-making power is centralised with the owner. The go-go stage reflects the first growth stage for the new firm with growth being spread over a number of product areas. Adizes stated (1979: 32): "…that owners often get over excited by their successes bringing their organisations to the brink of collapse". This is because most of the ventures are unprofitable and the process and procedures which guide actions are all made by the owner. The adolescent stage typifies the owner realising that they cannot hold onto all functions an attempts to “let go”. A manager is brought in to “instil discipline and processes”. Staffs that were part of the infancy stage sent the “bureaucratisation” of the firm with resultant conflict over resources, strategic direction and priorities. At this stage, the founder may decide to sell the company or as suggested by Adizes (1979:33): “be persuaded to leave”.The prime stage or as referred to in Adizes’s later work (1992), the consolidation phase is when strategy, structure, processes and people are aligned. The realignment allows the organisation to grow organically with growth being reflected in both sales revenue, profit margins and cash flow. Progress from this phase leads into establishment and beyond that focus of this research

2.2.4.3 The Quinn and Cameron theory of firm growth

Quinn and Cameron (1983: 34) attempted to understand the predictable developments of firms from birth to maturity according to the basic tenets of life-cycle theory. According to the authors:

> “Changes that occur in organisations follow a predictable pattern that can be catergorised by developmental stages. These stages are found to be sequential in nature, occur as a hierarchical progression that is not easily reversed and involve a broad range of organisational activities and structures.

Based on a review of earlier life-cycle studies, the authors identified four stages of organisational growth namely the (1) entrepreneurial stage, (2) the collectivity stage, (3) the control stage, and (4) the elaboration of structure stage. The first stage called the entrepreneurial stage was characterised by a condition of recourses and ideas driven by entrepreneurial activities with little structured planning. The focus of the entrepreneur was to create a niche space to drive sales of the single good or service.

Stage two of Quinn and Cameron (1983: 46) was the collectivity stage where the great efforts and long hours create a sense of collectivity with all members having the same sense of “mission”. At this stage communication is informal and commitment drives growth and innovations in the firm. Stage three was termed the control stage, similar to Greiner’s (1972) control disruption before phase four where the autonomy needs to be controlled by the formalisation of rules, the need for institutional procedures, conservatism and a change from growth to efficiency and maintenance. The last stage will not be discussed as it falls out of the scope of this paper

According the Quinn and Cameron, the paths presented are more probabilistic in nature than previous life cycle research as they present multiple paths that can be followed. The authors also dispensed with the Adizes (1979) “growth or fail” assumption. Quinn and Cameron (1982) present evidence that although not a crisis, that firms could get “stuck” in a phase whereby a number of challenges and solutions would be applied until the firm is lifted onto a new growth trajectory and into a new phase of life.

2.2.4.4 Overview of the individual views on life-cycle theory and relevance to this study

Life-cycle theories have therefore generally divided firm growth into four to ten stages of development. The Greiner (1972) and Adizes (1979) models have been criticised because of their implicit "grow or fail" assumption which generally means that organisations must follow the stated model or they will fail and go out of business. The models have also been found lacking in that in Greiner (1972), the decision to grow is disregarded which excludes the whole growth motivation of the entrepreneur. This was also deemed a criticism of Adizes (1979) where it is implicitly assumed in the model.

Although they have been criticised for their deterministic nature, the life-cycle theories have kept the focus on the organisational development characteristics of small firm growth whereas the RBV and motivational theories have incorporated more the knowledge of microeconomics, psychology and competitive strategy.

Based on the in-depth review of prior research, this research will use the principles of life cycle theory to identify the critical success factors in small business growth. This study will therefore incorporate the views of Greiner's (1972) creativity phase, Adizes's (1979) infancy stage and Quinn and Cameron's (1983) collectivity stage. These will also be filtered by the other organisational development theories to inform the research findings.

2.3 Empirical tests of life-cycle theory

2.3.1 Miller and Freisen (1984) longitudinal study of firms in different sectors in the United States

Miller and Freisen (1984) conducted one of the earliest empirical studies into life cycle theory and the existence if discernable stages of firm growth. As stated by Kazanjian and Drazin (1987) up until 1984: "there was little in the way of empirical evidence to support either the pro-stage or anti-stage perspective. The research was conducted over a twenty year period using variations in the external environment, strategy, structure and decision making. The researchers used mainly descriptive criteria but used quantitative criteria for firm age and sales growth. Miller and Freisen (1984:12) identified five life-cycle stages[2]. The sample however was restricted to 36 firms with additional statistical techniques used to validate the existence of discernable stages of firm growth.

---

[2] (1) Birth, (2) growth, (3) maturity, (4)revival and (5) decline stages.

The use of qualitative measures according to Miller and Freisen (1984:12): ‘did place noticeable limitations on the research in terms of generalisability of the data. From the study of 36 firms, one of the noticeable findings was that each stage of growth was found to last an average of six years with the shortest being six months and the longest twenty years (where the organisation remained in one phase for the whole period of analysis).

2.3.2 Kazanjain and Drazin (1989) longitudinal study of venture capital firms in the United States

Kazanjain and Drazin (1989) attempted to empirically examine, using longitudinal data: “whether technology based new ventures (TBNV) in a growth environment shift according to a hypothesised stage of growth model”, or follow a more random pattern of change that would be associated with shifts in configurations and other influences similar to Quinn *et al* (1983: 115). The research in the form of two questionnaires completed 18 months apart were administered to 71 small firms. According to the authors: ”…this paper provides the first statistical test of whether firms actually advance through stages over time”.

Two main findings were made. Firstly, the nature of the firms studied was different in that TBNV’s relied on “technological differentiation to give the firms competitive advantage” and secondly, the prominence of “dominant problems” was identified. Dominant problems[3] were described as the culmination of a set of smaller issues and that also have to be dealt with sequentially to progress to the new growth stage. Kazanjain *et al* (1989) found that these problems presented organisational learning demands on the firm and that these problems required that:

> "organisational structures and processes be put in to place to respond to these demands. As one set of problems is resolved by introducing appropriate organisational forms, another set becomes dominant and requires yet additional organisational changes".

Firms that do not successfully resolve their problems are expected not to advance in stage and consequently not to grow as fast as organisations that are successful in resolving these problems. The research though found modest support that some TBNV's do tend, at least in one 18-month transition period, progress according to a predicted pattern. The study also found evidence of the existence of a set of issues that culminated in the emergence of a dominant problem although the specific factors making up this problem could not be uniformly isolated.

---

[3] Kazanjain et al (1983) point out though that dominant problems are not the same as Griener crises (1972). Dominant problems firstly, arise from issues encountered in the technological development, funding and manufacturing of the technology product rather than the social interactions. Secondly, dominant problems generally can be seen in advance by the owner-manager and do not "surprise" the organisation as in the Greiner (1972) model.

2.3.3 Hanks and Chandler (1993) longitudinal study of technology firms in the United States

Hanks and Chandler (1993) extended the work of Kazanjain *et al* (1989) by developing a taxonomic study of growth stage configurations in high technology organisations. The authors stated that:

> "an understanding of the organisational life cycle and the associated management imperatives could aid founders through the uncharted course of firms growth".

Hanks *et al* (1993) defined a life cycle stage: "as a unique configuration of variables related to organisation context and structure". Their research was focused on three questions, namely (1) what constitutes a life-cycle stage, (2) through how many stages do organisations grow; and (3) what were the characteristics of each stage? Hanks *et al* (1993) found that the central themes or dimensions that were used to differentiate between different growth stages were firstly, organisational context and secondly, organisational structure. More specifically, the authors found that the myriad of issues at any given time, called configurations were in fact the most predictive as a driver of a growth transition.

To create the taxonomy for the life-cycle stages, the authors applied clustering analysis by listing the responses from a questionnaire of 176 technology firms and identifying clusters by extracting "breaks" in the data. Six distinctive configurations were identified from the cluster analysis. Formalisation and specialisation were found to increase along the life-cycle while centralisation declined across the life cycle. As a quantitative study, Hanks et al (1993) found the following characteristics for each of the configurations:

Table 1: Mean characteristics of firms at various growth stages

Variable	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Firm type	Young small firms	Older, larger firms	Average firms	Broad range of firms	Older firms
Mean age	4 years	7.3 years	6.6 years	16.2 years	18.7 years
Annual sales	$271 000	$1,4 m	$3,7m	$46m	$72m
Employment numbers	6,4 persons	23,6 persons	62,7 persons	495 persons	7 persons
Sales growth	91%	297%	99%	37%	34%
Employment	29%	94%	28%	57%	8%
Mean org. levels	2.2	3	4	5,7	1,71
Formalisation index	38.92	45.8	52,8	53.2	29.71
Specialised functions	1.5	3,4	10,7	13	14
Core speciality	R&D (86%)	R&D and line functions	Total line functions	Total line function	R&D

Source: Hanks and Chandler (1993)

Hanks *et al* (1993) found that small businesses were generally around four years of age, had sales of $271 000, employed 6,5 persons and had sales revenue growth of 91%. The authors stated that: "the value of this research was the identification of critical milestones or bench marks to assist the founders and managers of emerging business ventures in guiding their organisations through the growth process".

2.4 Applicability of life cycle theory on Small and Medium Enterprises (SME's)

2.4.1 Changanti (1987) study of small business growth in Canada

The first application of life-cycle theory on small businesses was a study of competitive strategy by Changanti (1987). The author, by applying the theory of Porter (1985) wished to understand the most profitable small business growth strategies according to three life-cycle stages, namely (1) growth; (2) maturity, and (3) decline. Based on data from 1,217 Canadian small and medium enterprises (SME's) the following data was presented:

Table 2: Dominant strategies by firms at different points on the growth cycle

Industry life stage	Growth rates (Return on assets)	Dominant Strategies	Beta value
Growth	13,04%	• Manufacturing growth • Frequency that new producers were introduced • % sales in local markets • Process related patents passed	-0.17 -0.15 0.19 -0.20
Maturity	6,42%	• Price of product	-0.34
Decline	3,78%	• Selling and admin costs • Breadth of product line • Image of the firm	0.50 0.55 0.60

Source: As adapted from Chaganti (1987)

The table indicates that firms in the growth stage show a higher rate of return and have a group of four statistically significant strategies to drive this growth. The author found that different to large businesses that: “small firms operating under growth conditions seemed to profit from offering relatively standardised commodity type products in nearby markets and to produce them with readily available technologies”.

During the maturity stage however, small firm’s use of competitive pricing is the only strategy to drive profitability. Similarly in a declining market, profitability was much lower with the choice of three strategies to drive growth. The author does however concede that this research does not take a longitudinal view on what specific organisations do to possibly redefine its market and re-enter a growth segment and hence a new growth phase. Changanti (1987) concluded by arguing that to achieve higher rates of growth, small firms therefore require: “distinctly different strategies” than large firms maintaining “strategic flexibility”.

2.4.2 Dodge and Robbins (1992) study of small business growth

Dodge and Robbins (1992) research the applicability of the organisational life cycle theory to explain small business growth. The authors found that small businesses progress from a “starting point with a struggle for autonomy to the development of a viable enterprise" and in this process, many firms failed. Dodge *et al* (1992) stated:

> "Clearly greater knowledge of how small businesses evolve and the major obstacles faced in various life cycle stages is needed to fully understand their developmental process and the types of assistance necessary for their survival and growth (Dodge *et al* 1992: 27).

By analysing 364 small businesses in the central United States, the authors identified the dominant problems at each stage of the life-cycle. These problems or challenges (as used in the context of this study) were then clustered into three themes, namely marketing challenges, management issues and finance issues. The findings have been presented in the following table:

Table 3: Dominant issue areas at different stages of growth

Problem category	Stage of the organisational life-cycle									
	Formation		Early growth		Late growth		Stability		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Marketing	104	56	53	50	68	51	64	50	289	52
Management	42	23	31	29	39	29	45	36	157	28
Finance	40	21	21	21	26	20	18	14	105	20
Total	186	100	105	100	133	100	127	100	551	100
# of firms	126		66		84		88		364	

As adapted from Dodge and Robbins (1992: 31)

From the three focus areas in table 3, Dodge *et al* then discussed the specific issues under the headings of marketing, managing and finance. These have been presented in tables 4, 5 and 6 below:

Table 4: Marketing challenges

Problem category	**Stage of the organisational life-cycle**									
	Formation		Early growth		Late growth		Stability		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Customer contact	36	19	23	25	21	17	23	21	103	21
Market definition	45	24	16	18	17	14	14	13	92	18
Location	40	21	9	10	11	9	13	12	73	14
Market planning	21	11	4	4	11	9	13	12	49	10
Pricing	14	7	6	7	13	11	15	14	48	9
Expansion	1	1	9	10	18	15	12	11	40	8
Competition	12	6	8	9	4	3	5	5	29	6
Other	21	11	16	18	27	22	14	13	78	15
Total	190	100	91	100	122	100	109	100	512	100

As adapted from Dodge and Robbins (1992: 32)

The table indicates that customer contact was the dominant marketing problem. It was also an important issue at formation along with defining the market. Defining and understanding the market did decline over the organisational life cycle. Location also emerges as an important variable during formation primarily because owners had to decide how to situate the organisation as close to clients as possible but keeping costs as low as possible. The latter issues were found not be as important.

Table 5: Management challenges

Problem category	**Stage of the organisational life-cycle**									
	Formation		Early growth		Late growth		Stability		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Inventory and cost controls	10	18	13	36	20	41	15	25	58	29
Business planning	18	32	5	14	10	20	5	8	38	19
Organisational design and staff	8	14	6	17	9	18	19	31	42	21
Production and facilities	4	7	4	11	4	8	13	21	25	12
Business/ professional knowledge	16	29	8	22	6	12	9	15	39	19
Total	56	100	36	100	49	100	61	100	202	100

As adapted from Dodge and Robbins (1992: 33)

From the discussion of management problems, five specific issues were found. The dominant issue was cost control and inventory management (29%) for small firms especially when they experience increases in sales and market demand. The second most prevalent issue was in organisation design and personnel problems. This brings to the fore the owner managers competency around a specialist function such as organisational development as well as their personal commitment to growing the business. The third and fourth issues were a lack of business knowledge and business planning problems but as seen, this was more related to the start-up stages.

Table 6: Financial challenges

Problem category	**Stage of the organisational life-cycle**									
	Formation		Early growth		Late growth		Stability		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Financial planning	36	71	10	38	8	24	3	12	57	42
Accounting systems	13	25	7	27	12	36	11	44	43	32
Cash flow	2	4	9	35	13	39	11	44	35	26
Total	51	100	26	100	33	100	25	100	135	100

As adapted from Dodge and Robbins (1992: 33)

The most important issues were categorises into three broad categories: financial planning, accounting systems issues and management of cash flow. Starting an entity from scratch will naturally require a number of iterations about what system works best. The accounting systems metric tended to remain equally important through the four stages as does the issue of poor cash flow as we would expect.

The critical issues identified by Dodge *et al* (1992) include that the external environment appeared to have been most important in the early stages while internal issues became more prominent later in the life cycle. The authors though did note an increase in issues emerging from the external environment in the last stability stage of growth. They ascribed this to the fact that small businesses are quite imitative and therefore rely on methods already being used and therefore often are slow to external changes. The ability to plan in the areas of marketing, management and finance was found to be one of the most important skills across time periods. Two findings from this study are of great importance. Firstly, not all small businesses have the same problems but the core issues need to be identified. Secondly, Dodge and Robbins (1992) call for a: "new perspective for owner/ managers in that they must identify the need to develop operational capabilities that provide flexibility in responding to the turbulence of continual environmental change".

2.4.3 Deakins and Freel (1998) research of British Small businesses

Deakins and Freel (1998: 144) conducted research into the arrangement of resources that were most significant to small firm growth. The authors began by challenging that entrepreneurs are naive in planning and financial skills as suggested by Dodge and Robbins (1992). Deakins et al (1998: 145) also challenged the traditional life-cycle theories of Greiner (1972) and Churchill and Lewis (1983) which proposed that firms move through stages according to their age. O'Farrel and Hithchens in Deakins and Freel (1998) based this assertion on that:

> "Growth as a process is far from cyclical, but instead may consist of a series of disconnected jumps or spurts of growth".

