AN ANALYSIS OF THE BUSINESS RELATIONSHIP BETWEEN SMES AND INSURANCE COMPANIES IN THE NELSON MANDELA METROPOLITAN AREA.

BY

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CO SUPERVISOR: MR. N. CHILIYA
ABSTRACT

Small and Medium enterprises (SMEs) play an important role as employers and in the economic growth of South Africa and in Africa as a whole. SMEs comprise over 90% of African business operations and contribute to over 50% of African employment and GDP. SMEs sector has shown positive signs in South Africa, Mauritius and North Africa. SMEs constitute 95% of formal manufacturing activity in Nigeria. Senegal and Kenya have provided an environment which is conducive for SMEs (African Development Bank 2005). In August 2006, flood damage to small businesses and residential premises in the Nelson Mandela Metropolitan Area was estimated at R120million (SABC News 2006). The holding of an insurance cover by SMEs is crucial and beneficial to the economy and to the survival and success of the Small and Medium Enterprise sector.

If a business has an insurance policy and a relationship with its insurer it becomes easier for the company to overcome such a catastrophe. However, literature has shown that insurance companies are not willing to insure SMEs and it is the aim of this research to establish whether a relationship between the two constructs exists. An article entitled New Deal In The Offering for SMMEs, the author stated that the insurance industry prefer to deal only with established businesses (Mthimkhulu 2008). The aim of this research is to establish the importance of business relationship between Insurance companies and SMEs. The research will show how beneficial such a relationship is to both industries.

The data for the research was collected through a survey type structured questionnaire that was developed and validated. The questionnaire was administered to the owners or managers of SMEs in the Nelson Mandela Metropolitan Area. The primary objective of this research was to establish whether SMEs in the Nelson Mandela Metropolitan Area have insurance policies for their businesses, and the results have shown that most of the SMEs in the Nelson Mandela Metropolitan Area do not have insurance policies for their businesses.
DECLARATION

I, the undersigned, Kudakwashe Chodokufa, hereby declare that the dissertation is my own original work, and that it has not been submitted, and will not be presented at any other University for a similar or any other degree award.

Signature: -------------------------

Date: -------------------------

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ACKNOWLEDGEMENTS

My special thanks go to the Lord Almighty for He showed me that I can do all things through Christ who strengthens me. I would not have achieved all that I have done without His mercy and grace and provision. I would also like to thank my supervisors, Prof B. Afolabi and Mr N. Chiliya, for their guidance, patience and dedication. Special thanks go to my H.O.D Dr Herbst for all his support.

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Lastly, I would like to thank my family and the Khayundi family, for their support and being my source of encouragement throughout my studies. You have been a great inspiration and I will forever be grateful for all that you have done.
DEDICATION

I dedicate my work to my parents Mr and Mrs Chodokufa I love you.
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<td>CSS</td>
<td>Central Statistic Service</td>
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<tr>
<td>ECDC</td>
<td>Eastern Cape Development Corporation</td>
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<tr>
<td>FSB</td>
<td>Financial Services</td>
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<tr>
<td>FSP</td>
<td>Financial Services Provides</td>
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<td>IDZ</td>
<td>Industrial Development Zone</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>MCOs</td>
<td>Micro Credit Outlets</td>
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<td>RFI</td>
<td>Retail Financial Intermediaries</td>
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<td>SACOB</td>
<td>South African Chamber of Business</td>
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<td>SBA</td>
<td>Small Business Administration</td>
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<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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CHAPTER ONE

INTRODUCTION TO THE RESEARCH PROBLEM

“Most business failures do not stem from bad times. They come from poor management, and bad times just precipitate the crisis”

Thomas Murphy quoted by Damiani (1998:167)
1.1 INTRODUCTION

The Nelson Mandela Metropolitan Area is the largest city in the Eastern Cape Province. In 2001, the Nelson Mandela Metropolitan Area was formed as an administrative area covering Port Elizabeth City, the neighbouring towns of Uitenhage, Dispatch and surrounding agricultural areas. The name was chosen to honour Nelson Mandela, who was the first democratically elected president of the Republic of South Africa. It covers an area of 1 845km², making it the largest city in the Eastern Cape Province which is the poorest province in South Africa. The estimated population of Nelson Mandela Metropolitan Area comprises of 1,5 million, making it South Africa’s fifth largest city in terms of population (Eastern Cape Venues 2006).

The Nelson Mandela Metropolitan Area has the strongest economy in the province with an expanding, exporting automotive industry. The manufacturing sector has changed rapidly during the past decade, and faced with integration into the world economy, lower tariffs and strong foreign competition. While the automotive industry is now a modern and competitive industry, other industries are still restructuring. Textiles and clothing, metals and engineering, machine tolls, leather and leather goods are all industries that have faced strong competition and seen a decline in formal employment. One of the major challenges is to create jobs in the manufacturing industry by diversifying into a wider range of sectors beyond the automotive industry. Sectors with strong links to the automotive industry (metals and engineering, plastics and electronics) can enter related areas. Existing sectors (leather goods, textiles and clothing, food processing) can grow by seizing new export opportunities, especially in higher-value products (Province of the Eastern Cape 2007). These are the sectors that are being filled in by Small and Medium Enterprises (SMEs) in the Nelson Mandela Metropolitan Area. They try to fill in the need that has been created by the automotive industry.

1.2 BACKGROUND TO THE RESEARCH
As early as the 90’s to date thousands of workers have been laid off by businesses, mines and public sector and the recent economic recession and energy crisis do not make it any better. This is evident as there is high level of unemployment in the Eastern Cape Province and South Africa as a whole. The Eastern Cape Province is home to 14.4% of South Africans. The largest population group comprises of the previously disadvantage population of black Africans 15.9%, 12% coloured and 7.1% Indian/Asian. The unemployment rate amongst these groups is high, Black Africans 24%, Coloureds 17.4% and Indian/Asian 7.5% (Statistics South Africa 2001). This shows that there is a need to cultivate entrepreneurship in order to create jobs and develop the Province. SMEs owners/managers lack the skills to run their business as they are faced with the task to compete against established corporations, in all these efforts they forget to insure their businesses and employees against risks.

SMEs play an important role as both employers and major players in the economic growth of South Africa. They provide more than 55% of total employment and contribute 22% of the Gross Domestic Product (African Development Bank 2005). As SMEs contribute significantly to the economy it is important that they have an insurance cover for their businesses. They need to take out health insurance cover for their employees. In the event of an accident they need to have insurance cover that can help them to compensate their workers and protect their business. It would be unfortunate in the event that a small business has to use capital funds to compensate their workers. This could lead to the closure of the business because of insufficient capital to continue running the business.

In August 2006, flood damage to small businesses and residential premises in the Nelson Mandela Metropolitan Area was estimated at R120million (SABC News 2006). It is also crucial to the survival and success of the Small and Medium Enterprise sector in South Africa. It is of paramount importance that SMEs and insurance companies build a business relationship.

Recent advances in relationship building between businesses, centres on the theory of relationship marketing. Relationship marketing is one of the most discussed marketing issues. The importance of relationship marketing has increased during the last twenty years, where researchers and practitioners place more attention on
building relationships with clients and questioning the existing marketing paradigm, which marketers know as “transactional marketing” (Egan and Harker 2005).

There are many opinions as to what relationship marketing actually is, and to what situations it is applicable. In practice, relationship marketing originated in industrial and business-to-business markets where long term contracts have been quite common for many years. It is believed that relationship marketing is best used and most successful in business-to-business buyer-seller relationships. This is so because in this environment a smaller number of customers are responsible for huge amounts of money transfers (Harker and Egan 2006). The problem with relationship management in a business-to-business environment is that implementing companies often see the relationship only from their own perspective. In other words, the supplier (short term insurance companies) decides which customer is worth treating as a key customer, without involving the customers in this decision (Konhäuser 2007).