From this position, the research approached entrepreneurship by applying both economic and psychology theory. The economic school recognised the nature of the entrepreneurial process but did not allow for the possibility of learning modifying the behaviour of the entrepreneur. Emphasis was placed: “on the effect of the environment, market opportunity and coordination of resources”. The psychological school focused on the personality traits of the individual entrepreneur. According to Deakins and Freel (1998:146): “while the environment and the entrepreneurship process may affect behaviour and the reaction of individual entrepreneurs, nevertheless, most writers in this approach would not allow for learning to alter behaviour in entrepreneurship, since inherent personality characteristics cannot be taught”. The author’s disagree with both assertions and presented three views that cut across both schools of thought from a learning perspective. Most relevant to this study is the proposition of dynamic and evolutionary theories of learning. This model assumes that: ”entrepreneurs starting a business are unsure about their managerial abilities and the consequent probabilities of success”. The authors suggest that:

> “Although entry may be made on an ambitious notion of expected post-entry profitability, entrepreneurs only become aware of their ability to manage in the given environment once their enterprise is established. Within the passage of time, they alter their behaviour as they learn to disentangle their inherent ability from random business fluctuations”.

By using case studies of four small and medium enterprises, the authors found a number of critical factors to entrepreneurial learning and success. Firstly, the ability to network and the ability to share business ideas was found to be critical to success. Secondly, the ability to assimilate experience and opportunity was linked to sustainable performance. Thirdly, the ability to reflect on past strategy and mistakes was noted. Deakins and freel (1998:147) viewed this though as a challenge to the reality of entrepreneurial activity because in reality there is little tolerance for entrepreneurs to either learn from personal mistakes or learn from business and decisional mistakes. The authors suggested therefore that countries that have a more tolerant entrepreneurial culture fare better in this perspective. Fourthly, the ability to access resources was critical to growth although often tasks such as securing additional capital are not repeated and the success only manifests at later time periods. Again, mistakes during these tasks were found to be the “death-knell” for most small businesses. Lastly, the authors found that the abilities of the managerial team to be essential as an indicator of success. The complementarities of skills and experience as well as the relationship between the partners were found to be critical to the growth prcess.

2.4.4 Lester and Parnell (2004) study of small business growth in the United States

The study by Lester and Parnell (2004) had two desired outcomes. The first was to present a life-cycle model descriptive of the life of a firm regardless of size, age and/or scope of operations. The second was to identify: “where small businesses fit within the overall model of growth”. The questionnaire was administered to 242 practicing managers in the South Eastern United States. From previous research, the authors applied a stage model consisting of the following stages: (1) existence, (2) survival, (3) success, (4) renewal and (5) decline.

In an attempt to articulate where small businesses fit into the theory, Lester and Parnell (2004) make a very interesting proposition in that:

> "it is our contention that small businesses never progress past the second (survival stage) of firm growth.

This contention was based on how they had defined the growth stages. The success phase (stage three) was defined as being characterised by large, formal organisations with wide markets, multiple owners and decentralised management. This implied that a degree of formalisation as discussed by Dewar (1987) was required including a number of levels of management to reach stage three. From the research, no support could be found that small firms could be linked to both the existence phase and the decline phase. Large firms were both linked to the success and renewal phase. The second proposition though: "whether the five stage life cycle model was appropriate for all types of organisations" was supported in that the results delineated organisations into each of the five stages. Small firms were linked to stages one, two and five and large firms to stages two, three and four.

An interesting contribution to the literature was that no size of firm was found to have a clear link to stage two (or the survival stage). The authors reconciled this by stating:

> "that firms either grow rapidly into the existence phase or decline rapidly to an establishment phase implying that the survival stage is deemed to be a transitory phase".

2.4.5 Story (1994) research of small firm growth in Britain

Story (1994) in a study of the growth paths of 900 small businesses in Britain regressed a range of variables against firm growth under the combined categories of: (1) the entrepreneur, (2) the small business, and (3) the small businesses strategy. All three categories were found to have explanatory value to explain why the small business had grown. According to Story (1994: 356), factors of significance under all three categories included: motivation, educational attainment, management experience; number of founders and functional skills. Unemployment as a reason for starting the small business was found to be negatively associated with firm growth. The remaining hypothesised factors including prior self employment, ethnicity, training, age, prior sector experience and gender was found to have no impact on growth and was found to be statistically insignificant. Story (1994) also found that business start-ups established by entrepreneurs with prior technical competence faced less challenges to apply entrepreneurial skills than those who had entrepreneurial skills but then attempted to attain technical competence in an area.

Story (1994) further found that the industry business climate was positively correlated, albeit weekly with the industry growth in the British economy. This was related to the fact that larger organisations tend to focus on the needs of the larger markets needs which left small areas of niche customers open to the small business. Lastly, Story (1994) measured those challenges that were actually growth barriers from both internal and external to the small businesses. The author conclude that: “there was no general market failure that motivates a major role for government in improving the financing of small firms”. In Story (1994), Carlson found that actual inhibitors included: regulation of some parts of the economy, taxation, wage setting institutions and labour market legislation. entrepreneurial climate

2.4.6 Cope (2003) research on small business growth in the United States

Cope (2003) conducted qualitative research based on comprehensive case studies of six practicing small businesses in Britain. The research was aimed at: “exploring the potential dynamics of the relationship between organisational growth and personal learning and development during the management of a small business”. More specifically Cope (2003: 6) wanted to: “understand the role that critical incidents within the dual developmental processes and to explore the individual learning outcomes of such events from the owner-mangers perspective". Critical incident methodology was chosen as: "(the incidents) remained clearly in the memory of the respondent" and "they allow the researcher to focus on the developmental learnings from the events". The author found that:

> "More research should be devoted to understanding the managers values, attitudes, perceptions, motivations, goals and objectives…in terms of evolution, research should explore how the managers role style and practices change as his/her business grows.

Using in-depth, unstructured "phenomenological interviewing", Cope (2003) used triangulation to focus in on critical incidents within the growth of small businesses. The analysis of experiences illustrated that critical incidents had very similar yet distinct roles in stimulating both personal and organisational development within the wider critical episodes of metamorphic change".

Cope (2003) found three types of critical events, namely: (1) the eruption, (2) the catalyst, and the (3) watershed. Eruptions were events that were found to represent: "the culmination of important unresolved issues". This was displayed by unresolved conflict which built up over a period of time. One respondent referred to the event as: "the last straw". From a research perspective, Cope indicated that the difficulty would be in identifying the issues and piecing them together". A watershed critical event also was found to represent a climax of an underlying event but in this context would have a positive outcome acting as an: ”emotional release mechanism”. An example was provided were a manager of a small business finally convinced the business owner that they had to take less of a role in operational issues. The critical event as a catalyst referred to events that were “turning points” in the business. An example was presented of an entrepreneur that won a number of contracts but subcontracted the work to consultants who reaped great rewards. Only when the owner realised that he was making a loss and there was a challenge to his business model, were the appropriate changes made.

Cope (2003:16) also researched the link between criticality and emotions challenging growth theories that were based on the “economic rational decision-making” theory of the small business owner. Cope found that: “Just as the financial wellbeing of the owner-manager and his/her family is often inextricably linked to the performance of the business, so too is the emotional and social well-being of these individuals”. Cope emphasised though that critical experiences were not akin to the “growth disruptions” as presented by Greiner (1972). Greiner identified only five periods that growth disruptions occurred. Cope found that (1999: 18): “critical incidents not only happen more frequently but also happen during stages of growth and towards the end of growth stages. Cope therefore supports Kazanjain’s (1999) assertion that dominant problems tend to overlap growth stages. Cope (1994:21) therefore found that such an approach was a way of mitigating the critics of life cycle models specifically the prescriptive nature of the modelling which obscured the real business issues. The author emphasised the importance that understanding the emotional elements of small business development had on how managers approached critical incidents and how it affected learning and personal development.

2.4.7 Hill, Nancarrow and Wright (2002) study into crisis points in SME's in Great Britain

The focus of this research was to investigate how SME owner/ managers as entrepreneurs negotiate the hurdles in their decisions at crisis points in their life cycles to achieve their firm's growth and development.

Based on eight small businesses in Britain and Ireland, the authors concluded: "that all the sampled firms spent a significant amount of time, energy and money trying to overcome obstacles to the growth and development of their businesses". Initial marketing and location were found to support growth but funding for new equipment, staffing levels and securing premises caused major problems during the start-up phase. The following table illustrates the findings:

Table 7: The chronology of crises and their types

	1	2	3	4	5	6	7	8	
Year founded	1994	1993	1991	1996	1996	1980	1940	1996	
Crisis 1	1997	1999	1995	1999	1999	1997	1990	1999	
Crisis 2	2000	n/a	1999	2000	n/a	1999	1999	n/a	
Types of crises									Total
1. Location	√	√	√	√		√	√	√	7
2.Changing customer needs	√	√		√	√	√	√		6
3.Lack of finance	√	√					√	√	4
4. Rapid early growth	√	√	√			√			4
5.Weak general management skills	√				√	√	√		4
6.Declinng sales		√	√	√		√	√	√	6
7. Competition						√			1
8. Service			√	√			√		3
9. Price		√						√	2
10. Changing market environment						√	√	√	3

Hill, Nancarrow and Wright (2002: 361)

2.5 Research on small business growth in South Africa

2.5.1 Rogerson (2001) study of manufacturing SME's in South Africa

Rogerson (2001:1) conducted a study into the growth experiences of 132 manufacturing small businesses in the Gauteng province of South Africa. The researcher applied the official definitions of a small and medium enterprise as defined in the White paper on small business (RSA 1995) whereby an "established SMME" was owned and managed by white entrepreneurs and "emerging SMME's" referred to as small enterprises that were owned and managed by black entrepreneurs.

One of the underpinnings to the research according to Rogerson (2001) was the challenges for small enterprises to graduate from “seed bed to an established small enterprise”. The author also made reference to the educational attainment of the manager, reaction to market forces, firm location and the effect of industrial clustering as being relevant to small firm development. The World Bank research by Levy in Rogerson (2001) specifically found that the liberalised private market place would not necessarily ensure industrial development and advocated: (1) sponsoring courses on specialised small business topics, (2) facilitating the use of expert consultants and (3) promoting networking and information sharing between firms. Rogerson (2001: 273) also discussed the challenges around information about government support schemes and the marketing of such schemes to potential vendors.

An important discussion point was that the SMME economy, according to Rogerson (2001:273) was: “far from homogeneous and that only a small segment of growth enterprises had the potential and aspiration to contribute to goals of employment growth”. From the survey of 102 established small business and 30 emerging businesses the following findings relevant to this study were found.

Table 8: Average age of small businesses in Gauteng

No. of years	Established firms	Emerging firms	Total
Less than 5	2	13	15
6 – 10	9	8	17
11 – 20	21	6	27
21 – 40	50	3	53
Older than 40	19	0	19

Source: Rogerson (2001: 277)

From table 8 it can be seen that the manufacturing small enterprises especially in the established market were established between 11 and 40 years before (90%) whereas for the emergent group 21% were less than 10 years old. This was ascribed to many of the firms being family businesses with little motivation for them to grow beyond a certain threshold and the constraints of growth before additional capital investment is required for further expansion.

Table 9: Table: Trends in employment by SMME's

No. of years	Increase	Decrease	No change	Increase	Decrease	No change
	1994-1998			1998-2000		
Established firms	33	33	23	18	40	38
Emerging firms	13	3	6	14	3	2
Total	46	36	29	32	43	40

Source: Rogerson (2001: 277)

As stated previously, Rogerson found very little evidence that job creation was important to small business owners. The large proportion of firms that indicated that would not increase staff over the periods (no change) according to Robertson showed the inelastic demand for labour from small business owners because of variable market conditions, the inability to lay off workers in the face of declining markets and the challenges of finding the correct people to do the job.

Table 10: Sales performance of SMME's

No. of years	Increase	Decrease	No change	Increase	Decrease	No change
	1994-1998			1998-2000		
Established firms	66	18	16	59	4	19
Emerging firms	13	4	2	14	1	0
Total	79	22	18	63	5	19

Source: Rogerson (2001: 279)

Rogerson found that over the decade, that revenue growth from increased sales had increased steadily and that small businesses had generally flourished under the positive market conditions. From these findings, the study was extended to identify the significant needs or problems for SMME's (shown in table 11) and the expressed topics of assistance of SMME's in Gauteng:

Table 11: Significant needs or problems of SMME's

Main needs identified	Established	Emerging	Total
1. Market development, exporting	60	18	78
2. Access to finance	39	25	64
3. Supervisory skills, management, team building	53	2	55
4. Technical skills (quality and maintenance)	32	2	34
5. Supply chain issues	20	8	28

Source: Rogerson (2001: 279)

Table 12: Significant needs or problems of SMME's

Main needs identified	Established	Emerging	Total
1. Marketing, niche marketing, market planning	69	23	92
2. Exporting and international business development	68	9	77
3. Internet skills for manufacturers	49	22	71
4. HR development, team building and supervisory development	60	10	70
5. Finance and management	26	22	48

Source: Rogerson (2001: 279)

From the needs and requests for support, it would appear that the requirements of the manufacturers were in market development and marketing support including through the internet. It is clear that staff development and access to fianance also emerged as common themes from the research. Rogerson (2001:287) attributed many of the findings to the state of manufacturing in South Africa and the challenges of globalisation and becoming more competitive in the face of increasing competition. Support programmes assisting small manufacturers: "to achieve a degree of production flexibility that derives from access to best practice technology, management expertise and the ability to meet the needs of new markets will have the most impact" the research found. Rogerson (2001: 288) summarised by identifying the three critical areas for success namely: "an aligned organisational structure, the adaptiviness and strategic learning of enterprises and above all, the capabilities and aspirations of the entrepreneur.

2.5.2 The Global Entrepreneurship Monitor (GEM) South African report (2006)

The University of Cape Town's center for innovation and entrepreneurship conducted the Global Entrepreneurship Monitors' (GEM) annual review for the sixth time since 2001. The 2006 report based on responses from 3 156 respondents had findings pertinent to this research. In GEMS (2006) Fin week presented that the average staff complement of companies (including closed corporations) had fallen from 35 persons in 1985 to 13 persons in 2006.

The research differentiated between three types of entrepreneurial businesses. Businesses which had only been established between 0 and 3 months were seen as start-ups: "during which (one or more) individuals identify the products or services that the business will trade in, access resources (such as finance) and procure various infrastructure”. The second phase is between 3 and 42 months: “when this new business begins to trade and compete with other firms in the market place and paid salaries for longer than 3 months. It is then referred to as a new firm. Lastly, once a firm has operated longer than 42 months it is refereed to as an existing firm.

In the research, a list of entrepreneurial areas were presented (GEMS 2006), the areas that were least understood were: Government programmes, technology transfer and entrepreneurial capacity. The report found this worrying in that: “these critical factors are critical for growth in South African small businesses”. On a global level according to the customised Total early stage Entrepreneurial Activity index (TEA), South Africa ranked 30th out of 40 contributing countries and ranked 10th out of the developing country index. Under market orientation, the following table was presented:

Table 13: The market expansion mode of South African small businesses

Level of market expansion	Frequency	Valid %
No market expansion planned	71	50.1
Some market expansion (no new technologies)	49	34.3
Some market expansion (no new technologies)	19	13.3
Large market expansion	3	2.3
Total	142	100

Source: GEMS 2006

The authors commented that: “despite 2005/ 6 being a strong year for market demand, over half of small businesses had no intention of growth”. Another interesting find was the relationship between age and possible product/ market expansion.

Table 14: Age groups associated with possible product/ market expansion

Age group	% indication
18-24 years	20.7
25-34 years	20.7
35-44 years	27.6
45-54 years	13.8
55-64 years	17.2

Source: GEMS 2006

The age group 35-44 years accounted for almost 30 percent of expansion responses indicating the importance of experience and the confidence to act. To support this, employment growth orientation was also presented:

Table 15: Small businesses indication of job creation

Mindset to grow employment	2004	2005	2006
Yes	4.6%	4.3%	4.8%
No	95.4%	95.7%	95.2%

Source: GEMS 2006

Table 16: Categories of expected number of jobs

	2004	2005	2006
1-5 jobs	65.5%	81.7%	78.6%
6-19 jobs	24.5%	15.4%	15.5%
20+ jobs	10%	2.9%	5.9%

Source: GEMS 2006

This would have important implications for government programmes that have placed a lot of faith in small businesses to help reduce the official rate of unemployment for 25.6% (Statistics South Africa 2006).