The objectives of relationship marketing are to identify and establish, maintain and enhance, and, when necessary terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met. This is done by mutual exchange and fulfilment of promises (Brink and Berndt 2004:6).

Research commissioned by the British Insurance Brokers Association (BIBA), revealed that nearly one in five small businesses in the United Kingdom suffers a major disruption every year. Further research suggests 80% of the businesses affected by a major incident close down within eighteen months, and 90% of those who lose data close down within two years. This is due to the failure of the small business to have adequate insurance cover and proper business continuity plans (Cover Sure 2007).

Government can no longer be expected to be the principal provider of employment. Jobs are created by successful, well-managed private sector enterprises. However, governments do play a vital role to ensure that the policy environment is ‘enterprise-friendly’. The path into enterprise should be smooth, and entrepreneurs should be able to receive relevant advice and support, both financial and non-financial, in a highly effective manner from both government and private sector agencies.
Insurance companies need to have a fresh look at the scope and spectrum of services provided to SMEs. The needs of the SMEs sector should be clearly identified and linked with a better understanding of the scale of the enterprise sector and its role in national development (Daniels 1998).

Being in business in today’s tough environment is hard work, with the business person having to keep a close eye on many parts of the business, from marketing to compliance issues up to cash flow. The estimated rate of failure increases dramatically following a fire or other major event such as floods and significant storm damage. When a fire or crisis occurs, the business person has to manage their business as normal but, in addition, prudence dictates that they must manage the rebuilding, the sourcing and replacement of the plant and equipment, as well as the re-supply of stock on hand (Manning 2002).

The SME owners need to be trained and acquire knowledge in order for them to be able to run their business in the most efficient manner. Most entrepreneurs often start a new enterprise ignorant of many key dimensions of running their enterprises and obtaining the necessary information if they are to survive (Shepard, Douglas and Shanley 2000). The key to a successful business is to plan by identifying future demands and expectations of customers, ensuring the product or service demanded is available when customers want it and that it satisfies their needs.

Management needs to look at the Strengths, Weaknesses, Opportunities and Threats that may affect their business environment, this is also known as S.W.O.T. analysis. There is a range of variables that can act as a threat to a business, many of which are outside its control, such as tax, legislation and economic conditions. For many of these, there is little that can be done to mitigate the risk to a company at present.

However, where the owner of the business can cover the risk they should try and prevent the risk. There is range of insurance products available to small businesses. They can insure their business against all the threats that may affect their business. This is one important aspect that the SME owner/manager needs give attention. SME owners/managers need to realise the importance of having insurance policies. It is of
paramount importance for them to view their business as a legacy that continues from generation to generation, not a business that has no future.

Most SME owners run their businesses for survival and they have growth as a long term goal, yet they are unable to reach this level due to poor planning. In order for them to achieve growth, they should guard themselves against any setbacks that may hinder their progress. These include, unexpected occurrences of theft, breakages, fires, strikes, the death of the owner of the business and any other crises that may befall their business (Manning 2004).

The state of dependency of a large percentage of people, either unemployed or potentially unemployed can be significantly reduced. Furthermore, the development of entrepreneurial behaviour will lead to the extension of labour market skills and will also combat the possible obsolescence of current skills due to prolonged periods of unemployment.

The need does exist to create a situation where the entrepreneurial flair of individuals must be developed, supported and encouraged. In other words, the need to encourage small business development, especially within the previously disadvantaged groups in South Africa, is of great importance for the development and long-term survival of the South African economy. Issues such as the absence or limited availability of social safety nets like unemployment benefits in South Africa, reinforces the dire need for self-employment, growth and development.

The South African government has already set the foundation for the growth of SMEs. Thus, there is a need to look at other businesses that offer the SMEs support services such as insurance companies. The occurrence of natural disasters in most cases results in the loss of workers, along with key talent and organisational knowledge, from low morale, fear, physical relocation or death. The owners of SMEs need to develop recovery plans. These strategies should address the safety, health and welfare of employees before, during and after an emergency. Crisis preparedness, response and recovery are essential to help businesses begin to recover. This shows the importance of having an insurance cover in order for the business to recover from any disturbance (Manning 2004).
1.3 STATEMENT OF THE PROBLEM

Literature has shown that insurance companies are not willing to insure SMEs and it is the aim of this research to establish if a relationship between the two constructs exists. The assessment of the business relationship between the two, was measured from an SME perspective. In an article entitled New Deal In The Offering for SMMEs, the author stated that the insurance industry prefers to deal only with established businesses (Mthimkhulu 2008: 10).

Longenecker, Moore and Petty (2003:612) stipulate that short term insurance companies are not eager to insure SME enterprises and may even turn them down in some cases. It is more difficult for a SME enterprise to address the management of risk, because its risk manager is usually the owner and the owner wears so many hats. Furthermore, risk management is not something that requires immediate attention until something happens. Although small enterprises have been slow to focus on the management of risk, a prudent small business owner will take the time to identify the different types of risks faced by the small enterprise and find ways to cope with them.

In this case, not all SME owners have the skill and time to look into risk management for their business. When a disaster occurs most businesses are unable to recover because there will be no or inadequate insurance cover to protect the business. The owner will be forced to close down their business and people are forced to give up their source of income and employment.

Furthermore, it is not only beneficial for SMEs to protect themselves from such disasters, but they would also need health insurance cover for their workers as they are now playing a pertinent role in job creation. It would be necessary for them to have health policies for their employees so that they are protected in the event that an employee might get injured at work. Their health insurance cover should take care of the expenses and they should not be taking money from the business which has not been set aside to deal with such matters.
1.4 **OBJECTIVES**

1.4.1 **Primary objectives**

- To investigate whether SME owners in the Nelson Mandela Metropolitan Area have an insurance policy to cover their business.

1.4.2 **Secondary objectives**

- To investigate whether the factors influencing the purchase of insurance by SME owners or managers has an effect on their relationship with insurance brokers.

- To establish whether the business-to-business relationship between SMEs and insurance companies is influenced by the purchasing of an insurance policy by SMEs and being approached by insurance brokers.

- To determine whether the size of the business, level of education, having a Recovery Plan and the knowledge of insurance products influence the purchase of an insurance policy by the SME owner or manager.

1.5 **HYPOTHESES**

1.5.1 **Primary hypothesis**

- $H_0$: SMEs in the Nelson Mandela Metropolitan Area do not have insurance cover for their business;

- $H_1$: SMEs in the Nelson Mandela Metropolitan Area have insurance cover for their business.

1.5.2 **Secondary hypotheses**
• **H_0**: The factors influencing the purchase of insurance by SME owners or managers has no effect on their relationship with insurance brokers;

• **H_1**: The factors influencing the purchase of insurance by SME owners or managers has an effect on their relationship with insurance brokers;

• **H_0**: SMEs who have an insurance policy and have been approached by insurance broker do not have a business relationship with insurance companies;

• **H_2**: SMEs who have an insurance policy and have been approached by insurance broker have a business relationship with insurance companies.

• **H_0**: The size of the business, level of education, having a Recovery Plan and the knowledge of insurance products does not influence and the purchase of an insurance policy by the SME owners or managers;

• **H_3**: The size of the business, level of education, having a Recovery Plan and the knowledge of insurance products influence the purchase of an insurance policy by the SME manager or owner.

### 1.6 SIGNIFICANCE OF THE RESEARCH

Insurance companies can play a big role in the success of the SMEs sector as they are able to act as surety when SMEs want to acquire funds from financial institutions. It is important that the owners or managers of SMEs are aware of the benefits associated with having a business relationship with insurance companies. Service providers such as the insurance companies play a very big role in the development and success of the SME sector. Insurance companies will be able to establish what SMEs expect from them. This is in terms of premiums and policies and hence, they can come up with a much more favourable insurance package that is specifically designed for SMEs. Through this research insurance companies will be able to improve their services as they will be in a position to offer their customers insurance packages which target their specific needs.
This research will establish how many SME owners or managers in the Nelson Mandela Metropolitan Area have insurance cover for their business. It is the aim of this research to instigate awareness on the part of SMEs owners of the need for training in this field. The research will establish whether SMEs owners are aware of the benefits of having an insurance cover. The research will also help to raise awareness to the SME sector in the Eastern Cape province on the importance of insurance for their businesses. This is of great importance because SMEs are most vulnerable when it comes to occurrence of a major crisis like a fire, flood or theft. SMEs lack the financial hedging like that enjoyed by larger corporations. In the event of any crisis larger corporations can recover within a short period of time as they have the sufficient financial back up to fund their recovery process. The same cannot be said about the SME sector, research suggests that 80% of the businesses affected by a major incident close down within eighteen months, and 90% of those who lose data close down within two years. This is due to the failure of the small business to have adequate insurance cover and proper business continuity plans (Cover Sure 2007).

The survival of SMEs is crucial and beneficial to the economy of the Eastern Cape and to the South African economy as a whole. The research will benefit, risk managers, business consultants and business continuity consultants by identifying areas that they need to consider when preparing disaster recovery plans, particularly for SMEs.

The main significance of this research is that, through this research the government can identify where to direct their focus in policy making for entrepreneurial development. The second benefit would be that government can establish laws that aim to ensure that SMEs have insurance to be able to protect their existence in the event of a disaster. The Financial Advisory and Intermediary Services Act 37 of 2002 requires that insurance companies educate their clients on the products that are available to them. This research will help to establish whether insurance companies are meeting the requirements of this law. The main reason being SMEs contribute significantly to South Africa’s Gross Domestic Product and reduction of unemployment as discussed above.
1.7 LITERATURE REVIEW

An extensive review of the existing literature into a phenomenon helps in building theory (Carson et al. 2001). These authors stated that, for a researcher to gain true empirical insight, the theory–building phase of the research project should be given “explicit and careful attention”.

Most research is directed at large corporations that have different resources and needs to SMEs. Research by Pretty (cited by Strutt 1998: 8), examined the purchase of insurance by large corporations and the benefit of the insurance program in the event of a large insurable event. The research found that as corporations increased the diversity of their products and their geographical spread of assets, they placed greater reliance on natural operating hedging, rather than transferring the risk to an insurer. This willingness to accept more of the risk themselves was found to be based on the level of diversification rather than on the actual size of the firm. The limitation of the research was that it concentrated solely on the large firms and its relevance to SMEs was not addressed (Strutt 1998: 10).

The review of the theory undertaken showed that there was little or no research undertaken on insurance companies and SMEs, with past research predominately concentrating on large organizations. Manning (2004) in his research entitled “Strategic Management of Crises in Small and Medium Businesses” provided a model for the management of crisis particularly for a SME. The Crisis management Model for SMEs aims at assisting owners or managers of SMEs to minimise the risk associated with losses caused by disasters. This model addresses the need for adequate insurance cover by SMEs and the need for business recovery plans for SMEs.

The model aims at assisting SMEs on how to manage their business in times of crisis. Recent research has been conducted into the business protection market. The aim was to look into what the level of insurance businesses hold, what types of insurance they believe are important and what insurable risk would have the largest impact on their business, should it occur. The findings from the research highlighted the need for protection whatever type of business.
Business relationships are valuable long-term assets of a company. It is necessary to invest in such relationships and to manage this investment to ensure their repeat business. Getting a customer or a supplier to come back over and over again is a challenge for businesses that operate in a competitive environment. Trust, which is an important informal safe-guard, is developed on the basis of personal contacts and confidence in performance. In such a close relationship fluid communications and information flows are essential for implementing long-lasting relationships (Claro 2004).

This substantiates the need for a business relationship between SMEs and insurance companies, as a relationship of that nature can be beneficial for both parties involved. In business-to-business relationships, firms usually customise products and services more than in business to customer relationships. For that reason, prices are seldom standardised, and calculated for each customer individually. In this case, Ryals (2006: 101-113), recommends the value based pricing model. This means that the price a service provider charges a customer should reflect the value a customer sees the product or services that they get. As a precondition, a company needs deep insight into and detailed knowledge of the perceived value of each customer.

The South African SMEs sector has been neglected during much of the century following the discovery of diamonds and gold and the establishment of a modern, capitalist economy with almost exclusive control (Ministry of Trade and Industry 1994:9). However, the South African government has since identified the SMEs sector as a priority in creating jobs to solve the high unemployment condition. With unemployment levels currently at 25, 5% (Statistic South Africa 2006), the SMEs sector has a major role to play in the South African economy in terms of employment creation and income generation. SMEs account for approximately 60% of all employment in the economy and more than 35% of South Africa’s GDP (Ntsika 2002:110). They are the vehicle by which the lowest income people in the society gain access to economic opportunities at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world.

Afolabi stated that SMEs account for about 90% of businesses worldwide. They can be ascribed as a major antidote to overcoming poverty and inequality. SMEs tend to employ more labour-intensive production processes than large enterprises thus
reducing unemployment and invariably, poverty. However, SMEs are prone to poor management practices due to lack of good management structures. By and large many SMEs are often owned by close family relatives comprising husband, wife and perhaps their children. Therefore, the demise of a family member often threatens the continuous existence of the business partly due to lack of insurance cover and institutional framework.

In South Africa, as in many developing and semi-industrialised countries, the main problem experienced by owners or managers of SMEs, is the difficulty of accessing business finance. In the current South African socio-political context, the “access to finance” issue becomes even more topical and sensitive as unemployment, income and wealth inequality levels continue to increase (Ntsika 2002:11). Thus, it is imperative that significant investment is made in SMEs in order to create both short-term and long-term capacity for labour absorption, as well as to improve income generation and redistribution. Support services need to be put in place in order to assist SME to succeed. Insurance companies can act as surety for the SMEs owners and they can assist them to acquire the funds that they need to run their business in the most effective and efficient manner.

There is a need for insurance companies to build a relationship with SMEs as their customers. The success of a business relationship lies in the development and the growth of trust and commitment amongst partners (Brink and Berndt 2004:30). If there is a relationship that is created between short term insurance companies and SMEs, it will be easier for insurance companies to establish the insurance policy needs of SMEs.

At this point it is imperative that a general definition of SMEs be provided. There is no standard definition of SMEs that everyone agrees upon, but it is generally a description of any enterprise with less than 50 to 100 employees, and includes profit making, as well as non-profit making enterprises. Within the definition of SMEs, many authors are recognising a large number of very small (micro) enterprises, with less than 5 employees. Small enterprises are at times referred to as Small, Medium and Micro enterprises a term which includes the larger end of the small business sector-medium-sized enterprises which employ up to 200 people. Most of these definitions
are derived from South African National Small Business Act of 1996. The stated definition will be applied to this research.

1.8 RESEARCH METHODOLOGY AND DESIGN

Leedy and Ormrod (2001), state that to extract meaning for the data collected, one employs what is commonly called research methodology. They argue that the methodology to be used for a particular research problem should always take into account the nature of the data that will be collected in resolution of the research problem. It has also been argued that different research problems lead to different research designs and methods which in turn result in the collection of different types of data and different interpretations of that data.

1.8.1 Ethical Considerations

When conducting research, researchers have general ethical obligations to participants who provide data in their marketing research studies. These obligations include:

Participants should be comfortable
- Researchers should avoid asking embarrassing and prying questions and remind respondents that they need not answer any question they prefer not to answer; and
- Schedule interviewing to minimise disruption in respondents’ lives;

Participants should not be deceived
Researchers should not deceive respondents through misidentification, falsifying the purpose of the research and the length of the research.