2.5.3 The Annual SME Survey 2007: Research into South African small and medium enterprises

The annual SME survey has been conducted since 2002 of small and medium enterprises which according to the research methodology have between one and two-hundred staff. The questionnaire was developed around five key areas namely understanding the resource blueprint, the effect of Black Economic Empowerment (BEE), the SME environment, the role of Government of SME's and lastly, the effect of financial services on SME's. Some of the notable findings relevant to this study will be discussed:

Of the issues that were found "that keep small business owners up at night" included: crime (27%), ensuring sustainable cash flow (20%); Debtors management (13%, Competition (12%) interest rates (11%), power failures (11%) and staff issues and labour legislation (10%). In terms of were skills were developed for SME owners, 78% were from work experience, 71% from tertiary education, 65% from training courses and 54% from prior business experience. In terms of size (were staff was the proxy for size), 19% of the 5 000 sample SME's had between 2 and 5 staff, 18% between 6 and 10 staff and 18% between 11 and 20 staff. Of the sample, 25% of the small businesses counted government as there most important client. From a support perspective only 6% had used some form of government support programme. One of the most interesting aspects of the study was were these firms got business support from, the sample was divided into 2 groups, those that were highly competitive and those that were not. In total business support was sourced from the: Bank manager (59%), the lawyer (54%), an external consultant (34%), an accountant (13%) or a mentor (10%). Of the highly competitive businesses though, the external mentor was used by 85% of the businesses. This was found to also be a major driver of growth in Davidsson, Achtenhagen and Naldi (2005). Another important finding was that when ranked in terms of effectiveness, the support by Government support programmes were negatively correlated with small firm growth. This can be explained by the onerous reporting that has to be conducted when engaged with receiving funding.

2.6 Themes emerging from the literature review and critical success factors identified affecting small business growth

2.6.1 Overview of small firm growth theory and critical success areas

From the extensive literature review, the studies of small firm growth can be divided into four different categories. The first were those that assessed the determinants that foster or hider organisational growth. These studies focus on both the internal and external factors that promote or constrain growth. This included the resource-based view on the firm. The second category of research was those studies that addressed how to manage for growth. These studies focused on the managing of the determinants that foster or hinder organisational growth to further firm growth. Similar to the first category these studies also address external and internal factors such as how to manage resources and which policies facilitate the growth of firms. Here reference was made to the strategic adaptations view of firm growth. The third category of research focused on assessing the effects of growth. These were generally conducted quantitatively too, for example, understand how increasing numbers of employees or sales impact on profitability, or qualitatively, in for example, the delegation crisis for an owner-manager. The quantitative examples of life cycle theories were discussed under this category. These studies measured the effects of growth and usually on the effects of the determinants. These studies ignore the management of the growth. The final categories of studies were focused on managing the effects of the growth. These studies looked at methods such as restructuring the organisation, implementing new practices and leading to displayed patterns of growths (according to stages or transition models.

This review emphasised the importance of taking a multi-disciplinary approach to understanding organisational growth. The critical success factors all require a firm understanding from the diverse fields of economics, organisational behaviour and psychology. The review also emphasised the need to take both a micro and macro view on organisational growth and then combine these perspectives to understand how the configuration of these factors combine to inform decision making, risk taking and other strategic decisions on the journey of small business growth. The following is a list of critical success areas from the literature review that will be unpacked in terms of their relative importance through the quantitative and qualitative study to identify the critical success factors:

2.6.1.1 Motivations of the owner manager

From the strategic adaptations, motivation and life cycle views on firm growth, the reason for starting the small firm, orientations towards growth and risk taking behaviour are all areas that would determine the growth of the small business Kazanjain and Drazin (1989), Deakin and Freel (1998), McMahon (1998), Cope (1999), Rogerson (2001) and GEMS (2006). The GEMS (2005 and 2006) study specifically found that opportunist entrepreneurs were far more likely to succeed than survivalist type small business owners that were not totally reliant on the small business for their income. In addition, Deakin and Freel (1999) discussed in detail the link between small business success and personal achievement likening the success of the firm to the success of the owner/ managers future financial sustainability. Lastly, the research by Cope (1999) indicated that out of the three clusters that influence a small businesses growth, that marketing challenges rather than management and financial challenges generally are more important success factors in the growth of small businesses.

2.6.1.2 State of the industry

As with motivations of the owner, the state of the industry/ economic environment was identified by all the theoretical views on firm growth as a critical element of growth. Specific emphasis was presented in the motivations theory where the probability of business success was linked to the owner-managers perception of the external environment (Hakkert, Kemp and Zoetermeer 2006). Changanti (1987) found specifically that in industries that were experiencing high growth that small businesses needed “great strategic flexibility” and “distinctly different strategies” to be responsive to firstly, the opportunities and secondly, the outcomes on the organisation as a result of growth. Story (1994) found that the industry climate and whether adjacent industries were also expanding to be an important growth factor. Rogerson (2001) in his research of manufacturing small businesses in Gauteng discussed how in this specific industry, macroeconomic factors were generally easier to deal with than internal issues as there "…was less emotion attached to external issues" and therefore "…the solutions were less complex to identify and implement."

2.6.1.3 Experience and the educational attainment of the small business owner

From specifically the resource-based view, life cycle view and the quantitative studies (Changanti 1989, Dodge and Robbins 1999, Cope 1999, Deakins and Freel 1986 and GEMS 2006), the level of educational achievement, business acumen, experience at managing small businesses and personal network were all identified as critical success areas for the growth of small businesses. Generally, it was found though that experience from managing and owning other small businesses was the best "training" for successfully managing a present small business. A challenge as presented by Lester and Parnell (1994) is that the environment is extremely unforgiving on failed business owners and this then affects the ability to raise finance and continue leveraging networks in the future similar to the findings in the GEMS study (2006) and the SME survey (2007).

2.6.1.4 The importance of strategic clarity and a systems thinking approach to challenges to growth

From all the research, a unifying theme for small business owners is the ability to understand the business as a system and therefore unravel the manifested issues (Adizes 1981), disruptions (Greiner 1972), crises (Cope (1999) and hurdles (Hill et al 2002) to identify the root causes of issues. From Penrose (1959), Greiner (1972) to Kazanjain et al (1986), it is essential that the owner/ manager have the understanding of how best to configure the small business internally in terms of systems and infrastructure to be able to be responsive to the market needs and deliver value to the clients. Important also is the use of professional assistance or a mentor. This was shown in the SME survey (2007) where the use of an external consultant or small business mentor was a key critical success factor in differentiating between successful small businesses and highly competitive small businesses.

2.7 Conclusion

To conclude, a review of the main research findings of life cycle theories shall be presented. Firstly, organisations have been found to move through between four and ten growth stages or phases. Each stage can be determined according to differences in sales growth, staff growth, total sales, age of the operation, and growth of the industry, level of complexity, levels in the organisation and area of specialisation. Secondly, rather than a single issue causing the disruption or crisis, it is a number of issues which configured in a certain manner cause complexity presenting a paradoxical dilemma for the owner manager. Thirdly, the successful management techniques applied in one phase are generally found to be inappropriate if repeated in a later stage or phase and invariably would contribute too, rather than solve to growth issue or crisis. Lastly, failure to overcome the growth disruption will cause the organisation to become confined to a lower stage of growth and eventually begin declining as management are found to be ineffective to take the organisation to a new growth trajectory.

CHAPTER 3: RESEARCH PROPOSITIONS

3.1 Introduction

From the literature review in chapter two, a number of critical success factors were identified. These factors informed the development of four research questions to identify critical success factors from the sample. The research questions were structured in line with the warning proposed in GEMS (2006) to assist in the identification of both: "individual critical success factors as well as the interrelationships", to truly understand the process of small business growth.

3.2 Research questions and hypotheses

From a thorough review of the literature it emerged how important small business growth is to the economic growth and prosperity of a nation. This is specifically true in the area of job creation and raising income per capita which is specifically important to South Africa. The outcome of this research is too:

> Develop a small business development model which identifies the key success factors in successfully growing a small business from a start-up venture to an established business to provide a model to assist the

owner/ manager to successfully navigate the firm through the growth challenges faced by small businesses.

To this end, a number of research questions were developed as presented in the consistency matrix in appendix A.

3.2.1 Presentation of research questions

The following questions have been developed:

Question 1: What are the common attributes of small businesses in Gauteng that have experienced challenges to their growth?

Question 2: What are the common critical success factors that were employed by small businesses in Gauteng that have experienced growth challenges that have contributed to these firms successfully navigating the challenges to growth and what were their effectiveness.

Question 3: Were there any common critical success factors that have been employed by small businesses in Gauteng that have NOT experienced growth challenges, that have contributed to these firms successfully navigate the challenges of growth

Question 4: Are there common critical success factors that have been employed by small businesses in Gauteng that have NOT experienced growth challenges to those that HAVE experienced growth challenges?

3.3 Conclusion

From these research hypotheses, the researcher focused on developing a survey that would show a higher level of validity by structuring questions that would provide a clear relationship between the literature review, the research question and the question that is ultimately included in the survey.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 The Research target population

The target population for this research includes all small businesses in Gauteng, one of the smallest but most powerful in terms of contribution to Gross Domestic Product (GDP) in South Africa. From the study by Statistics South Africa (2006 there are 720,000 registered small businesses in South Africa and approximately 125,000 in Gauteng. One of the challenges in South Africa is the existence of a dual economy and the limitations of accurate statistics on the number of small and medium enterprises both nationally and per province and the differences of classifications according to annual sales revenue, registration for tax, staff compliments and registration compliance. The population therefore includes all the industries represented in Gauteng. The region would be subdivided into sub-regions according to geographical description namely Pretoria/ Tshwane, the northern suburbs (incorporating the southern suburbs), Midrand, the East rand and West rand. The population is extremely diverse in terms of distribution, size, technological advancement and business objectives.

This research was conducted on the data base of one of the largest small business service agencies in South Africa, Business Partners. The database captured all small businesses that had approached Business Partners for a range of services including business opportunities, consulting advice, seminars, access to finance and networking forums. From the database of 9400 organisations based in Gauteng, surveys were sent to all the e-mail addresses. Of this amount, 312 could not be delivered for various reasons. The total survey surveyed population was therefore 9,088. This database is professionally maintained and regularly updated. The institution also randomly allowed small businesses to register and interact with Business Partners. It is on this basis that the author believes that the population from the data base of business partners approximates the provincial population.

4.2 Unit of Analysis

The unit of analysis will be the small business owner/ manager and his/ her memory, perceptions and recollections of events that affected, both positively and negatively, the firm which they either established or managed. The research will be a cross-sectional study of the experiences of small business owners. The second unit of analysis is the effect that growth, measured as the increase of sales revenue over time has had on the small businesses.

4.3 Sampling Method

From the Business Partners database, a sampling frame of 1,800 possible respondents was identified. The survey as presented in Appendix C was in the form of self administered questionnaires which according to Zigmund (2005: 375) is an appropriate tool when requiring a respondent to reflect on an experience. The primary sampling unit is therefore the small business owner/ manager representative (either owner/managers). The appropriate sample size was calculated from the following formula:

$$n = \left(\frac{Z\ S}{E}\right)^2$$

Where:	n =	sample size
	Z =	Standardised value corresponding to a level of confidence
	S =	Sample standard deviation
	E =	Acceptable level of error

Therefore $n = ((1.96*50\ 000)/8\ 500)^2$

$n = 132$

Given that the entrance to be registered on this database has no obligations and that the database is maintained by a professional it is fair to approximate that the database sufficiently represents the population of small business owners in Gauteng. It can therefore be approximated that all responses follow a random distribution and therefore will allow probability sampling whereby every member of the population would have had an equal probability of being sampled. From the consistency matrix presented in appendix B, the survey was compiles to allow answers to the four hypotheses by means of structured and open-ended questions), self administered questionnaires.

The decision was then made to conduct qualitative interviews with eight of the sampled small businesses to follow a methodology similar to Cope (1999) to understand how critical incidents were interpreted and then acted upon. From the sampled population, a list of twenty random small business were chosen and a request for a meeting was made until eight small business in Gauteng agreed. The list and details of small businesses have been presented in appendix D. The set of in-depth questions have been presented in appendix E.

4.4 Sample Exclusions

Although complete care was taken to ensure an equal probability that all members of the database could be sampled, there were some instances that some members were excluded from the sample. From the Business Partners database, approximately 27 small businesses did not have an electronic mail address and were therefore excluded from the sample. Another exclusion from the sample was fifteen incorrect submissions that either had parts of the questionnaire not completed or that had omitted critical descriptive data on the survey. From a review of the respondents, their location and markets served it could be found that rural small businesses could have been as respondents were mainly situated in urban or peri-urban areas.

4.5 Data Collection

The refined questionnaires were sent electronically to the members of the

Business Partners database. By using the Microsoft Outlook Meeting request function, a reminder was sent to inform all members of the final date of submission. The survey questionnaire and cover letter have been presented in appendix C. Respondents were be able to return the questionnaire via the electronic mail, through facsimile or return it to the offices of Business Partners. Of the 1,800 surveys sent to members, 146 were returned of which 131 were fully completed and could form the basis of analysis (7.27%). This is below the desired benchmark of a 10% response rate. As presented in Kazanjain and Drazin (2001), that using third party databases is often poor to deliver a satisfactory response because professional organisations often sell their databases to advertising companies and there is limited loyalty from the small businesses to the small business development agency.

4.6 Pilot Study

The questionnaire was developed after the thorough review of the literature and development of the research propositions (see the consistency matrix in appendix A). The questionnaires were distributed to ten small business owners randomly selected in Gauteng where they were asked to complete the questionnaire and then asked to comment on the ease of completion, clarity of questions and whether any jargon had been used that could not be understood. This resulted in minor changes being made to the survey questionnaire. The recommendations were incorporated to ensure the validity of the questionnaire. The amended questionnaire was presented back to the panel to ensure that all comments were captured.

4.7 Assumptions

Research requires that the context be established and that any views that the researcher may have held when conducting the research be presented to inform later studies. Assumptions were made in the following areas: around the owner manager, around clarity of memory and around the understanding of the first challenge to business growth being identifiable.

For most of the surveys, the owner manager would be the respondent. A challenge as presented by Zikmund (2006) could be that respondents may not be comfortable reporting on negative occurrences some of which may have been their own doing. A second assumption relates to the memory of specific events by respondents. In Cope (2001), the author questions the use of retroactive-looking research but applies the concept of criticality to justify these instruments. Cope (2001) found that recall of past events, especially critical moments remained relatively clear in the memories of respondents. These dominant events although negative could be relatively clearly recounted and thus the survey could be deemed appropriate.

The final assumption is that all passive guidance would help guide yet not force the small business owner to understand what is meant by the "first challenge to the actual "first challenge to business growth". From the cover letter which accompanied the survey questionnaire to the way questions were presented, the researchers are confident that respondents were recounting and recording the correct developmental event.

4.8 Data Analysis

The survey responses were captured by trained data capturers. The data was captured on a Microsoft Excel spreadsheet in the form of a data matrix. From the data, certain fields such as age of the owner manager, gender, industry and region which are categorical data were codified (i.e. allocated a score of 1,2,3 or 4) The rest of the responses were continuous data and were recorded. This data sheet was then exported to the Statistical Programme for Social Sciences (SPSS) version 15 for further testing and statistical analysis.

4.9 Validity and Reliability

The validity of this research requires that the questionnaire measures exactly what it is attempting to measure. By conducting the pre-testing and mock testing to eliminate any ambiguities the researcher is confident that the validity of the research has been proven. The reliability of the findings in that they can be replicated to present the population can only be assured that all possible biases have been excluded. The use of qualitative interviews to test findings gleaned from the data base contributed to the reliability of the research.