Participants should be willing and informed
- Participants should be willing and informed about the research being conducted. They should be informed about the following:
  - Who is doing the research;
  - What is the research about; and
  - How long will it take?
Data should be held in confidence
Researchers should maintain a high standard of professionalism. If participants are told that all answers will be confidential, researchers should keep the data obtained confidential and anonymous (Cant 2005:12).

1.8.2 Research design and plan
The research design refers to the outline plan or strategy specifying the procedure to be used in seeking an answer to the research question (Christensen 2004). A quantitative research method was used for the research study. Quantitative research is used to answer questions about relationships among variables with the purpose of explaining, predicting and controlling phenomena (Leedy and Ormrod 2001). Data was collected through a survey type structured questionnaire that was developed and validated. The questionnaire was administered to the owners or managers of SMEs in the Nelson Mandela Metropolitan Area. A map of the area of study is illustrated below in the dark shaded area:

Map 1: Nelson Mandela Metropolitan Area.

Source: Google Maps
1.8.3 Population and sample

The population is all the SMEs operating in the Nelson Mandela Metropolitan Area. The sample is the SME owners or managers in the urban areas of Port Elizabeth, Uitenhage and Despatch. The sampling technique used in the research was cluster sampling. SMEs were divided into different clusters according to the number of employees. The different clusters had SMEs that had the same number of employees as one sub-cluster as illustrated:

<table>
<thead>
<tr>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
</tr>
<tr>
<td>Medium</td>
</tr>
</tbody>
</table>

Source: Adapted from Zaayman (2003:16).

1.8.4 Data collection instruments source and procedures

Self administered questionnaires were used by the researcher to collect data from the owners or managers of SMEs. It was estimated that there were approximately 2400 registered SMEs in the Nelson Mandela Metropolitan Area. According to the Rao-soft sample size calculator software, using 95% confidence interval with a margin of error of 5%, the sample size was 332 SMEs. Only 203 respondents who gave back their questionnaires.

1.8.5 Data analysis procedure

The data was analysed by the Statistics Department of the University of Fort Hare. The statistical package that was used to analyse the data is the Statistical Analysis System V8 (SA). The packages Statistica and SPSS were also used for the analysis of graphs. The statistical method which was used to analyse the data is Chi-Square test for independence.

1.8.6 Validity and Reliability

The validity and reliability of the questionnaires used to collect data was measured statistically using a number of statistical tests. To measure this, a Chi-square test and
Cronbach’s alpha was used to calculate approximate p-values. The Chi-square test is used to test if a sample of data came from a population with a specific distribution. In other words, it is used to examine the strength of the association between collected data and the specified distribution. The p-value is the probability of observing a Chi-square statistic at least as large as the one actually observed, given that there is no association between a variable of data occurring by chance (Investors words 2007).

1.9 DELIMITATION OF THE STUDY

The research excluded the workmen compensation insurance, unemployment insurance and life insurance. It only focused on short term insurance such as, vehicle / fleet, buildings, contents, electronic equipment, stock & money, public liability, personal accident, employee’s liability, employee dishonesty, health and risk.

1.10 OUTLINE OF PROPOSED RESEARCH REPORT

Chapter One focuses on the research problem. In this chapter there will be a brief background to research, literature review, objectives and hypotheses of the research. This chapter will also include the significance of the research, literature review, research methodology and design.

Chapter Two gives a theoretical overview on the SMEs sector in South Africa economy and the Insurance Industry. In this chapter SMEs will be defined as well as risk and the different types of insurable risk.

Chapter Three discusses an in-depth analysis on relationship building and the Crisis Management Model for SMEs. The relationship building process will be discussed in detail as well as the crisis management model for SMEs.

Chapter Four examines the research methodology it will include the research design and plan, population and sample, data collection instruments and the data analysis procedure.
Chapter Five discusses the results findings.

Chapter Six is the concluding chapter with focus on recommendations and suggested areas of further study.
CHAPTER TWO

A THEORETICAL OVERVIEW ON THE SMES SECTOR AND THE INSURANCE INDUSTRY

“If I had it my way, I would write the word “Insure” over the door of every cottage and upon the blotting book of every public man because I am convinced that, for sacrifices which are inconceivably small, families be secured against catastrophes which otherwise would smash them up.”

2.1 INTRODUCTION

Since the 90’s to date thousands of workers have been laid off by businesses, mines and public sector and the recent energy crisis does not make it any better. The Eastern Cape Province with the second largest land area represents almost 14% of South Africa’s total surface area, second to the Northern Cape with 29.7%. According to the latest census conducted in 2001, Eastern Cape hosts the third largest population of 14.4% South Africans, the second largest being Gauteng with a population of 19.7% and the highest being KwaZulu Natal with approximately 21% of South African population (Statistic South Africa 2006).

Unemployment figures are on the rise and the gap between the rich and the poor is widening. It is important to cultivate an entrepreneurship culture for the creation of jobs. Small and Medium Enterprises (SMEs) are becoming the leading employers in the South African economy as many people are being retrenched and there are low employment opportunities in the economy.

SMEs are often the vehicle by which the lowest income people in South Africa gain access to economic opportunities. This is at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world. In South Africa, as in many developing and semi-industrialised countries, the main problem experienced by owners or operators of SMEs, is the difficulty in accessing the necessary support from service providers. Thus, it is imperative that significant investment (in terms of support from service providers) is made in SMEs in order to create both short term and long-term capacity for labour absorption, as well as to improve the income generation and redistribution (Ntsika 2002:11).

The success of the SMEs sector depends upon the establishment of a relationship between SMEs and insurance companies. In the event that an SME faces a catastrophe like a fire, strike or that its employees are injured at work, they need to have insurance to cover such eventualities as such disasters may leave them vulnerable if they do not have insurance. There is need to define the two constructs namely SMEs and insurance companies in order to have a clear understanding of the two variables that are the main components in this research.
2.2 AN INTERNATIONAL PERSPECTIVE ON SMEs

Researchers and policymakers describe small firms in different ways. There seems to be no universally agreed upon definition of what SME’s are. Different countries have different definitions that are suitable for their economy. Current definitions look at what SME’s are not, making definitions over dependent on contrasts. The understanding of SME’s is pretty much comparative jargon. Most economies have come up with their own definition of SME’s which is suitable with their level of economic development.

Robinson and Pearce (1984:80) found that firms could typically be defined on the basis of either annual sales or number of employees and that even between these two measures there is wide variability. In that definition, a small business can range anywhere from 1 to 200 employees. Keats and Bracker (1988:41) found that on the measure of annual sales, researchers define small businesses as those businesses with a turn over falling in the range of under US$150 000 to less than US$150 million.

A small business is broadly defined by the U.S Small Business Administration (SBA, 2004), as “one that is independently owned and operated, and which is not dominant in its field of operation”. On a more detailed level, a small business can be defined as one that is organised, has a place of business in the United States, makes a contribution to the US economy by paying taxes or using its products, material or labour and does not exceed the numerical size standard for its industry. It further defined a small business in the retail trade as one that has a turn over of less than US$6million annually.

The European Union defines SMEs as enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro. Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro (European Commission 2003).
2.3 A VIEW ON SMEs IN AFRICA

SMEs comprise over 90% of African business operations and contribute to over 50% of African employment and GDP. SMEs sector has shown positive signs in South Africa, Mauritius and North Africa. SMEs constitute 95% of formal manufacturing activity in Nigeria. Senegal and Kenya have provided an environment which is conducive for SMEs. In Kenya SMEs employed 3.2 million people in 2003 and they accounted for 18% of national GDP. SMEs in Senegal contribute about 20% of national value-added and in Morocco, 93% of all industrial firms are SMEs and account for 38% of production, 33% of investment, 30% of exports and 46% of all jobs (African Development Bank 2005).

The importance of SMEs in developing Africa and African countries is evident in the statistics provided. When comparing South Africa’s SME sector’s GDP contribution of 33%, which is the strongest economy in Southern Africa to Kenya’s 18% GDP contribution. This shows the importance of SMEs in Africa. The performance of South Africa’s SME sector shows growth and stability especially considering the fact that Kenya is considered one of East Africa’s stable and strongest economies (African Development Bank 2005). It is best that a brief section on the Kenyan SME sector is provided, as Kenya is the economic hub of East Africa, serving Tanzania, Rwanda, Ethiopia and Uganda. It plays a major role in the East African economy, just as South Africa serves the southern African countries. This further illustrates the importance of SMEs in the development of Africa.

Kenya

Kenya is a market economy. It has a GDP per capita of US$330 recorded in 1999 and over half the population living below the poverty level. A survey carried out on SMEs in 1999, defined SMEs as employing up to 50 people, it also showed that there are 1.3million enterprises in that category employing 2.4million people, which constitute about 18% of the employed work force. It is estimated to contribute added value of approximately 30% of GDP and 66% of the enterprises are located in rural areas (African Development Bank, 2005). This affirms the role that SMEs play in the African economy they can reach into markets that large corporations can not access. They also provide employment and help to alleviate poverty so it is necessary for
them to take out insurance for their businesses. If they have an insurance cover they can be able to offer health insurance cover for their workers which will in turn help towards a better quality of life for their employees.

It is important to look at a South African perspective and definition of SMEs. It is important to have a look at both the South African and international definitions of SMEs because it helps as a basis of comparison and it gives a clear understanding of the importance of the SME sector in the economy. The U.S economy and the European Union economy is comprised of SMEs so this goes to show that the SME sector is an important part of a strong economy.

2.4 A SOUTH AFRICAN PERSPECTIVE ON SMEs

2.4.1 A description of SMEs

This section will define SMEs and it will give descriptions on their characteristics. Despite their importance, SMEs do not have a universally acceptable definition. The most widely used framework in South Africa is the definition of the National Small Business Act of 1996.

The White Paper of the South African government on Small and Medium Enterprise development acknowledges the differences between survivalist and micro enterprises and SMEs. One of the difficulties is that there is no common understanding on the meaning of the term SMEs. However, the White Paper, categorise SMEs based on their size and diversity. The following four categories are identified:

- **Survivalist enterprises** – activities performed by people who are unable to find a paid job in the economic sector of the country and this includes hawkers, vendors and subsistence farmers. Their income falls short of the minimum standards, little capital is invested, skills’ training is minimal and there are few prospects for growth into a viable business enterprise;

- **Micro enterprises** – very small business often involving only the owner, some family members and at most one or two paid employees. These businesses
are often not formalised in terms of licences or formal premises and they include Spaza shops, minibus taxis and household industries. The owners have basic business skills or training and many of these enterprises have the potential to change into small businesses;

- **Small enterprises** – constitute the bulk of the established business, with employment ranging between five and fifty. The enterprises will usually be owner managed or directly controlled by owner communities; and

- **Medium enterprises** – these are medium-sized enterprises which employ fifty one to two hundred employees and a turnover of R5 million per annum. Medium enterprises are often characterised by the decentralisation of power to an additional management layer.

The latter two categories of enterprises, that is, the SMEs industry. Constitutes the basis of the SMEs economy, which are usually owner-managed, operate from fixed premises and have all the characteristics associated with formality (Department of Trade and Industry 1995:9).

SMEs are obviously not trillion rand worth of corporate multinationals. They do not have complex and specialist audited annual turnover spread sheets. Definition by references to the number of employees and total business assets also adds to the confusion of what SMEs are comprised of.

Cronje, Du Toit and Motlatla (2003:493), observes that it is difficult to give a universally accepted definition of SMEs. However, some important characteristics of SMEs are identifiable. According to the World Bank (1978) (as quoted by Cronje et al. 2003), the following characteristics are observable among SMEs in developing countries:

- SMEs are generally more labour intensive than larger businesses;

- On the average, SMEs generate more direct job opportunities per unit of invested capital;
SMEs are an instrument for the talents, energy and entrepreneurship of individuals who can not reach their full potential in large organisations;

SMEs often flourish by rendering services to a small or restricted market which larger businesses do not find attractive;

SMEs are a breeding ground for entrepreneurial talent and a testing ground for new industries;

SMEs create social stability, cause less damage to the physical environment than large factories, stimulate personal savings, increase prosperity in rural areas and enhance the population’s general level of economic participation.

These are not the only characteristics of SMEs. In addition, SMEs are also usually price followers, whilst ingenuity, creativity and devotion are typically found in them. They are by nature often credited with the ability to bring about social stability in the poorer communities. This is done by generating more job opportunities, hence, increasing prosperity due to the populations’ general level of economic participation (Du Toit et al. 2001:492).

The Eastern Cape Province is one of the poorest provinces in South Africa, thus SMEs can help in the improvement of the standards of living of the people living in the Eastern Cape Province. Against this background it is important to clearly define SMEs as this will assist in understanding the need to foster a relationship between SMEs and insurance companies. The relationship will ensure the growth of SMEs because they have different needs as they are different in their nature and insurance companies need to realise those needs as they establish a relationship with SMEs. It is the aim of this research to emphasise on the importance of this relationship.

According to Cronje et al. (2003:494), unified definition of SMEs will help explain their nature. However, as stated earlier there is no single acceptable definition for SMEs. Instead, it differs from one country to another, and even within one country different definitions do exist. This perhaps maybe due to the International Labour Organisations (ILO) recommendations 189 which states that member states should define SMEs according to their own national economic and social conditions.
have therefore been defined against various criteria (both qualitative and quantitative), the main ones being the number of workers employed, volume of output or sales, and the main ones being the number of workers employed, volume of output or sales and the value of assets employed.

In South Africa, the National Small Business Act of 1996, defines small businesses as, “A separate distinct business entity, managed by one owner or more and which can be classified as a micro, very small, a small or medium enterprises by satisfying the criteria.” These include cooperative enterprises and non-governmental organisations, as well as branches or subsidiaries if any (Rwigema and Venter 2004:314). In general, while differences exist among sectors or sub sectors, the Act provides the following general classifications for SMEs in South Africa:

- Businesses with fewer than 200 employees, with an annual turnover less than R40 million and gross asset value of less than R18 million are medium enterprises;

- Businesses with less than 50 employees, with less than R25 million in total annual turnover and less than R4 million gross asset value is small enterprise;

- Businesses belonging to the “very small” category are those with less than 10 employees, with less than R4 million annual turnover and less than R1.8 million gross asset value;

- Lastly, businesses with less than five employees, with less than R15 million annual turnover and less than R10 million asset value are regarded as micro.

The study at hand will be using the above definition, as classified by the National Small Business Act of 1996. With SMEs defined this shows that insurance companies have to work with a large group of customers. There are diverse characteristics associated with the different SMEs which have different needs that the insurance companies can help to fulfil. As each SME plays a different role in the South African economy, in service provision or manufacturing industry and product offering. Their common role in the South African economy is to provide employment.
2.4.2 Role played by SMEs in the South African Economy

In South Africa, SMEs account for 33% of the GDP in 1999. SMEs are prominent in community, social and personal services and the finance, real estate, wholesale and agriculture sectors. Twenty three percent of the population in SMEs are economically active as illustrated below (DTI 2000).