CHAPTER 5: PRESENTATION OF RESULTS

5.1 Description of the sample

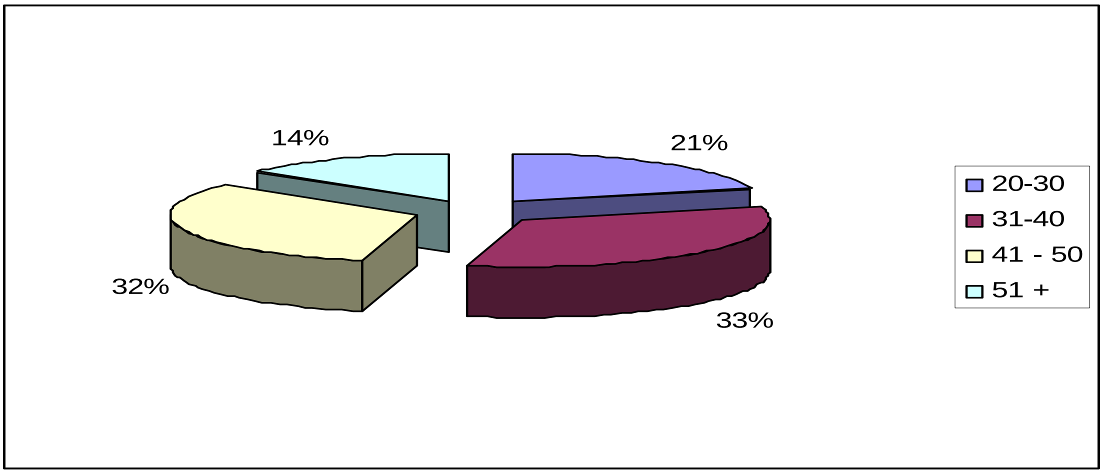
Of the 1,800 surveys sent to members, 146 were returned of which 131 (n=131) were fully completed and could form the basis of analysis (7.27%). his response was similar to the various studies that were conducted in the literature review. From the data, the following descriptive statistics of the sample can be presented:

5.2 Summary of the descriptive data of the respondents

5.2.1 Age of the sampled respondents

The pie chart presented in diagram 6 displays the various age group categories of the respondents.

Figure 4: Categories of the ages of respondents

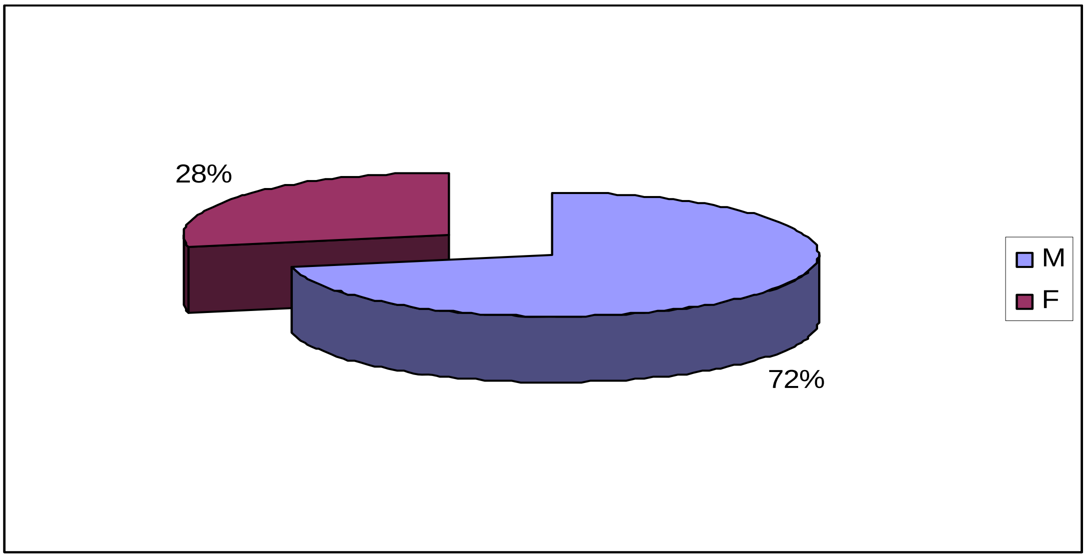


From the sample, the largest group was found to be between the ages of 31 and 40 years old making accounting for 33% of the sample, followed by the age group 41-50, accounting for 32% of the sample and then the 20-30 year olds (21%) and the 51 and older group making up 14%.

5.2.2 Gender of the respondents

The sample showed that almost 75% of respondent's were male and the remainder were female as presented in figure 7. The remainder namely 28% represented the number of woman in the sample.

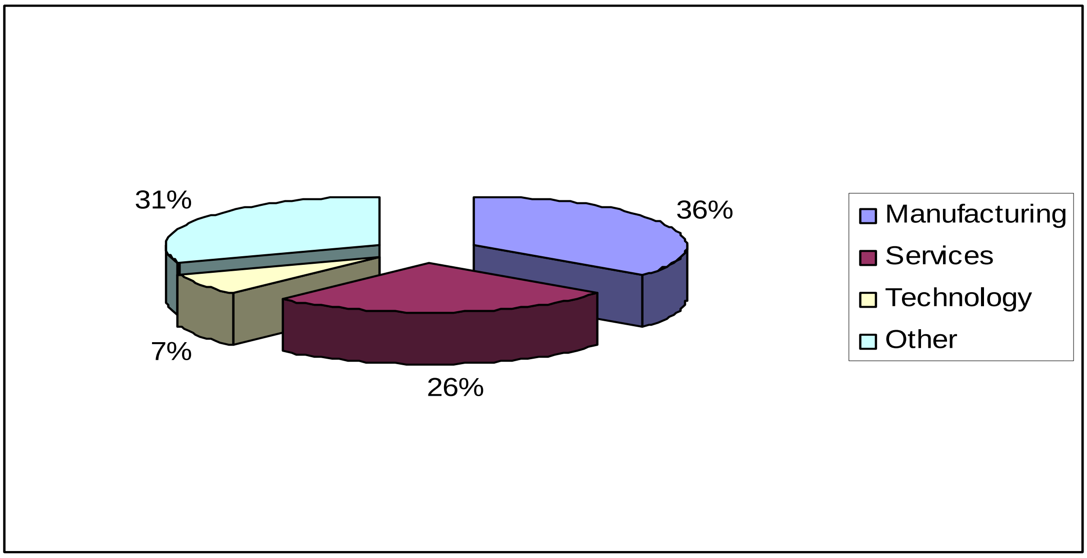
Figure 5:Gender of the respondents



5.2.3 Industry representation of the respondents

Figure 8 presented the sectors that were represented in the sample.

Figure 6: Entrepreneurs per industry

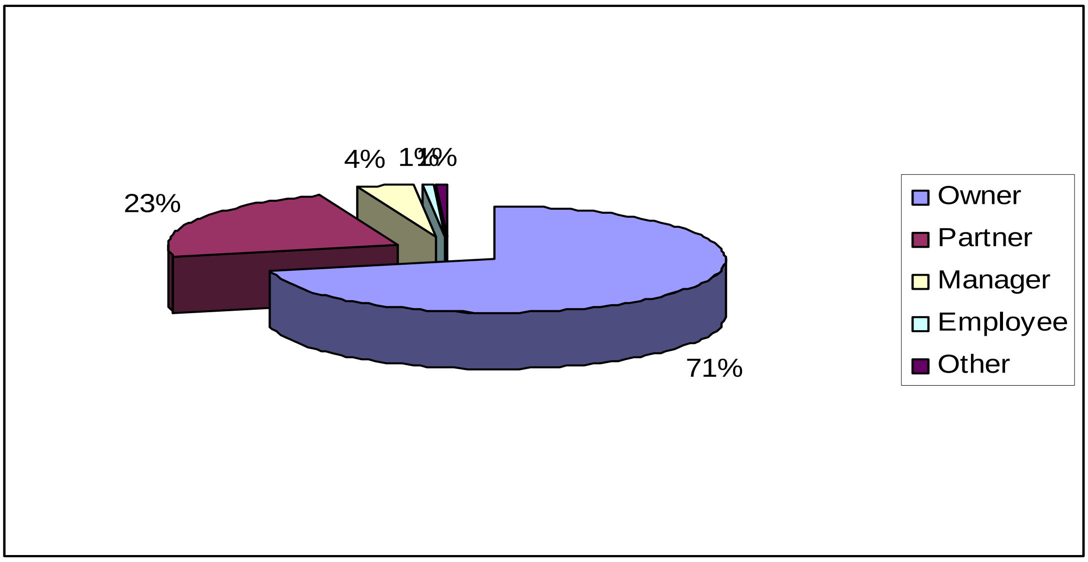


Out of the sample, 36% of the small businesses were in the manufacturing sector, 31% in other industries, 26% in services and 7% in technology ventures.

5.2.4 Position of the respondents within the small businesses represented

Figure 9 presents the position that the respondent holds within the respective small businesses.

Figure 7: Position of the respondents within the small businesses represented

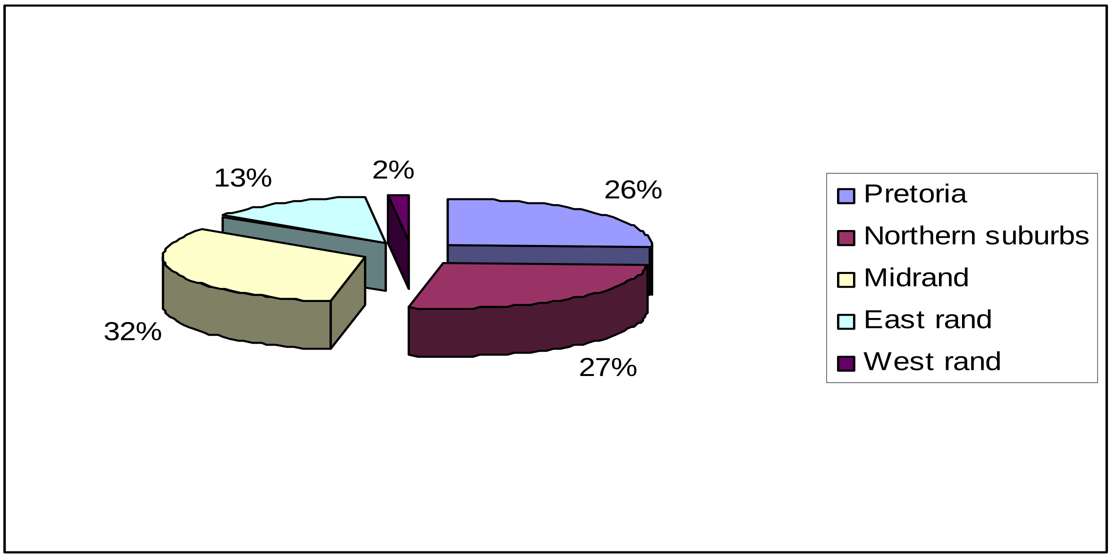


From figure 9, 71% of the respondents were owners, 23% were members of a partnership, 4% were the managers, 1% were employees and 0.8% had other designations.

5.2.5 Geographical representation in Gauteng of the respondents

Figure 8 illustrates the regions where the small businesses are located.

Figure 8: Geographical representation in Gauteng of the respondents

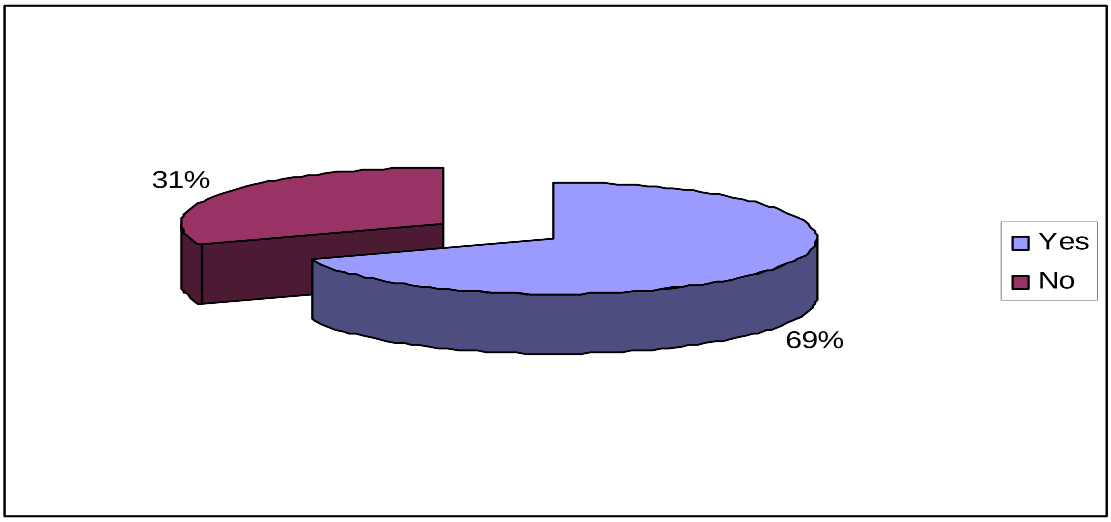


The distribution of small businesses in the sample were 32% from Midrand and surrounding areas, 27% from the northern suburbs of Johannesburg, 26% from Pretoria/ Tshwane and surrounding suburbs, 13% from the East rand and 2% from the west rand.

5.2.6 Percentage of respondents that identified small businesses had experienced challenges to their growth

The survey then required respondents to indicate whether they had experienced challenges to the growth of their small businesses. These were represented in figure 9.

Figure 9: Percentage of firms that had experienced growth challenges



Of the sample, 69% of respondents answered that they had experienced challenges to the growth of their small businesses since establishment. 31% however answered no, that they had not experienced growth challenges.

5.3 Findings of the small business that had experienced growth challenges

5.3.1 Description of the small businesses that had experienced challenges to their growth

Of the sample, 69% of respondents indicated that they had experienced challenges to their growth (n = 81). This section will present the characteristics of this group of small businesses. The ages of these small businesses have been presented in table 17.

Table 17: Age of the small businesses experiencing a growth disruption

		Growth challenge				Total
		Yes		No		
Business age at present	**Older than 10 years**	7	9%	1	3%	8
	Five to ten years	25	30%	10	26%	35
	Three to five years	30	36%	21	55%	51
	One to three years	21	25%	6	16%	27
Total		83	100	38	100	121

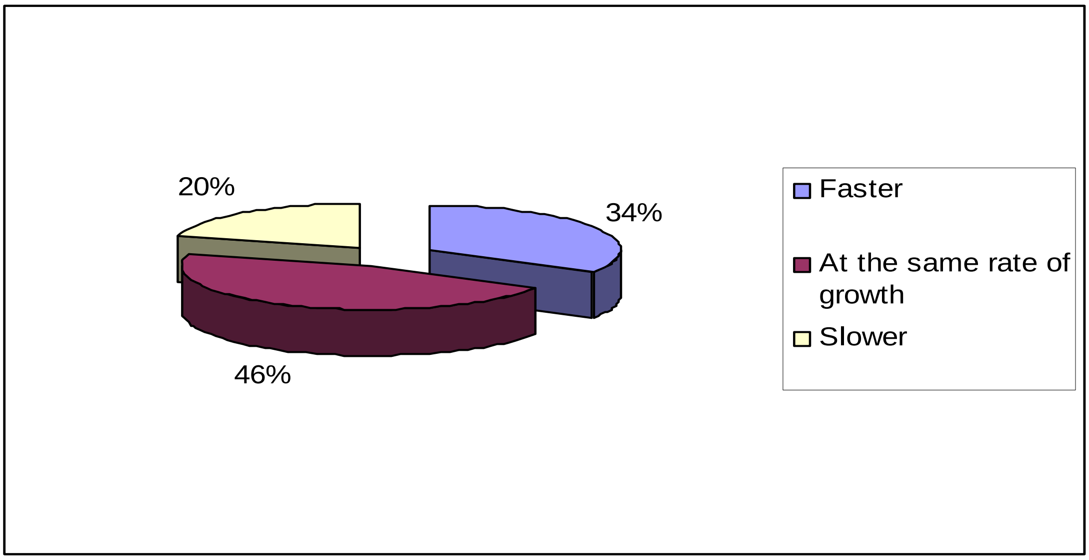
From table 17, 36%% of the "Yes" small businesses were between three and fives old, compared to the 55% of the "No" forms. These represented the largest two groups. The five descriptive fields for the small businesses were sorted to only include the results of small businesses that had experienced growth challenges. These have been presented in table 18.

Table 18: Mean and standard deviation measures of small business

	Mean	Std Dev
Staff members at challenges (number)	36.9	22.9
% increase in staff	7.9%	4.3
Sales revenue (in million rands)	R13.4	10.1
% increase in sales	45.8%	6.5
% increase in net profit	16.1%	6.4

The mean of number of staff employed by small businesses that had experienced challenges to their growth was 39.6. These small businesses report that the increase in staff was 7.9%. At the time of the disruption, the revenue from sales was R13.4 million with sales revenue growing at 45.8%. Net profit after taxes was growing at 16.1%.

Figure 10: Position in relation to peer group growth



The small businesses were asked about there perception of whether they felt they were growing at the same rate as their competitors in the industry, faster or slower. 46% of respondents felt they were growing at the same rate as the industry, 34% felt they were growing faster and 20% felt they were growing slower.

5.3.2 Findings of methods used by firms that had experienced challenges to their growth

The survey allowed respondents to choose from a list of seventeen reasons or contributors to growth disruptions. They were scored on a likert scale of between 10 and 1. A score of 10 indicated the biggest contributor while 1 indicated no importance.

Table 19: Ranking of most important contributors to growth disruptions

Reason	Mean	Std Dev
1. Moving location trying to stay close to customers (maintaining contact with customers)	5.2	1.2
2. Struggles in managing the physical expansion of the business	6.3	1.1
3. Not being able to define and serve the market adequately	5.0	1.0
4. Not having sufficient business and professional knowledge	6.6	1.0
5. Adopting adequate accounting systems	6.0	1.0
6. Developing an effective pricing model	5.4	0.9
7. Competing against the competition	6.1	0.8
8. Developing cost and inventory controls	5.5	0.7
9. Organisational design and developing and organisational structure	6.4	0.8
10. Managing effective production and service delivery	6.0	1.6
11. Finding competent staff	8.0	1.0
12. Managing cash flow effectively	7.9	1.0
13. Sourcing finance in time to meet business needs	8.4	1.1
14. Finding the right location to serve the market	5.1	1.2
15. Effective planning to serve the market	6.5	1.4
16. Conflict between partners, funders and/ or managers	6.5	1.5
17. Motives of owner/ manager to change	8.2	1.4

The fields with the highest mean ratings were (1) Sourcing finance in time to meet business needs (μ=8.4), (2) Motives of owner/ manager to change (μ=8.2), and (3) Finding competent staff (μ=8.0), were the most important factors contributing to growth disruptions in organisations.

The respondents were then given a list of fifteen actions used to mitigate or manage the challenges to growth. They were scored on a likert scale of between 10 and 1. A score of 10 indicated the most important mitigating action while 1 indicated no importance. The results have been presented in table 20.

Table 20: Mitigation tools by small businesses that experienced challenges to growth

	Mean	Std Dev
1. Employed more staff	7.9	1.2
2. Appointed more management staff with experience	7.8	1.4
3. Invested in more information technology hardware	3.6	1.2
4. Invested in production machinery (production capacity)	5.3	1.1
5. Fired or removed problem manager/ employee	6.5	1.2
6. Contracted outside assistance (consultant, advice agency)	7.8	1.0
7. Outsource part of the business	3.2	1.1
8. Became more selective in clients	3.8	1.6
9. Introduced new accounting system (focus on cash flow) management	6.1	1.1
10. Introduced a new accounting system (focus on debtors and creditors management)	3.8	1.4
11. Owner engaged in training	6.7	1.7
12. Introduced new planning approach	5.4	1.0
13. Restructured the organisation	6.6	1.2
14. Changes the lines of reporting	7.2	1.5
15. Expanded the physical infrastructure (plant/ buildings)	6.2	1.4

The mitigating actions that received the highest scores were (1) Employed more staff (μ=7.9), (2) appointing more management staff with experience (μ=7.8), (3) contracted outside assistance such as a consultant or advice agency (μ=7.8) and (4) changes the lines of reporting (μ=7.2).

Following the methodology of Dodge and Robbins (1999), the mitigation actions were defined into three groups namely those that could be called general management actions, marketing and sales actions and financial systems actions. The means were calculated for the combined actions and shown in table 21.

Table 21: Mean scores per category of growth challenge determinants

Mark Ave	Man Ave	Fin Ave
5.5	6.9	6.6

Table 21indicates that the dominant actions to mitigate the challenges to growth were management actions (μ=6.9), financial management actions (μ=6.6) and then marketing actions (μ=5.5).

5.4 Representation of the small businesses that had not experienced challenges to their growth

5.4.1 Description of the small businesses that had not experienced challenges to their growth

As presented in figure 11, 31% of the respondents indicated that they had not experienced challenges to their growth. Their ages were presented in table 11.

Figure 11: Age of firms not experiencing growth challenges

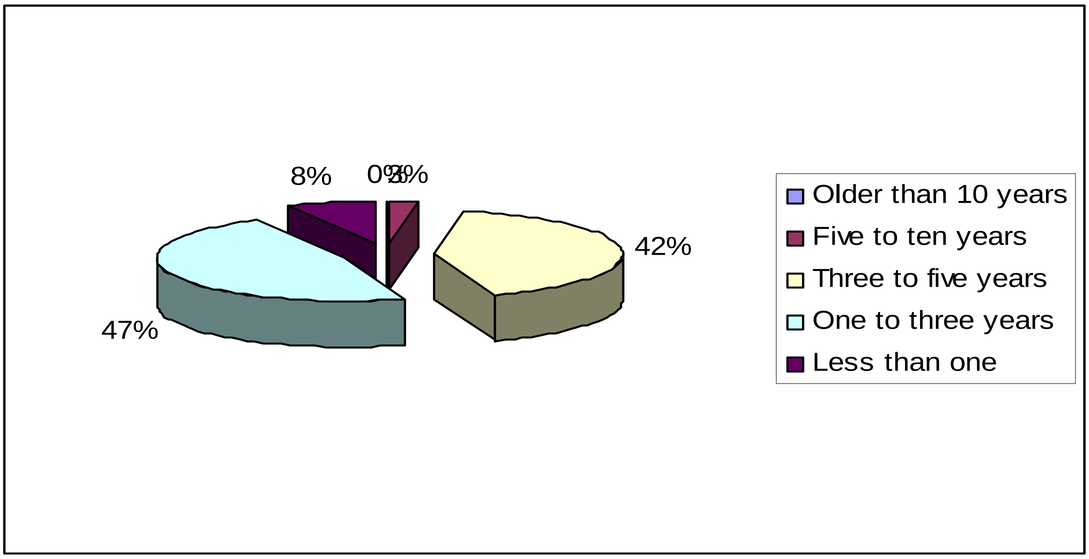


Figure 11 indicates that 47% of small businesses were between one and three years old, 42% were between three and five years old, 8% were less than one years old and o% were older than five years.

Table 22: Mean scores of the small business that had not experienced challenges to their growth

	Mean	Std dev
Number of staff	37.1	20.6
% increase in staff	6.4	4.2
Rand Sales revenue	26.2	6.0
% increase in sales revenue	21.4	4.9
% increase Gross profit	18.2	5.1

From table 22, these small businesses had on average 37 staff and the staff complement was growing at 6.4%. The mean revenue from sales was R26.2

million with sales growing at a rate of 21.4%. The percentage increase in net profit was 18.2%.

5.4.2 Growth promotion actions of small businesses that had not experienced challenges

The respondents were then given a list of fifteen actions that they believed were correctly applied and prevented their small businesses from not experiencing challenges to their growth. They were scored on a likert scale of between 10 and 1. A score of 10 indicated the most important action while 1 indicated no importance. The results have been presented in table 20.

Table 23: Actions preventing challenges to growth

	Mean	Std Dev
1. Employed more staff	5.6	1.1
2. Appointed more management staff with experience	6.5	1.0
3. Invested in more information technology hardware	3.9	1.2
4. Invested in production machinery (production capacity)	4.4	1.5
5. Fired or removed problem manager/ employee	2.8	1.9
6. Contracted outside assistance (consultant, advice agency)	7.0	1.8
7. Outsource part of the business	1.8	1.1
8. Became more selective in clients	4.0	2.7
9. Introduced new accounting system (focus on cash flow) management	4.0	2.2
10. Introduced a new accounting system (focus on debtors and creditors management)	2.0	1.8
11. Owner engaged in training	3.1	2.4
12. Introduced new planning approach	2.4	2.0
13. Restructured the organisation	4.9	2.5
14. Changes the lines of reporting	5.8	1.4
15. Expanded the physical infrastructure (plant/ buildings)	2.6	2.2

From table 23, contracting outside assistance (such as a consultant, advice agency) had the highest score (μ=7.0), appointed more management staff with experience (μ=6.5) and changing the lines of reporting (μ=5.8).

Following the methodology of Dodge and Robbins (1999), the actions were defined into three groups namely those that could be called general management actions, marketing and sales actions and financial systems actions. The means were calculated for the combined actions and shown in table 24.

Table 24: Actions applied by small business that had not experienced challenges to their growth

Mark Ave	Man Ave	Fin Ave
3.7	4.2	3.7

Table 24 indicates that the dominant actions applied to were management actions (μ=4.2), financial management actions (μ=3.7) and marketing actions, also (μ=3.7).

5.4 Comparison of the small businesses that had and had not experienced challenges to their growth

From the previous sections in this chapter, the information can be compared to indicate differences central to the outcome of this research.

Table 25: Comparison of the ages between two small business types

	Older than 10 years	Five to ten years	Three to five years	One to three years	Less than one
Yes	0.0%	2.4%	39.8%	49.4%	8.4%
No	0.0%	2.6%	42.1%	47.4%	7.9%

From table 25, both groups of small businesses mostly fell into the age of one year to three years. The difference in the descriptions of the two groups have been presented in table 26.

Table 26: Differences in descriptive statistics of the two groups

	NO		YES		Difference in means
	Mean	Std dev	Mean	Std Dev	
Number of staff	37.1	20.6	36.9	22.9	0.2
% increase in staff	6.4	4.2	7.9	4.3	-1.5
Rand Sales revenue	26.2	6.0	13.4	10.1	12.8
% increase in sales revenue	21.4	4.9	25.8	6.5	-4.4
% increase Gross profit	18.2	5.1	16.1	6.4	2.1

From table 26, a column was calculated (difference in mean score) to indicate differences in the mean scores. It was calculated by subtracting the responses of small business that had (yes) experienced challenges from the small businesses that the “had not” group. A positive total indicates that the “no disruption group" had a higher mean score than the "had experienced a disruption group" and vice versa.

Table 27: Comparison of mitigation actions by small businesses

	Mean: NO	Mean: YES	No-Yes
1. Employed more staff	5.6	7.9	2.3
2. Appointed more management staff with experience	6.5	7.8	1.3
3. Invested in more information technology hardware	3.9	3.6	-0.3
4. Invested in production machinery (production capacity)	4.4	5.3	0.9
5. Fired or removed problem manager/ employee	2.8	6.5	3.8
6. Contracted outside assistance (consultant, advice agency)	7.0	7.8	0.8
7. Outsource part of the business	1.8	3.2	1.4
8. Became more selective in clients	4.0	3.8	-0.2
9. Introduced new accounting system (focus on cash flow) management	4.0	6.1	2.2
10. Introduced a new accounting system (focus on debtors and creditors management)	2.0	3.8	1.8
11. Owner engaged in training	3.1	6.7	3.5
12. Introduced new planning approach	2.4	5.4	3.0
13. Restructured the organisation	4.9	6.6	1.7
14. Changes the lines of reporting	5.8	7.2	1.4
15. Expanded the physical infrastructure (plant/ buildings)	2.6	6.2	3.6

The means scores have been compared with a column used to indicate the mean differences calculated by subtracting the scores for the firms that had experienced growth challenges to those that had not. A positive score indicates that these actions were used more often by firms that had versus firms that had not experienced growth challenges. The largest differences were in the action of

(1) Firing or removing a problem manager/ employee (with a mean difference of 3.8), (2) expanding the physical infrastructure (plant/ buildings) with a mean score of 3.6 and (3) the owner engages in training (with a mean difference of 3.5). Factors that were similarly applied were (1) becoming more selective in clients (mean score of -0.2) and (2) investing in more information technology hardware (mean score of -0.2).

The final comparison has been presented in table 28. Here the perception of growth relevant to the industry is compared.

Table 28: Comparison of perceptions of growth relevant to the industry

Growth to peer group	Faster	At the same rate of growth	Slower
Yes	33.7%	45.8%	20.5%
No	42.1%	47.4%	10.5%
Difference	8.4%	1.6%	-10.0%

It can be seen that 42.1% of firms that had no growth challenge believed by that they were growing faster than the industry (an 8.4% difference when compared with small businesses that had experienced growth challenges). Only 10,5% of firms that had not experienced growth challenges felt that they were growing slower than their peers compared to 20,5% of firms that had experienced growth challenges.

5.5 Presentation of the qualitative questionnaires on sampled

small business owners and their growth challenges

From appendix C to G, five interviews were conducted. Respondents were randomly selected and contacted until five interviews could be secured. This was in line with the recommendations by Cope (1999) that quantitative studies had to be reconciled with qualitative aspects to understand small business growth. These findings will be included in the discussion of results and will inform recommendations made in chapter 7.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This chapter will draw on chapter five against the research questions presented in chapter three and the quantitative and qualitative findings as presented in chapter 5 and in appendices D-H.

6.2 Key findings from the research

6.2.1 Research question one

Research question one was: “What are the common attributes of small businesses in Gauteng that have experienced challenges to their growth”.

6.2.1.1 Discussion of research question one

Age of the business: From the statistical analysis, mean scores were derived. Just under 50% of the firms were between one and three years old when they experienced their first disruption. This is in comparison to the mean of 6 years of age in Miller and Freisen and Freisen (1984) although they found a range of between 6 months and twenty years. Hanks and Chandler (1995) found a mean age of four years of firms in the growth phase. This event, of manifestation of events is the first challenge (Story 1999), disruption (Greiner

1972) or critical event (Cope 2003) that will determine whether the small businesses (emerging businesses) become established businesses. Unfortunately, the GEMS (2006) research states that in South Africa 75% of small businesses go out of business in the first four years after establishment. As these firms are all still in operation it is essential to know that important to know that many more small businesses have disruptions in this growth period.

<u>Age of the owner/ manager:</u> From the findings, 33% of the small business owners were between 31 and 40 years of age and 32% were between 41 and 50 years of age. This supports the findings of the GEMS research that the mean age of small business owners are between 35 and 44 years of age. These findings indicate that South Africa follows a developed world type age distribution with older entrepreneurs. Developing countries tend to have a influential emerging entrepreneurial cohort.

<u>Gender:</u> The diagram on gender found that 72% of the sample was male versus 28% that were female. This was an interesting statistic given the context of South Africa where various policy interventions have attempted to support woman in start-up ventures. From the Statistics South Africa research (2005), 45,5% of small businesses were found to be owned and managed by woman. This was compared to similar studies such as in Chile where 33% of all small businesses were owned by females and in Cameroon, 57% of businesses were

female owned. The GEM's 2006 research dedicated a whole chapter to the female entrepreneur. One finding which was interesting was the cultural element where it was mentioned that woman with low skills tended to want to balance commitments in work and family life and therefore would rather be involved with "relatively easier projects where the emphasis is on creating additional income rather than expansion (GEMS 2006: 56)".

Staff numbers and staff growth: The small businesses from this group had fewer staff than the total sample (36 versus 38 staff at the time of the disruptions) but are increasing staff at a faster rate (8% versus 6%). This could imply as stated in Deakins and Freel (1998) that disruptions can be as a result of not growing steadily but trying to expand in bursts which puts pressure on infrastructure and lines of communication and authority. As mentioned in Saravanya (2007), often small businesses try to hold out on expansion and then suddenly hire five new staff and upgrade systems but the period of strain really exhausts the small business and adding new staff and systems takes time to impact on the organisation. The GEMS (2006) research found a very low employment creation orientation with expansion of staff being mostly one to five positions.

Locality of the small businesses: The findings of the location of the small businesses found results very similar to the Statistics South Africa (2005) study.

The industry split was 51% Wholesale and resale, 12% manufacturing, 9% construction, 5,4% transport and the remainder ancillary offerings. The nature of the Gauteng industry though would skew the national numbers towards manufacturing (including assembly) and services as it is much more concentrated than other regions in South Africa.

Sales revenue and sales growth: The mean sales revenues for the sample was R13 million with this sales revenue growing at 26%. Net profits were growing at 16%. This can be compared to Hanks and Chandler (1995) were sales revenue was between $271 000 and $1,4 million (in 1994 prices). Again a large standard deviation indicates that a number of the small businesses sampled have much lower revenues and would lean towards being more survivalist. This has important links to Lester and Parnell (2004) who proposed that small business grow past the survivalist stage and grow rapidly into the existence stage or they get “caught” and suffer from growth stagnation. This explains why in the early work of Miller and Freisen (1984) that the range for the start-up stage was between 6 months and twenty years. Some businesses therefore effectively stagnate and with flat sales and rising costs eventually cease to exist.

Growth in relation to the peer group: The question of how the owner/ manager perceived the small business growth in relation to the industry was important. Over one-fifth of these firms felt that they were going slower than the market (against the sample mean of 11%). In both samples 45% felt they were growing at the same pace of the market and then at the same token, the sample perceived that 44% were growing faster than the market whereas businesses that had experienced challenges to their growth, only 35% thought they were growing faster than the market.