Table 2.1 SME contribution to GDP (1999)

<table>
<thead>
<tr>
<th>Small Business</th>
<th>170,585,000</th>
<th>25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Business</td>
<td>56,024,000</td>
<td>8%</td>
</tr>
<tr>
<td>Total GDP (Round million)</td>
<td>675,881,000</td>
<td></td>
</tr>
<tr>
<td>1 US$ = approx. SAR and 7.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source DTI 2000)

Table 2.2 Economic participation of population in SME (1999)

<table>
<thead>
<tr>
<th>Small Business</th>
<th>1,226,000</th>
<th>16.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Business</td>
<td>909,000</td>
<td>12.3%</td>
</tr>
<tr>
<td>Total Economically Active Population</td>
<td>7,397,200</td>
<td>100%</td>
</tr>
<tr>
<td>Total Population</td>
<td>41,230,000</td>
<td></td>
</tr>
</tbody>
</table>

(Source DTI 2000)

SMEs represent an important vehicle which addresses the challenges of job creation, economic growth, and equity in South Africa. Globally, SMEs are playing a critical role in absorbing labour, and generally expanding economies in creative and innovative ways. Mutezo (2005:29) sites the following as contributions made by SMEs in South Africa:
a. Providing job opportunities

As illustrated in Table 2.2, in 1999, SMEs in South Africa employed 28.9% of the country’s economically active population. Business Partners Limited is taking the initiative and is addressing the question of developing entrepreneurship. Its five point plan for developing SMEs centres around the following:

- Creating an environment that will encourage entrepreneurship and development of SMEs;
- Mobilising financial resources to promote SMEs by means of financial support programme;
- Making available low-cost and affordable business sites in areas that lack them;
- Upgrading SMEs managerial skills and knowledge;
- Introducing appropriate professional aid programmes.

b. Introducing innovative products

Innovation is the transformation of an idea or invention into new, socially accepted and useable products or services. Small firms are extremely innovative and can generate more innovations per worker than large firms (CSS 2002: 18).

c. Stimulating economic competition

When economic competition exists, business vies for sales and customers have greater freedom of product choice. Some producers may set high prices, withhold technological developments, exclude new competitors or abuse their position of power. SMEs compete against larger producers and improve the nature of the competitive environment.
d. Aiding larger corporations

Some functions can be performed efficiently and effectively by SMEs, and therefore, SMEs contribute to the success of the larger companies. Such functions include:

- Distribution function: SMEs such as wholesale and retail outlets perform a valuable service for large firms by distributing its products to customers;

- Supply function: SMEs can function as suppliers to, and subcontractors for larger companies. Where the large company agrees to long-term relationship with the SME, the latter can generate cost-saving ideas.

e. Producing goods and services

SMEs are not burdened by large hierarchical organisational structures, entrenched culture and firm strategies that limit the flexibility and productivity of the company. The owners of SMEs are often the managers thereof, and have the authority to make decisions regarding the operations to increase efficiency (Longenecker, Moore and Petty 2000:31).

Kesper (2000) argues that although there is a general perception of the South African SME sector as a key contributor to job creation, international competitiveness and economic empowerment. Only a small segment of the sector has the potential to contribute to the economic growth of South Africa. To change this, SMEs need to establish alliances with strategic industries such as insurance companies, who not only offer them insurance cover in the event of a disaster, but who will also act as surety and underwriters when the SME owners seek financial assistance from the corporate world. The services that insurance companies offer necessitate the need for relationship building between the two entities. This relationship ensures that SMEs are protected by having insurance cover for their businesses in the event of any crisis.

The primary aim is for this sector to grow, as it is playing an important role in the South African economy by providing employment. SMEs are able to reach markets and geographical areas that larger corporations are not able to reach. Through
developing these areas, SMEs improve the living standards of the small communities where they operate.

SMEs have contributed immensely to the South African economy as they represent 97.5% of total number of business firms and contribute 42% of total remuneration (Entrepreneur SA 2005:3). This contribution can only be possible with the aid of the government creating an enabling environment as discussed in the following section. It is important to discuss the lengths to which the South African government has gone to assist South African SME sector. The government has been able to identify this sector as one that can help balance out inequalities of wealth amongst the different economic groups in South Africa. The willingness of the government to assist this sector means that, as a partner with the SMEs sector they can put in place legislation that can ensure a relationship between SMEs and insurance companies. The support that the South African government has given this sector has led to the success of SMEs sector.

2.4.3 The enabling environment for SMEs

SMEs need an enabling environment to survive and grow. According to the United Nations Development Programme (UNDP) (1999:1), in countries where the policy environment has been restrictive, SMEs, entrepreneurs need an incubating and enabling environment in order to develop their natural entrepreneurial predisposition behaviour. Therefore, both entrepreneurs and the enterprises have a conducive and enabling environment (Richards 1999:4).

The creation of a favourable environment for the birth and growth of SMEs has been a major objective of many countries. Hence, governments have made the development of policies to promote a viable SME environment their top priority. In South Africa, the National Small Business Act 102 of 1996 and the government white paper on national Strategy for the Development and Promotion of Small Businesses 1995 are the two main instruments that the government is using to stimulate the birth and the growth of small businesses.

This strategy ensures that the SMEs sector is well supported by putting in support systems that make it easy for them to access the market, training and finance. There
are some suggestions that were proposed by the South African Chamber of Business SACOB (1999). They agreed that the Banks Act should remain the same; they recommend that the government guarantee the capital of investors in the event of failure. This suggestion seems reasonable since it will make servicing the SME sector more attractive to the financial institutions.

Government has put in place structures such as Small Enterprise Development Agency (SEDA). SEDA is the department of Trade and Industry’s agency for supporting the development of small businesses in South Africa. SEDA was launched in December 2004 and it replaced the previously existing small business support institution (Ntsika Enterprise Promotion Agency) and has representation at all levels of government. SEDA’s role is to render an efficient and equitable economic growth in South Africa. Thus, it provides a wholesale non-financial support service for SME promotion and development (SEDA 2007).

One other such government structures is Khula Enterprise Finance Limited which was established in 1996 as an agency of the Department of Trade and Industry. It is a wholesale financier, which facilitates access to credit for SMEs through various delivery mechanisms, including commercial banks, retail financial intermediaries (RFIs), and micro credit outlets (MCOs).

Khula provides guarantees to registered commercial banks and other private sector financial institutions that finance entrepreneurs in SME sector. These guarantees serve as collateral for entrepreneurs, and are based on a risk sharing arrangement, whereby Khula assumes a portion of the risk associated with lending to the SME sector (Rwigema and Venter 2004:396). The financial support that is given makes it easier for insurance companies to be able to deal with SMEs as they become less of a risk to them.

However, these services that are being offered are not always accessible to SMEs located in the rural areas. Most SME owners are not aware of the existence or the role that these agencies play. Hence, the government should do more to try and educate and to reach to the SMEs that need these services the most. SMEs need more financial assistance and to be trained in matters regarding finances. The next section will focus on the insurance sector, the definition of insurance, types of insurance that are being offered by insurance companies. The section gives a brief
explanation on the role that insurance plays in covering financial risks faced by businesses.

2.5 A PERSPECTIVE ON THE SHORT – TERM INSURANCE INDUSTRY

Insurance represents an important method of meeting the financial consequences of risk. It has been traditionally defined as the business of transforming event (insurable) risks by means of two-party contract. Insurance provides a mechanism for the transfer of the cost of risk rather than the transfer of risk (Valsamakis, Vivian and Du Toit 2005:253).

An insurance contract is a contract in which one party purchases the right to be compensated by another party for specific losses above an agreed-upon level in a particular state of the world. Insurance companies are risk transformers. Their business is the supply of financial innovations to their customers that allow those customers to transform their risks (Culp 2001: 549-557).

Short term insurance is defined in the short- term insurance Act as providing benefits under short term policies which means engineering policies, guarantee policies, liability policies, miscellaneous policies, motor policies, accident and health policies, property policies or transportation policies or a contract comprising a combination of these policies (Short-Term Insurance Act 1998).