6.2.1.2 Conclusion of research question one

Based on this discussion, firms that experience growth challenges are generally between one and three years old, have approximately 35 staff with the staff compliment growing at between 8% and 10% per annum. Sales revenues on average are approximately R13 million and sales are growing at 26%. Net profits are growing at 16%. Large standard deviations however imply that this can be seen as an average sales being heavily related to growth in staff. Generally these small businesses perceive themselves to be underperforming their industry and market and therefore from the literature and from the qualitative studies might be more prone to irrational behaviour and make decisions which may rely to a large degree on the motives and challenges being faced by the owner (Saravanja 2007). From these findings we can therefore state that there are common attributes shared by firms that have experienced a growth disruption. The statistics though can be seen to represent certain configuration of resources and circumstances, or as Hanks and Chandler (1984) refer to as an organisational context and organisational structure.

6.2.2 Research question two

Research question two of the research was: “What are the common critical success factors that were employed by small businesses in Gauteng that have experienced growth challenges that have contributed to these firms successfully navigating the challenges to growth and what were their effectiveness".

6.2.2.1 Discussion of Discussion of research question two

Dominant issues: To understand this question in context, the research firstly wanted to identify the dominant problems and these were found to be: (1) sourcing finance in time to meet business needs, (2) the motives of owner/ manager to change and (3) finding competent staff.

Access to finance has long been the Achilles heel of small business owners. In Dodge and Robbins (1992), financial planning was the dominant issue identified in the finance cluster and also a dominant issue in Hill, Nancarrow and Wright (2002). Ironically, in the South African context, the low propensity of commercial banks to support small business and the poorly coordinated development finance framework requires implies that firms generally rely on bootstrap finance or finance based on surety against other assets (GEMS 2006). In the SME survey (2007), developmental finance support was actually negatively associated with business growth.

The motives of the entrepreneur was found to be a major growth determinant. This can be explained by the research conducted by GEMS (2006) and

Statistics South Africa (2005) where it was stated that the prospering economy was causing many professionals to either start entrepreneurial ventures as new occupations or as second jobs. This is explained in the interviews with McLaughlin (2007), Van Jaarsveld (2007) and Saravanja (2007). All these individuals were attached to an organisation or occupation and through the application of their skills and wanting to work for themselves, started a small business. This has two important benefits. Firstly, Story (1994) found that managers who first gathered technical competence found it easier to develop functional skills while those trying to develop technical skills were not successful. Secondly, Changanti (1987), Rogerson and GEMS (2006) all found that "necessity" entrepreneurship and "emerging" entrepreneurs were far less likely to be able to grow there businesses. In fact, Story (1994) found unemployment to be negatively correlated to business growth.

Finding competent staff is the third most important issue. Deakins and Freel (1998) found that getting the right people on board to "assimilate experience with opportunity" is a key growth determinant. The life cycle theories all in some way indicate that on of the main catalysts of growth and formalisation is the increase in the number of employees, increases in "levels" in the organisation and the need for new reporting channels (Kazanjain and Drazin 1989; Changanti 1987 and Lester and Parnell 2004). In the South African context, small businesses are equally hard pressed to compete with the private sector for high quality skills (Saravanja 2007).

Mitigation actions: The highest scoring mitigation actions were employing more staff, appointing more management staff with experience, using contracted outside assistance such as a consultant or advice agency and changes the lines of reporting.

Employing more staff and the employment of additional management staff were found to be the most effective tool to facilitate growth in firms that had growth disruptions. Hanks and Chandler referred to the formalisation and specialisation as natural developments along the life cycle. Lester and Parnell (2004) noted that because small businesses tend to experience rapid growth, often “trying to keep up” implies that recruitment lags business growth and leads to Cope’s 2003) “eruptions” as there are just not sufficient staff to do the work.

Review of the clusters of mitigation methods: From the methodology of Dodge and Robbins (1992:34), dominant issues were classified under three areas with Management practices being the most important mitigating tool (see table 21). This is in contrast to Dodge and Robbins (1992) who found marketing and getting to product to market as the dominant themes for small businesses in the United States. In the GEMS (2006) research, one of the findings was that the level of success of a small business and its options for growth had a lot to do with the sophistication of both the market and of the skills of the entrepreneur. The study pointed out that business acumen and financial skills were essential for business success. In an economy as South Africa were these skills may be lacking it could be fair to deduce that these firms may be tier one issues where developed countries may assume these skills are developed and struggle with tier two type challenges specifically around marketing and product positioning.

The issue of outside assistance has not been well documented but was mentioned in the SME study (2007) as a significant indicator of small business growth in South Africa. This professional assistance had no link to public assistance. This research therefore corroborates the findings of Storey (1990) who also found no significant relationship between government policies and small business growth. This assistance is in the form of professional services (consultants, accountants, bank managers and lawyers) and mentors (coaching and professional mentorship). This issue was discussed by Hakkert, Kemp and Zoetermeer (2006) were professional assistance assisted “reasoned action”, one of the most important aspects of sound judgement in business. The SME survey (2007) also found mentorship to be one of the most important services used for growing small businesses.

Changing the lines of reporting implies formalising lines of authority and introducing levels of management in the organisation. Again, the life-cycle theories of small business growth view that the appointment of management by nature imply more levels in the organisation, Dewar (1996) in a study of small businesses points out that this is the hardest growth challenge for small businesses. In conclusion, the findings from this study support the literature. It would appear that this sample did not identify issues such as obtaining additional finance, labour issues and technology issues as drivers of business success.

6.2.2.2 Conclusion of research question two

From this review, the researcher can conclude that there are a number of common dominant issues faced by small businesses in Gauteng and there are a set of common mitigation techniques used by owner/ managers. This can be correlated with the qualitative interviews where a common methodology used to deal with issues has emerged.

6.2.3 Research question three

Question 3 was concerned with: Were there any common critical success factors that have been employed by small businesses in Gauteng that have NOT experienced growth challenges that have contributed to these firms successfully navigate the challenges of growth.

6.2.3.1 Discussion of Discussion of research question three

From table 23, the three most important tools for firms who had not had disruptions to growth were the contracting outside assistance (such as a consultant, advice agency), appointing more management staff with experience and changing the lines of reporting. Surprisingly, these were the same three out of the four techniques used by the “challenges to growth” group. These factors came through more weakly (with the largest mean score being only 7. Large deviations indicate more diversity in the methods used.

This very important finding highlights that it is not the method employed ex post but identifying the issue early so that events to not culminate into eruptions. Deakins and Freel (1998) emphasise the need to reflect as one of the three most important management actions along with networking and using experience for opportunity. Dodge and Robbins (1984) similarly refer to business planning as the most important management action. By being able to ex ante identify issues, an owner manager will gain better results from the mitigation tools applied. The challenge though for the owner is to be able to remove them selves out of the operations of the business to take a strategic and objective view of the organisation (McLaughlin 2007).

6.2.3.2 Conclusion of research question three

The research does find that there are four common actions that have been applied by small business owners that haven't experienced challenges to growth. So the research finds that there are common mitigation tools that have been applied.

6.2.4 Research question four

Question 4: Are there common critical success factors that have been employed by small businesses in Gauteng that have not experienced growth challenges to those that have experienced growth challenges?

6.2.4.1 Discussion of research question four

From the batter of descriptive statistics, more similarities could generally be found between the samples. This was true of age, the number of staff and increase in net profit. In staff growth as a percentage, the firms who had not had challenges to growth were growing faster by 1,5%. The key difference was that growth challenged forms were larger in terms of sales revenues by R12,8 million, almost 96% larger. This implies that although being the same age, these firms had grown rapidly, this is also reflected in that sales revenue were growing 5% slower than non-growth challenged firms. These findings are in support of Lester and Parnell (1994) who asserted that small businesses never progress past their second stage of survival. If they are sustainable they reach the success phase but the successes of high revenues (as in Greiner 1972) are usually the failures of growth.

The mitigation tools between the two groups were very similar including (1) the contracting outside assistance (such as a consultant, advice agency), (2) the appointment of more management staff with experience and (3) changing the lines of reporting.

6.2.4.2 Conclusion of research question four

The research therefore finds strong similarities between the mitigation tools applied by bots sets of organisations in this study. Based on these conclusions, this research therefore finds that more importantly than the *ex post* action is the *ex ante* identification of how a group of issues quickly converge to become a crisis or disruption. If a manager can act strategically and understand how aspects of the organisation form the fabric of the firm, then they will be more commercially aware of how among other things, growth, would affect the firm (Stokes and Blackburn 2002). This again focuses on the growth aspirations of the owner/ manager. Kazanjain and Drazin (1989) and Story (1994) found that commitment of the owner (and managers) promoted organisational learning and resolution of small issues before an escalation in the severity of the growth challenge.

6.3 Conclusion of chapter 6

This chapter therefore find a positive response to the first three research questions and a mild positive response to research question four. This study finds that there are common attributes of small businesses that have experienced challenges to their growth. This study also finds that there are common challenges and that there have been common mitigating actions employed by firms that have experienced challenges to their growth. Lastly, this section finds that there have been common techniques used by both data sets of the sample but that the evidence points to the early identification of the issue rather than the solution. This is substantiated by the findings of Kazanjain and Drazin (1989) in that they found it easy to pin-point dominant problems but found it difficult to unpack a large issue into small parts that are more easily managed.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

This study applied both quantitative and qualitative research to address four research questions to understand the critical success factors to grow a small business. By comparing small businesses who had either experienced challenges to growth to those that had not experienced challenges to growth in Gauteng, the researcher was able gain valuable insight into both the process of growth and the factors that both were applied as well. This section will present the core findings and present a model to assist small business owner/ managers.

7.2 Summary of key findings from the research

7.2.1 The applicability of theoretical models to small firm growth

This research has presented the mean attributes of the challenge to growth stage. The researcher therefore finds that although intuitively interesting, that the life cycle theories of firm growth provide little value to the improvement of the success of small businesses. This research indicates that understanding the confirmation of events as critical milestones (Hanks and Chandler 1995). In addition, the theories have been able to indicate the causes of the issues but only go as far to indicate that action is important to allow the firm to grow but do little if nothing to say what the actions or critical success factors in fact are. The first recommendation from this study is therefore that more research be conducted onto successful management of challenges than the challenges themselves.

7.2.2 The appropriate level of support for small businesses

This study finds that the present level of support for small businesses in South Africa is sub-optimal. This view is based on the findings by GEMS (2007) that firms with a staff compliment of 50 are 75% more likely to employ more staff and then the findings of this study that a means to overcome this challenge is to hire more staff. Developmental agencies should therefore pay as much attention to firms that are three to four years old (at the growth stage) as to firms that are one years old (at the establishment stage). It is argued in this research that the economy would gain incrementally more should more firms transgress this stage than purely having more “necessity entrepreneurs” operating in the market. Small businesses that are able to pass the first step of finding a niche market and developing an appropriate product (established as the basic elements for growth) have a much better chance at becoming a sustainable business.

7.2.3 The critical success factors that grow small businesses

In South Africa, the dominant tools to ensure the growth of small business are too increase competent staff including a competent manager who may even replace the owner (Deakins and Freel 1998), the use of an external professional mentor and changing the lines of reporting. These factors can be group (as in Hanks and Chandler 1995) under the banner of management practices which are can be obtained from training, education and prior business experienced but are truly developed on the job. This research therefore finds that there is no substitute for understanding how to successfully managing a small business than physically managing a small business. The research therefore recommends that mentorship and networking to allow the sharing of experiences is the appropriate support mechanism and therefore proposes that incubators rather focus on these alone.

Important also is the chance for an owner/ manager to reflect and plan for the organisation with reference to a core finding of this study in that early identification of smaller issues before they escalate is essential to ensure the sustained growth of a small business (Stokes and Blackburn 2002).

7.2.4 Using appropriate research methodologies to understand small business growth

Following the recommendations of Deakins and Freel (1998), Story (1999) and Cope (2003), studies that only rely on quantitative analysis: “fail to capture the learning element of small businesses and the motivations and ambitions of the owner/ manager”. This research therefore supports the views expressed by Cope (2003) that a deep phenomological view of both the external and internal environment is required. The second recommendation therefore is that although important as a foundation to the literature, that studies that exclude a qualitative component cannot be used to inform policy or as a base to recommend actions to managers.

7.2.5 Understanding the growth of small businesses in the context of the owner/mangers personal aspirations

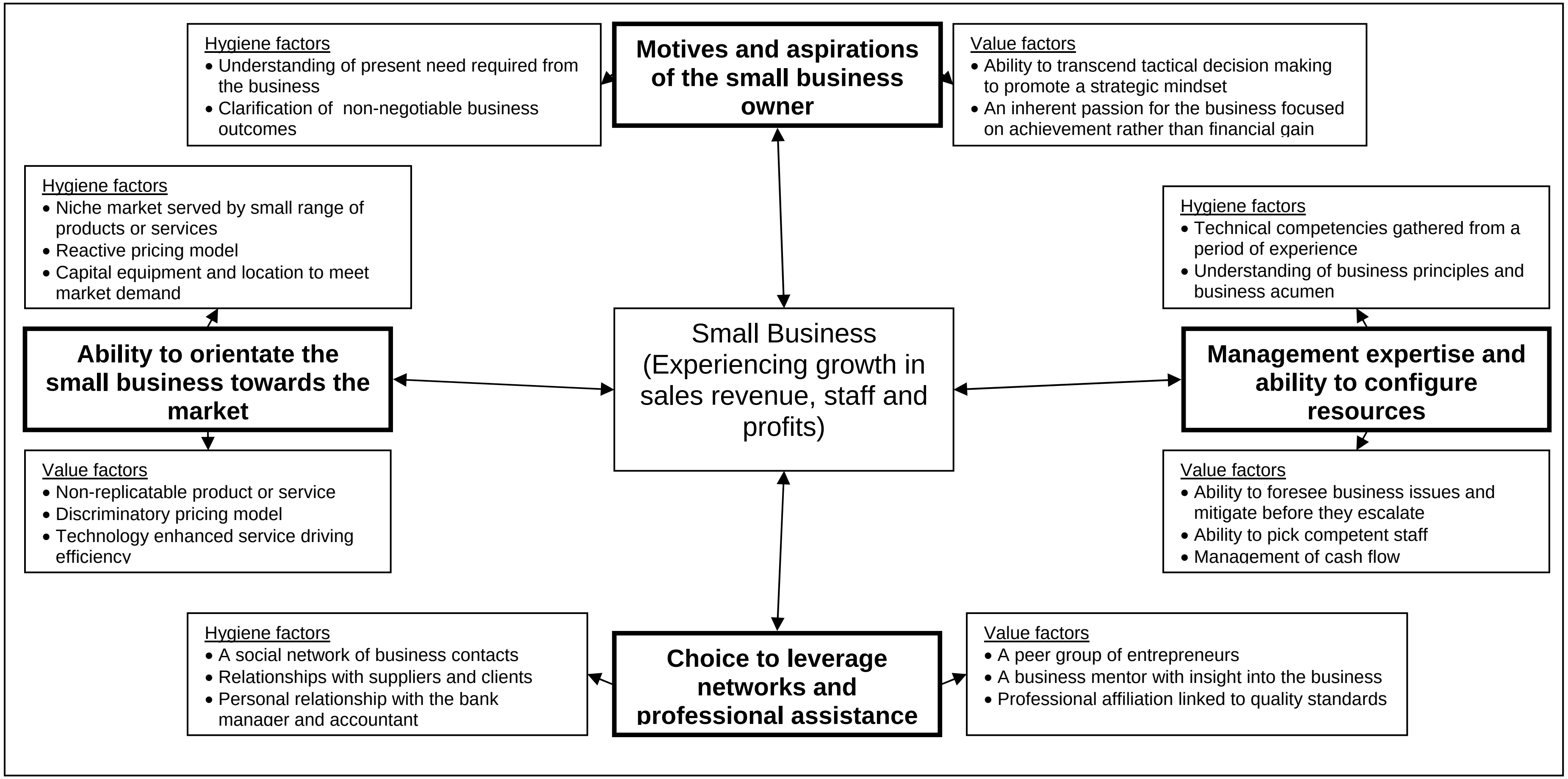
This aspect was suggested in the literature review (Greiner 1972, Adizes 1979, Storey 1999, Deakins and Freel 1998 and GEMS 2006), emerged in the quantitative study but truly revealed in the qualitative interviews that owners really have a very short term view of the business and the emphasis is on tactical elements with very little conscious strategic decision making. Growth aspirations are therefore found to be inextricably linked to the goals of the owner manager (Saravanja 2006, Mdimande 2007 and Eillif 2007). This research therefore recommends that the dissemination of success stories, possibilities in small businesses growth and mentorship are critical success factors to help managers to be aware of the growth of their businesses.