Households and businesses buy insurance to transfer risk from themselves to the insurance company. The insurance company accepts the risk in return for a series of payments, called premiums. In the insurance industry, underwriting is the process used by insurance companies to determine whom to insure and what to charge. During a typical year, insurance companies collect more in premiums than they pay in claims. Insurance companies are a major source of short and long term financing for businesses (Boone and Kurtz 2006:561).

Insurance companies may be a good source of funds for a small firm especially real estate ventures. The business owner can go directly to the insurance company or contact it is agent or a mortgage banker. While insurance companies have traditionally engaged in debt financing, they have more recently demanded that they
be permitted to buy an equity share in the business as part of the total package (Meggison et al. 1997:12).

When starting a business venture the business owner is taking certain business risks, some of which are unavoidable, but others can be covered by insurance. In any business, the possibility that, years of hard work might be lost due to theft, accidents or a fire should not be ignored. Insurance is usually voluntary, but nevertheless important. The entrepreneur should develop a well planned insurance policy which can cover these losses by means of insurance payments.

Insurance provides one of the most important means for small firms to transfer business risks. A sound insurance program is imperative for the proper protection of a small business. Many small firms carry insufficient insurance protection. This is a fact that the entrepreneur often comes to realise only after a major loss (Longenecker et al. 2003:618).

As established above, the principal value of insurance lies in the reduction of risks from doing business. In buying insurance, the SME trades a potentially large, but uncertain loss for a small but certain one, which is the cost of the premium. In other words, the SME trades in uncertainty for certainty. At this juncture a definition of risk and the types of risks that can threaten the existence of an SME should be discussed.

2.5.1 Definition of Risk

Risk is defined as the variation of the actual outcome from the expected outcome. Risk therefore, implies the presence of uncertainty. There maybe uncertainty as to the occurrence of an event producing a loss, and uncertainty as regards the outcome of the event. The degree of risk is interpreted with reference to the degree of variability and not with reference to the probability that it will display a particular outcome. The standard deviation is a good measure of risk (Valsamakis et al. 2005:27).

Risk can also be defined as any source of randomness that may have an adverse impact on a person or corporation (Culp 2001:14). The definition of risk as the
deviation of an actual outcome from the expected result or outcome implies the following:

- Uncertainty surrounds the outcome of the event. The decision-maker is uncertain about the outcome but predicts an expected outcome. If the outcome was certain there would be no uncertainty, there would be no deviation from the expected result therefore, no risk;

- The degree of uncertainty of the actual outcome about the expected outcome determines the level of risk. The greater the possible deviation between the expected and actual outcomes, the greater the risk (Valsamakis et al. 2005:29).

2.5.2 **Types of Insurable Risks**

There is no completely satisfactory test that has been formulated to determine if a particular risk is insurable or not. Conceptually most pure risks should be insurable. However, some risks can be pure and non-insurable. For example, the possible destruction of a building due to war is generally not insurable. Usually damage to property, consequential losses arising out of this property, injury to people and liability claims from sudden and accidental events resulting in the above mentioned losses are insurable risks (Valsamakis et al. 2005:34)

2.5.3 **Insurance policies offered by South African Insurance companies**

Several classifications of insurance and a variety of policy coverage are available from different insurance companies. Each purchaser of insurance should seek a balance among coverage, deductions and premiums (Longenecker et al. 2003:622). The rapid growth of the SME sector has brought more focus on this sector with insurers realising that SMEs have different needs and requirements as compared to larger corporations. When it comes to insurance, insurers can not have a one size fits all approach with SMEs.

Anthony Jackson, general manager of Auto & General Business Insurance was quoted by Chiat, saying the following, “It all comes down to risk. A large corporation
of more than 200 employees, for example, need a more in-depth insurance and risk analysis which would obviously increase premiums and have huge cost implications. In the SME sector however, the risk is more clearly understood and contained, and a full risk analysis is not really a necessity”. This fact has been overlooked by the short term insurance industry, and SME’s have also not always been provided with insurance solutions that are properly relevant to their unique needs. In fact, SMEs have normally been lumped in with large business organisations, resulting in unnecessary and over-priced insurance policies (Chiat 2006).

In his view, Jackson believes that, to ensure that an SME is adequately looked after from an insurance point of view, the insurance policy must contain the correct combination of traditional policy sections. This means that, there should be no superfluous or irrelevant clauses and features, which, in turn, means that there are no necessary premium costs for the SME. Most importantly, clients should have the flexibility to include additional cover, should it really be of their business. An SME does not need to be insured against all possible risks, but instead, have a policy that is tailor made to suit their business’ unique needs (Chiat 2006). Auto & General has then divided SMEs into the following four market segments:

**Table 2.3 Insurance products.**

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<th>Professional</th>
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<td>- Accountants</td>
<td>- Florists</td>
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<td>- Lawyers</td>
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For the four segments the following insurance products are offered:

- **Fire** – covers the business property against loss and damage due to a wide scope of perils\(^1\) ranging from fire, lightning, earthquakes, storms and snow to charges for fire extinguishing at the business premises;

- **Business Interruption** – this helps to place the business in the same position if there is any loss of turnover / sales/ revenue/income as a result of loss or damage to business property;

- **Office Contents** – specific cover for office furniture kept inside business premises;

- **Theft** – ensures that business goods will be covered against robberies and burglaries;

- **Money** – protects the business in the event of loss of or damage to cash, cheques or even the safe;

- **Glass** – specific cover for the fixed glass at the business premises;

- **Electric Equipment** – a specialised cover extension for loss and damage to computers and licensed software used for business purposes;

\(^1\) A peril can be defined as the source of loss (Valsamakis et al. 2005:32).
◆ **Portable Business Possessions** – provides wider cover for business items that are regularly taken away from the insurer’s premises;

◆ **Public Liability** – protects the business in the event that it is held responsible for injuries, death or damage to a third party;

◆ **Goods in Transit** – covers business goods when being transported;

◆ **Motor** – ensures protection of vehicle/s against accidents, theft and many other incidents, depending on the type of cover you have selected;

◆ **Accounts Receivable** – compensates the business if it can not trace amounts owed to the business because your financial records were lost or destroyed in an incident covered under the fire section of the policy;

◆ **Fidelity Guarantee** – protects the business against losses suffered due to fraud by employees;

◆ **Personal Accident** – provides insured owners and shareholders with cover for death, disablement and medical expenses after an accident;

◆ **Employer’s Liability** – protects the business if it is held responsible for injuries, death or illness suffered by an employee;

◆ **Accidental Damage** – a unique extension to cover the business goods against accidental loss and damage. These incidents are not insurable under any other policy section.

The general insurance products that most insurance companies offer to small businesses in different sectors have been discussed. It is important to note that insurance companies can still offer SMEs more in terms of insurance products. In the United Kingdom, insurance companies offer SMEs more products and more training,
this is discussed in the next section. It would assist the South African SMEs sector if such products were to be introduced by insurance companies.

2.5.4 SMEs and Insurance Companies: A Global Perspective

Globalisation has necessitated the need for a more global perspective, since South Africa is not operating in a vacuum. To create a better understanding on SMEs and insurance companies a global perspective is needed. The nature of the relationship that other countries have established between the two sectors helps to provide a clearer understanding of the relationship that can exist between SMEs and insurance companies.

Australia

In Australia, the rate of Small and Medium business failure is reduced by the business having insurance covers. With modern business insurance, the policyholder should be better off. Cover is available and is often taken with reinstatement conditions. In layman’s terms, this means ‘new for old’. Therefore, the business suffering the loss will be compensated, not for the written down or market value of their building, machinery and plant, and other contents, but rather the cost of replacing the item with new property (Manning and Allan 2004).