7.3 The model of critical success factors for small business owners

Out of the findings of chapter of chapter 6 and the recommendations of chapter 7, a model of the critical success factors for small business growth has been developed (see figure 14). This model has grouped the critical success factors under four critical themes and divided them into two sets of factors. The first sets of factors are called hygiene factors. These are the factors that must be in place as a minimum to promote the growth of small businesses. These then form the organisational context and organisational structure as presented by Hanks and Chandler (1995).

The second sets of factors are the value factors. These have been informed by the research and are the factors that have separated the high growth businesses from those who have had constant challenges to their growth. The four themes are (1) the motives and aspirations of the small business/ owner, (2) management expertise and the ability to leverage resources, (3) Choice to leverage networks and professional assistance, and (4) the ability to orientate the small business towards the market.This should be read as an integrated growth sustaining model which is best applied when a small business reaches a position similar to the mean attributes for firms experiences challenges to their growth. It is assumed though that the small business is an established and not an emerging business and that the owner/ manager is motivated to pursue organisational growth regardless of whether it is for financial reward or personal gain.

Figure 12: Model of the considerations for small business owners confronted by a growing business



Reference list

Adizes, I., 1979. Organisational passages: Diagnosing and treating life0cycle problems of organisations. *Organisational Dynamics*. 8(1). pp3 – 25.

Barney, J.B., 1991. Firm, resources and sustained competitive advantage. *Journal of Management*. 17(1). Pp99-120.

Bhide, A. 1999. *The questions every entrepreneur must answer.* In: Harvard Business Review on entrepreneurship. Harvard University Press: Boston.

Chaganti, R. 1987. Small business strategies in different industry growth environments. *Journal of Small Business Management*. 28(3). pp61- 68.

Churchill, N. and Lewis, V. 1983. The five stages of small business growth. *Harvard Business Review*. pp30-50.

Ciavarella, M.A., 2001. Linking high involvement environments to the organisational life cycle: A descriptive and prescriptive approach. *Academy of Management Proceedings.*

Cope J., 2003. Exploring the Nature and impact of critical experiences within small business growth and entrepreneurial development. *Lancaster University Management School Working Paper 2003/05.* Available [Online] www.lums.lancs.ac.uk/

Davidsson, P., Achtenhagen, L. and Naldi, L., 2005. Research on small firm growth: A review*.* *Journal of Small Business Management*. 84 (3). pp121-132.

Deakins, D. And Freel, M. 1998. Entrepreneurial learning and the growth process in SME's. *The learning Organisation*. MCB Press: London.

Dierickx, I. and Cool, K., 1989. Asset stock accumulation and sustainability of competitive advantage. *Management Science*, 35(12), pp1504-1511.

Dodge, R.H. and Robbins, J.E., 1992, An empirical investigation of the organisational life cycle model for small business development and survival.

Eillif, W., 2007. Interview held on small business management. Held at private premises in Bedfordview, 5 November 2007 at 15h00.

Global Entrepreneurship Monitor (GEMS). 2005. Research into the state of entrepreneurship in South Africa. Available [Online] www.uct.ac.za/GEMS/2005

Global Entrepreneurship Monitor (GEMS). 2006. Research into the state of entrepreneurship in South Africa. Available [Online] www.uct.ac.za/GEMS/2006

Gray, C., 2002. Entrepreneurship: Resistance to change and growth in small firms. *Journal of Small Business and Enterprise Development*. Vol. 9 (1).

Greiner, L.E., 1998. Evolution and Revolution as organisations grow. *Harvard Business Review* May/ June.

Hakkert, R., Kemp, R.G. and Zoetermeer, S. 2006. The ambition to grow: A multidisciplinary perspective on the antecedents of growth ambitions. SCALES *working paper.* Available [online] www.eim.nl/smes-and-entrpreneurship (accessed 26 May 2007).

Hanks, S.H. and Chandler, G.N., 1995. Patterns of formalization in emerging business ventures. *Frontiers of entrepreneurship research discussion papers*. Available [Online] www.babson.edu/entrep fer/papers95/hanks.htm.

Hrebiniak, L.G. and Joyce, W.F., 1985. Organisational adaptation: strategic choice and environmental determinism. *Administrative Science Quarterly*. 30 (1) pp336 – 349.

Kazanjian, R.K. and Drazin, R., 1989. An empirical test of a stage of growth progression model. *Management Science*. Vol. 35 (12).

Lester, D.L. and Parnell, J.A., 2004. The progression of small and medium sized enterprises through the organisational life cycle. *JBE Research paper*.

Mdimde, T., 2007. Interview held on small business management. Held in GIBS offices, Illovo, 3 November 2007 at 13h00.

Miller, D. and Freisen, P., 1984. A longitudinal study of the corporate lifecycle. *Management Science*. 30 (10) pp1161- 1183.

McMahon, R.G.P, 1998. Stage Models of SME growth reconsidered. *The Flinders University of South Australia Working paper 98-5.* Available [Online] www.ssn.flinders.edu.au/business/research/papers/98-5.htm

McLaughlin, M. 2007. Interview held on small business management. Held in Mastermaths premises, Alberton, 31st October 2007 at 13h00.

Penrose, E.T., 1959. *The theory of the growth of the firm*. New York: Wiley.

Porter, M.E., 1980. *Competitive strategy*. New York: The Free press.

Poutziouris, P. and Binks, M., 1999. A problem-based phenomenological growth model for small manufacturing firms. *Journal of Small Business and Enterprise Development.* Vol. 6 (2).

Priem, G. and Butler, R.T., 2001. Life cycle theory and the application on small businesses. *Journal of small business management*. 17 (3). pp31 – 50.

Quinn, R. E. and Cameron, K., 1983. Organisational life-cycles and shifting criteria of effectiveness. *Management Science*. Vol. 29(1). pp99 – 118.

Republic of South Africa. 1995. *White paper on the national strategy for the development and promotion of small business in South Africa.* Pretoria: Government Printer.

Rogerson, C.M., 2001. Growing the SMME manufacturing economy of South Africa: Evidence form the Guateng province. *Journal of contemporary African studies*. 19(2) pp267-289.

Saravanja, M. 2007. Interview held on small business management. Held in

Regenesys Management offices, Woodmead, 31st October 2007 at 15h00.

Schindehutte, M. and Morris, M.H., 2001. Understanding strategic adaptation in small firms*. International journal of entrepreneurial behaviour and research*. 7(30) pp 84-107.

Statistics South Africa. 2006. *Survey of employers and the self employed*. Pretoria: Government printer.

Stokes, D. and Blackburn, R., 2002. Learning the hard way: The lessons of owner managers who have closed their businesses. *Journal of Small Business Management.* Vol. 9 (1).

Van Jaarsveld, P. 2007. Interview held on small business management. Held in own offices, Pretoria North, 2nd November 2007 at 09h00.

Venkataraman, S. and Ven, A.H., 1998. Hostile environmental jolts, transaction set and new business. *Journal of new business venturing*. 13(1). pp269-282.

Walsh, J.P. and Dewar, R.D., 2001. Formalisation and the organisational life cycle. *Journal of Management Studies*. Vol. 24 (3).

Wernerfelt, B., 1995. The resource-based view of the firm: ten years after. *Strategic management journal*. 16(3). Pp171-174.

Wicklund, J. and Shepard, D., 2003. Aspiring for, achieving growth. *Journal of management studies*. 40 (8). Pp1911 – 1941.

Zeelie, J., De Beer, A, and Jacobs, H. 1998. *Entrepreneurial Skills*. Juta and Co: Johannesburg.

Appendix A: The consistency matrix

Research questions	Literature review	Data Collection Tool	Analysis
1. What are the common attributes of small businesses in Gauteng that experience their first disruptions because of firm growth.	Greiner (1972); Dodge and Robbins (1992); Deakins and Freel (1998) ; Kazanjain and Drazin (1989)	Questionnaire (Quantitative) • Section 3 Verifying interviews (Qualitative) • Question 1	Questionnaire allows descriptive data (categorical data) to be listed (section 1 and 2). Section 3 allows respondent to rank-order causes of growth challenges. This allows correlations to be drawn.
2. What are the common critical success factors that have been employed by small businesses in Gauteng that have experienced growth challenges, that have contributed to these firms successfully navigate the challenges of growth	Greiner (1972); Kazanjain and Drazin (1989); Walsh and Dewar (1987)	Questionnaire (Quantitative) • Section 4 Verifying interviews (Qualitative) • Question 2	Questionnaire allows ranking of importance and ranking of measures employed. This allows cluster analysis around three areas of challenges and ranking of their consequence. Further statistical analysis can be applied including correlations and regressions.
3. What are the common critical success factors that have been employed by small businesses in Gauteng that have NOT experienced growth challenges, that have contributed to these firms successfully navigate the challenges of growth	Greiner (1972); Kazanjain and Drazin (1989); Hanks and Chandler (1989)	Questionnaire (Quantitative) • Section 4 and 5 Verifying interviews (Qualitative) • Question 3	Questionnaire allows identifiable of critical success factors. Cluster analysis is again used to rank opportunities in terms of their categories. Further statistical analysis can be applied including correlations and regressions.
4. Are there any common critical success factors that have been employed by small businesses in Gauteng that have NOT experienced growth challenges to those that HAVE experienced growth challenges.	Greiner (1972); Bhjde (1999); Zeelie (2003)	Questionnaire (Quantitative) • Comparison between section 3 and 4 to 5 Verifying interviews (Qualitative) Question 4 and 5	Data sets will be compared against each other to identify key differences. Diagnostic statistics will be applied and extended to descriptive statistics.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Appendix B: Questionnaire used for data collection

15 October 2007

Dear Sir/ Mam,

INVITATION TO PARTAKE IN SMALL BUSINESS DEVELOPMENT STUDY TO DETERMINE CRITICAL SUCCESS FACTORS FOR SME's IN SOUTH AFRICA

Background
This research is being conducted by Shaun Rozyn, a MBA student at the Gordon Institute of Business Science (GIBS). This research is being conducted to understand the critical success factors promoting small business growth and sustainability by understanding at what time did the business experience its first challenging period. Thank you for your willingness and the sacrifice of your time.

Directions for completion
Please answer the following questions honestly and to the best of your knowledge and memory.

Outcome
This research will have two outcomes, firstly, to develop a practical model to assist small business owners to understand and manage the growth of small businesses and secondly, to inform public policy on how to support small businesses development agencies to assist owner-managers to build knowledge, skills and competencies in growing a small to medium enterprise (SME). **A copy of the findings shall be made available to you electronically subsequent to the completion of this research in November 2007**.

Completed questionnaires can be e-mailed or faxed to the following addresses before as soon as possible

E-mail: rozyns@gibs.co.za

Fax: 086 638 0608

With best regards,

Shaun Rozyn M.Econ: Stellenbosch; MBA: GIBS (completing)
Contact: (W) (011) 771 4119 (Cel) 082 755 8363

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

SECTION 1: BIOGRAPHICAL INFORMATION (Circle appropriate block)

1. Age of the respondent (at present):		20-30	31-40	41 - 50	51 +
2. Sex of the respondent:				M	F
3. Industry in which you operate		Manufacturing	Services	Technology	Other
4. Respondents role at small business	Owner manager	Partner	Manager	Employee	Other
5. Area were business is situated in Gauteng	Pretoria	Northern suburbs	Midrand	East rand	West rand

SECTION 2: INFORMATION ABOUT THE ORGANISATION (Please circle or enter answer)

1. Age of the small business at present?	Older than 10 years	Five to ten years	Three to five years	One to three years	Less than one

2. Has your business experienced a growth challenge of any sort since its establishment?	Yes (Please answer section 3)	No (Please answer section 4)

SECTION 3: UNDERSTANDING THE CAUSES OF YOUR ORGANISATIONS THE FIRST DISRUPTION TO GROWTH

1. Age of the organisation when it experienced its first growth challenges	Older than 10 years	Five to ten years	Three to five years	One to three years	Less than one

2. How many staff were employed when your business experienced its first growth challenges?	
3. What was the percentage increase in staff at the time when your business experienced its first growth challenges?	%
4. What was the sales revenue for the year when your business experienced its first growth challenges?	R
5. What was the percentage increase in the sales revenue in the year your business experienced its first growth challenges?	%
6. What was the growth in profit margins in the year your business experienced its first growth disruption?	%

7. Was the business growing slower or faster than your peer group in the market at the time of the first growth challenges.	Faster	At the same rate of growth	Slower

*The literature identifies distress in a number of areas which are contributors to the growth challenges in the development of small businesses. Please rate **ALL** on a scale of 1 to 10 (10 being a KEY challenge to growth and 1 having NO effect on growth) the following of possible factors affecting growth in your organisation:

Rank on a scale of 1 (no contribution) to 10 (most important contributor)

1. Moving location trying to stay close to customers (maintaining contact with customers)	
2. Struggles in managing the physical expansion of the business	
3. Not being able to define and serve the market adequately	
4. Not having sufficient business and professional knowledge	

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

5. Adopting adequate accounting systems

Rank on a scale of 1 (no contribution) to 10 (most important contributor)

6. Developing an effective pricing model	
7. Competing against the competition	
8. Developing cost and inventory controls	
9. Organisational design and developing and organisational structure	
10. Managing effective production and service delivery	
11. Finding competent staff	
12. Managing cash flow effectively	
13. Sourcing finance in time to meet business needs	
14. Finding the right location to serve the market	
15. Effective planning to serve the market	
16. Conflict between partners, funders and/ or managers	
17. Motives of owner/ manager change	

Please note any additional causes of challenges to growth of your small business:

	Score
1. ______________________________	
2. ______________________________	
3. ______________________________	

*From the list provided below, please indicate whether you employed the measure presented and the contribution (where 1 had no effect and 10 was the most effective) it had to your business overcoming the growth challenges:

	Applied (Y/N)	Effectiveness (1 to 10)
1. Employed more staff		
2. Appointed more management staff with experience		
3. Invested in more information technology hardware		
4. Invested in production machinery (production capacity)		
5. Fired or removed problem manager/ employee		
6. Contracted outside assistance (consultant, advice agency)		
7. Outsource part of the business		
8. Became more selective in clients		
9. Introduced new accounting system (focus on cash flow) management		
10. Introduced a new accounting system (focus on debtors and creditors management)		
11. Owner engaged in training		
12. Introduced new planning approach		
13. Restructured the organisation		
14. Changes the lines of reporting		
15. Expanded the physical infrastructure (plant/ buildings)		

Other:

1. ______________________________		
2. ______________________________		

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

3. ____

SECTION 4: UNDERSTANDING THE SUCCESS OF YOUR ORGANISATION

1. How many staff do you employ?	
2. What has been the average % increase in employment for your organisation?	%
3. What has been the average % rate of staff turnover for your organisation?	%
4. What has been the average % increase in the sales revenue for your organisation?	%
5. What has been the average % increase in profit margins for your organisation?	%

6. Was the business growing slower or faster than your peer group in the market during the life of your organisation?	Faster	At the same rate of growth	Slower

*From the list provided below, please indicate which measures positively contributed to building the success at your business (where 1 had no effect and 10 was the most effective)

	Applied (Y/N)	Effectiveness (1 to 10)
1. Employed more staff		
2. Appointed more management staff with experience		
3. Invested in more information technology hardware		
4. Invested in production machinery (production capacity)		
5. Fired or removed problem manager/ employee		
6. Contracted outside assistance (consultant, advice agency)		
7. Outsource part of the business		
8. Became more selective in clients		
9. Introduced new accounting system (focus on cash flow) management		
10. Introduced a new accounting system (focus on debtors and creditors management)		
11. Owner engaged in training		
12. Introduced new planning approach		
13. Restructured the organisation		
14. Changes the lines of reporting		
15. Expanded the physical infrastructure (plant/ buildings)		

Other:

1. ____

2. ____

3. ____

See over for comments page….

Should the respondent wish to share any other insights into the successes and challenges to growth a small business then please record these here:

We thank you for your participation and contribution to the understanding of the critical success factors to small business growth.

Kind regards,

SHAUN ROZYN

Appendix C: Example of the qualitative questionnaire

Question template

Name:…………………………….. Business: ………………………….

Date: ………………………………. Venue: …………………………….

Interview on the personal experience of owning /managing a small business in Gauteng

Firstly thank you for your time in allowing this discussion. As I mentioned on the phone, I am completing a thesis on growth in small businesses and have four questions to lead the discussion after which we could address any issues emerging. I am cognisant of your schedule and commit to keeping this discussion to 45 minutes.

<u>Question 1</u>: Please recount your motives for starting your small business:

<u>Question 2</u>: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

<u>Question 3:</u> From your experience, how did you confront this experience? How did you make sense of this event?

<u>Question 4</u>: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

<u>Question 5:</u> This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Thank you very much for your time and willingness to contribute to this study.

Many thanks,

Shaun Rozyn

APPENDIX D: INTERVIEW WITH MARGARET MCLAUGHLIN

Name: Margaret McLaughlin Business: Services (franchised education)

Date: 05/11/07 Venue: Bedfordview

Interview on the personal experience of owning/ managing a small business in Gauteng

<u>Question 1</u>: Please recount your motives for starting your small business:

<u>Answer:</u> I had been a teacher for 10 years and became a housewife for ten years. I decided I wanted to use my talents and especially because recent news on the state of schooling indicated that there was a need for good education. I bought into an education franchise, Mastermaths, advertised at a couple of schools in the Bedfordview area and had 80 children within three months. My motives were firstly to earn some additional income but mainly to keep busy and benefit children. It wasn't easy especially negotiating a lease on a premises but it is going well now. The business is now 10 years old.

<u>Question 2</u>: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

<u>Answer:</u> Yes, mainly in the first year when we were still bringing in children but we needed to expand to allow this growth to happen. I moved from a small office to a sizeable venue on the main street of Bedfordview. There was therefore an increase in costs and it took a while till we increased capacity. The second learning event was how to cost so as not to chase clients away but protect ourselves during the December/ January period when the children are on holiday. We got it right, I suppose after year 2.

<u>Question 3:</u> From your experience, how did you confront this experience? How did you make sense of this event?

<u>Answer:</u> Well, my husband also runs a small business and he is pretty astute. Ironically, the franchisors, really did not have an answer so I also contacted another franchise of Mastermaths in Alberton. It wasn't very scientific and we muddled through some scenarios and came up with a number. We also realised that rather than full time staff, we would use university students to help

as tutors. This helped reduce costs in the down times.

Question 4: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

Answer: Well, for me it was just talking to people and making an educated decision. I relied on my basic knowledge of finances and I had a book keeper that gave some valuable advice. The need to expand the space of our premises was necessary for me to get enough students to make this viable. One thing I haven't mentioned was the licensing fee and monthly royalty payment to Mastermaths.

The business has gone well since then, I actually do not want to grow to big and feel that I have reached a level that is sustainable and really, growing bigger would just mean more problems.

What would I have done differently, well not much, I had a goal of running a sustainable business, not work a full corporate type day and work with children and now I have that- There is not much more that I would do differently.

Question 5: This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Thank you very much for your time and willingness to contribute to this study.

APPENDIX E: INTERVIEW WITH MARKO SARAVANJA

Name: Marko Saravanja   Business: Services: Skills development consultancy

Date: 01/11/07   Venue: Sandton

Interview on the personal experience of owning/ managing a small business in Gauteng

<u>Question 1</u>: Please recount your motives for starting your small business:

<u>Answer:</u> I was a lecturer at WITS University, in the School of Public development and management and had set up a very profitable department was earning a really low salary. I realised that with changes happening in SA in around 1996, education could be highly profitable and important for the development of people. Along with two other staff members we began a small skills training institution and taught out of a hotel in Johannesburg. We had a loan of R1 000 and a rudimentary desktop computer. We used our network and had classes of up to 10 persons on courses in governance, management and leadership. We stayed in a one bedroomed apartment and it was very tough at first. This was in 1999.

Our motives, besides not being exploited by our university was really to awaken the potential of people. So many people in SA never had the opportunity to learn and secondly, to learn in a caring, developmental environment! That was always our goal. We also wanted to develop staff so we kept that in mind as we grew.

<u>Question 2</u>: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

<u>Answer:</u> Well a couple. Firstly, we really slogged along for a year and a half ,not drawing salaries but reinvesting all funds back into the business. Of the three partners, me and the lady actually got married and had a young girl. The third partner stayed on at WITS and lectured for us. We then scrapped together some funds and advertised in the local newspaper. Slowly but surely, more and more applications arrived and we started gaining traction. We realised that the business was out there but just needed to be found. We then took the risk of hiring a tender writer/ marketing guy who could also help with administration. This was sort of a turning point.

Then there was a horrible event, we hired a lecturer and for reasons I do not want to go into, I had a short affair with her. My wife found out and because we were three directors, it almost ripped the company apart. This caused us to really start missing the market and it was almost a year of pain.

Lastly, last year, our COO, for a mix of reasons had to be offered to leave. It is again a complicated issue but she was challenging most of my decisions and it began to affect the mood in the company, staff were seeing the arguments and a tough decision had to be made.

So despite being very successful, running this business has been a tough ride.

<u>Question 3:</u> From your experience, how did you confront this experience? How did you make sense of this event?

<u>Answer:</u> We are three directors and we make all decision together. I think we compliment each other very well in that I am the decisive decision maker, my wife is the caring communicator and Viv is the academic and relationship man. We have a very strong value set and a vision of becoming the leading management school in the world by 2020.

The first event I mentioned was actually quiet hard because we didn't want to hire someone and then have to let them go after 2 months. To be fair, we also didn't want to employ someone on a contract basis. So we took a chance and it worked.

The affair event was really tough as it was outside of the business but really almost brought us down. So the tool as you would call it was open communication, trust and staying committed to the ideals. This was a hard period.

Asking the COO to leave was also tough as it involved both a personal relationship and a working relationship that needed to be ended. In my heart I still do not have closure but for the businesses sake some hard decisions had to be made. A conflict between the CEO as owner and the COO as manager was affecting the staff and my ability to lead. The trust was broken and I could not be challenged on decisions that had been made. This affected our morale and we lost a few other managers and staff in that period. I fell only now (2 years later) that we really have moved on and that we have put this behind us.

<u>Question 4</u>: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

<u>Answer:</u> We therefore brought on new staff, also very good staff that have cross function skills such as material development, teaching and consulting skills.

We invested in infrastructure and over the last 9 years have grown the business taking over a block in an office park and a piece of the adjacent building. We have always believed in technology so all staff have their own lap-tops, we have a PABX phone line, intranet, wireless system and 3G cards.

We also believe in profit sharing so, we take 10% of net profits and share it with staff in the form of bonuses. We also give generous bursaries to our staff for academic staff.

We have also rely tried to structure the firm optimally into units with managers to allow people to focus. Unfortunately with staff turnover, this has been a challenge but we believe that team work along with open plan offices has been important.

<u>Question 5:</u> This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Thank you very much for your time and willingness to contribute to this study.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

APPENDIX F: INTERVIEW WITH PIETER VAN JAARSVELD

Name: Pieter Van Jaarsveld Business: Manufacturing (Corporate T-shirts)

Date: 06/11/07 Venue: Menlo Park, Pretoria

Interview on the personal experience of owning/managing a small business in Gauteng

<u>Question 1</u>: Please recount your motives for starting your small business:

<u>Answer:</u> I worked for 20 years for TELKOM and was retrenched in 1999. My wife was always involved in arts and crafts and I had heard about silk screening. Having been at a large organisation, I had always seen the huge amounts of corporate gifts and especially corporate shirts that were given out for events, sponsorships and for charity. So I took some of my pension and purchased some screens and equipment. I also had a friend at one of the mining houses and a family member at a retailer so I set up some contacts. I didn’t really have to go this route and because of my expertise I probably could have gone to another company but it was a new challenge.

<u>Question 2</u>: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

<u>Answer:</u> (Laughs) Was there ever not a day! At first, getting orders wasn’t that hard but to get payments, that was the issue. So you guys would call it cash flow. My benefit though was that I could use some of my savings like a short term loan which was better than a business overdraft but it also meant that I was loosing out on interest. The other issue though was that an extra weeks delay in payment was a blow to your ability to get new materials to meet the next order.

The other issue was that larger corporates wanted between 200 and 300 shirts at one time which would keep them stocked for 3 moths. We would work flat out for three weeks, day and night, sometimes I had to get my kids to help and then you have 1 moth of barren time.

About at the beginning of last year (2006), my bakkie which we use as our delivery vehicle was stolen at a shopping center here in Pretoria. Although I had insurance it kept us back for about three to four weeks while the claim came through. That was a tough month for us.

Another issue is now that you must have a BEE partner especially with government departments. I have created a relationship with a businessman nearby and we have formed a relationship in that he has the credentials and some capacity and I have some great equipment and capacity. It is going OK.

<u>Question 3:</u> From your experience, how did you confront this experience? How did you make sense of this event?

<u>Answer:</u> You know it has been good! I would rather spend days working knowing that each cent was coming to me than working in the corporate world again. So what I am saying is that it was tough but worth it. How did I confront issues- day by day my friend. With the payment issue, well I just became irritating and phoned people over and over again (sometimes the accounts departments of some companies used to call me "that old man") but it has to be done.

I also created a relationship with my materials supplier and he managed to be a bit more lenient with me on payment terms. In return I often did some shirts for his staff.

It was also tough to expand but I now have five staff that work half days, I also have some ladies that help with sewing when big orders come through.

<u>Question 4</u>: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

<u>Answer:</u> As I mentioned, I got tough on payments, I got more staff in and I spoke to people. Well I am still around and the family still gets to go on December holidays so yes, it is going OK.

What would I have done differently? At one stage I could have brought in a manager but thankfully we had a bit of a quiet spell two years ago so it probably worked out alright in the end.

The BEE partner, well we have a choice soon if whether we just work together. We will have to chat. We have a good window of opportunity with the 2010 world cup soccer and we already are getting some deals which will lead into the Confederations cup in 2009 and then into 2010.

<u>Question 5:</u> This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Thank you very much for your time and willingness to contribute to this study.

APPENDIX G: INTERVIEW WITH THAMI MDIMANDE

Name: Thami Mdimande Business: Services: Tourism

Date: 021/11/07 Venue: SOWETO

Interview on the personal experience of owning/managing a small business in Gauteng

Question 1: Please recount your motives for starting your small business:

Answer: I was a student working for an established tour operator in SOWETO. I worked for a husband and his wife which ran a number of different tours into SOWETO. I became aware that tourists would rather hear the history from a person who actually lived in SOWETO and can give insights into how the people think and some of the lingo and so on. In 2002, when I finished studying, I made the decision to start my own tour operator. I was able to use my technical skills along with the experience that I got from the tour operator to really put a great tour together. I now have a whole network that I can call on depending on the clients request. When I was younger I saw the tour busses and I wanted to be an operator. So what I am doing is actually living my dream. I love people, I love history and I love my town so I get to combine all my passions and hopefully make some money from that at the end of the day.

Question 2: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

Answer: Not really, it has been measured and sustainable, there were occasions that we got requests for largish groups and I needed to really stretch the network but that all worked out. I have also been lucky to get some like-minded people on board who really come help me and learn in the process.

Question 3: From your experience, how did you confront this experience? How did you make sense of this event?

Answer: N/A

<u>Question 4</u>: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

<u>Answer:</u> N/A

<u>Question 5:</u> This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Well I am not making millions but yes, there are three things that I think has helped:

I had the experience of working for an established operator so I knew exactly the secrets to running a good business. I also finished my B.Comm so I feel I know about business, keeping good records and understanding cash flow. In actual fact, because I had the dream, from day 1 I was putting together a business plan so when I was learning about accounting, I was developing my own set of accounts and understanding it in a context.

I think also that being passionate about something is key, my friends all wanted to work for corporates in the city but I love people and I wanted to control my destiny. Yes, many of my friends have benefited from learnerships and bursaries but that just wasn't for me! It wasn't easy and it took a lot of will power, but hey I am almost a cheese-boy (a SOWETO YUPPIE).

Lastly, I know my product and I know the community. I have established a network in SOWETO that I can call on and we have an understanding that for example, if I take a group to Mama Sally in Kliptown crèche that I take a packet of pap and in return she hosts us and tells her story and many guests have given donations. The same with the hostels, for payment in kind I take groups to the hostels which is very powerful for the tours. I also think I have understood what visitors want to come see so I tell them the truth, we discuss sensitive issues like the origins of the word "kaffir" and so on but it is real. Yah, nothing rocket science but that's just how it is…

Thank you very much for your time and willingness to contribute to this study.

APPENDIX H: INTERVIEW WITH WARREN EILLIF

Name:Warren Eillif Business: Services: Restaurant and entertainment

Date: 02/11/07 Venue: West rand

Interview on the personal experience of owning/managing a small business in Gauteng

<u>Question 1</u>: Please recount your motives for starting your small business:

<u>Answer:</u> I left school and my parents thought about opening a franchise and me running it. I didn't want to study law or commerce like my mates so I did a business diploma and we bought into a pizza franchise. That went well but it was long hours and there was always issues with stock, staff and compliance issues but it was a great learning curve. This lasted for 7 years and we were quiet profitable and growth was good. So my motives, well owning my own business, running it successfully and having a bit of freedom to go to gym, play some sport and maybe have some free time in the day (although evening shifts were horrible) and possibly pursue other projects and so on.

<u>Question 2</u>: Since you started your business, has there been a time were you as the owner/manager were confronted by an event or combination of events that challenged the sustainability of your small business? [If yes, go to question 3 and 4, if no, go to question 5]

<u>Answer:</u> Yes, well I mentioned stock, staff and compliance but that never closed us down. What did happen was that I realised that this shop would never be able to expand past a certain limit. We could only sell so many pastas and so many pizzas. I then decided to sell this business and buy into a news Café in Bedfordview in a new center. The franchise agreement though was pretty onerous so I set up there but started a new chain called Franky Banana's. Good decision, it really flew as the area of Bedfordview expanded and got even more affluent. I have since bought into a club in Sandton and it is going very well.

So to answer your question, the scale of the pizza franchise effectively made me sell it off because I wanted more! There was one incident, we were robbed in 2007 January and I was pistol-whipped. It was in the week but the news spread and I was really worried that this would chase the clients away. Luckily after a couple of promotions things went back to normal, so that worked out OK.

What else, I think watching the cash flow when you are a small guy with suppliers expecting prompt payment was pretty tough. You could do wonderful things in terms of entertainment but you have to watch the cents very closely. I suppose that talks to being really close to the business. Yes, it wasn't an event like you asked but I know that if I wasn't here everyday at opening, watching deliveries, watching stock control and so on it could easily get out of hand (even with me getting a manager in), people are always looking for a gap.

Question 3: From your experience, how did you confront this experience? How did you make sense of this event?

Answer: Well as I mentioned, I set up a good business, I know what people want. I also knew that hard work was the only way so I have a horrible life schedule but hey, that's my decision. I have brought in a manager but he is pretty green and needs to be trained. I have a great accountant that watched cash flow and has help me with financing such as setting up an appropriate overdraft and I use my access bond quiet creatively (I have 4 properties which I used as surety to buy into my club).So I suppose I wasn't naive into what would make this business work and be profitable.

Question 4: Following from question 3, what measures were employed to handle this challenge to growth and tell us whether your organisation prospered thereafter? What if anything might you have done differently?

Answer: I covered the things I did previously but yes we are doing well. What might I have done different. Well you know nothing. There isn't a recipe in this industry, it isn't also a quick-win situation. You have to expect a bit of pain. When we had the pizza business, my parents were 50% owners as they were with the Bedfordview restaurant, as a youngster I was a bit resentful of having to share while I did all the work but hey, that is no different than working in a bank or a accounting firm. So I made piece with that. Now I have a 100% stake in a club and it is all me but a partnership is good in a way so that you can run ideas past someone!

So not that much different. One thing I suppose I would do more of is trust my gut instinct. I get lots of offers and people with ideas for events and promotions etc, yes, also lots of guys looking for jobs and stuff. I think I have developed a good feel for people and if I get a bad vibe then well, its not going to happen. Some call it street smarts, intuition, well what ever but its really helped me over the last 12 years.

Question 5: This is rather unique given all the literature that predicts that most small businesses either fail or face serious challenges within four years of establishment. Do you believe there is anything you did or implemented that has meant that your small business did not experience challenges to its growth.

Thank you very much for your time and willingness to contribute to this study.