The monetary value and benefit to the business owner can be substantially different. After the loss, the business may have all new assets. These assets are often more efficient or require less maintenance than the property destroyed. Subject to adequate cover, the major benefit of course is that the business does not have to re-finance to purchase the new property when it is lost as the “new for old” cover provides the additional funds to meet these costs (Manning and Allan 2004).

The modern insurance policy goes further since it provides an additional cover under the extra costs of Reinstatement Memorandum. This cover protects the policy holder from the additional costs incurred to bring the premises, and any plant and equipment up to the standards required by the current building, local government, environmental protection agencies, worker cover, fire brigade or state and federal government regulations. The benefit of the modern insurance policy in Australia does
not stop at the property loss which is referred to as the material damage cover. It also covers the loss of profit sustained by the business. This is known as Business Interruption, Consequential Loss or loss or profits insurance (Manning and Allan 2004).

With this cover providing significant additional benefits, the business assets, although damaged, should be able to be put back with no financial loss to the business owner. In fact, on paper, the business should be better off with buildings and equipment upgraded to modern equipment. The reality is that some businesses survive the fire or loss and some businesses do not.

Looking at the way that the Australian government has supported the small business sector and the insurance industry through the legislation, the South African government can do the same. This perspective actually shows that a relationship between SMEs and insurance companies can have an improved relationship where both parties can benefit.

**United Kingdom**

Studies were also carried out in the United Kingdom that illustrate that it is possible for a business relationship to be forged between SMEs and insurance companies. Most SMEs have a tendency not to insure their businesses which becomes a problem. They need to ensure that their business is kept running in the event that their key personnel who is usually the owner of the business is unavailable due to one reason or another (Thorpe 2004).

In the survey, managers were asked to rank the top three types of insurance, again key person and director's or partner's share protection came in at the bottom of the list. As with individual insurance, companies just do not perceive this insurance as important, given their other protection and business needs. However, although the respondents do not perceive key personnel insurance to be as important to their company, they do recognise the importance of the key person to their company². Therefore, businesses are aware of the risk to their ability to continue trading should they lose a key person for a length of time. However, they do not rank the insurance

² Key personnel insurance is coverage that protects against the death of a firm’s key personnel.
that would help their business continue through these troubled times, as important (Thorpe 2004).

A small number of insurers in the United Kingdom are starting to discount premiums and or recommending that their clients prepare a Business Continuity Plan (Walsh 2003). In his paper on the role of loss adjusters and claims preparers, Thorpe (2004) does make the point that many large corporations pre agree the loss adjuster before the event. This arrangement is not available to SMEs. This is because short term insurance companies do not view small businesses as their major profitable clients. It could also be due to the fact that the amount of business interaction with small business is at a minimal level.

It is important to get an African perspective on the relationship between SME sector and insurance industry. The next section gives a brief description of the Nigerian SME sector and insurance.

**Nigeria**

A business relationship between SMEs and insurance companies is possible even within an African context. In Nigeria, the collapse of several promising SMEs and other business concerns in the business landscape in the last four decades. This has been attributed to lack of awareness of business owners. Mainly on the need to strengthen their risk-taking ability and long-term sustenance of their enterprise through adequate and appropriate insurance coverage for their investment (Saghana 2009).

In an article called, “Nigeria: Cornerstone Seeks Growth of SMEs Through Insurance Support”, Saghana mentions that SMEs in Nigeria can benefit a lot from the different types of insurance products that are being offered by insurance companies. Such as Group Life insurance, Keyman Assurance, Critical Illness Benefits, Income Protection and Credit Line Assurance. The Managing Director of the Life Division of Cornerstone Insurance Plc, an insurance company in Nigeria, during a Business Day, advised that SMEs should not deprive themselves of many benefits from insurance. These benefits include provision of long-term funds and strengthening of their risk taking ability; provision of credit-linked insurance to support SMEs growth.
SMEs should not deprive themselves of job creation, risk transfer and indemnification, enhanced productivity through insurance-backed risk and avoidance of bankruptcies. The main aim of the Business Day function was to advise business leaders to embrace insurance, especially tailor-made insurance solutions and other financial cushion that could sustain businesses in the long-run (Saghana 2009).

It is of great importance that insurance companies do way with the misconception and myth that have been woven around insurance. The trust in the insurance industry in Nigeria is understandably low because of the negative perception of insurers. However, things have changed for the better in the last two years. Insurance companies are now promptly settling genuine claims and deploying technology to enhance service delivery (Saghana 2009).

It is possible for the insurance industry to reach out into the SME sector, as is the case in Nigeria. South African insurance companies can follow the lead of the Nigerian insurance sector, and offer its SME customers a variety of insurance policies that suits their needs and particular situation. The research carried out in the United Kingdom, Australia and Nigeria serves as proof that a relationship between SMEs and insurance companies can be established. The relationship between the two sectors can see the further growth of SMEs in South Africa.

2.6 SUMMARY

This chapter has given an extensive definition of SMEs. There is no concrete definition of SMEs but the literature that was reviewed, revealed that most of the definitions were similar in nature. SMEs are described in terms of their annual turnover and the number of employees that the business has under their employment. The international and African perspectives on SMEs were also discussed.

A more general look at the SMEs sector in South Africa has shown that the industry has great potential in the growth of the South African economy. The South African government has shown its support for small business development through the Small Business Act of 1996. It represents and promotes the interests of the SMEs sector with emphasis on those entities contemplated in the National Small Business Support
Strategy. One of its main functions is to advise the national provincial and local spheres of government on social and economic policy that promotes the development of small business in South Africa. There are different types of insurance policies that are offered by insurance companies.

As shown by the developed countries, a well-natured relationship between SMEs and insurance companies can result in the growth of the SMEs sector in the economy. South Africa as a leading economy in Southern Africa will benefit greatly from the development of a relationship between the two sectors. The next chapter gives an in-depth analysis on relationship building and the Crisis Management model for SMEs.
CHAPTER THREE

AN IN-DEPTH ANALYSIS ON RELATIONSHIP BUILDING AND THE CRISIS MANAGEMENT MODEL FOR SMES

“When written in Chinese the word for crisis is composed of two characters. One represents danger and the other represents opportunity.”

John F. Kennedy (1959)
3.1 INTRODUCTION

In these tough times, SMEs need to find support from the industries that can assist them in achieving growth and sustainability. Building relationships with insurance companies is one way for SMEs to secure their investments. In the event of a crisis, SMEs need to be prepared so that their businesses are not permanently affected. It is important that they survive such incidences. As discussed in the previous chapter, risk exists, and there is need for SMEs owners or managers to protect their businesses.

Manning (2004) in his research entitled “Strategic Management of Crises in Small and Medium Businesses” provided a model for the management of crisis particularly for SMEs. The Crisis Management Model for SMEs comprises of six phases that assists owners or managers of SMEs to minimise the risk associated with losses caused by disasters. Although this model has not been tested on South African SMEs, it addresses the need for adequate insurance cover and the need for business recovery plans for SMEs. To meet their insurance needs SMEs need to forge a relationship with insurance companies.

Successful relationships between suppliers and business customers involve mutual respect, trust, and authenticity. At this level of the relationship, the business–to–business seller must demonstrate an authentic interest in the customer as an individual and the customer’s organisation. Customers who place a high value on business relationships reciprocate in kind (Vitale and Gigierano 2002: 342).

Insurance companies need to build a relationship with SMEs as their customers. Brink and Berndt (2004:30) state that the success of a business relationship lies in the development and the growth of trust and commitment amongst partners. If there is a relationship that is created between insurance companies and SMEs, it becomes easier for insurance companies to establish their insurance policy needs. SMEs will also realise that insurance companies are not after their money but they offer them protection against any form of disturbance that their business might encounter.
If SMEs and insurance companies establish trust, this will enable them to build a long-term relationship, where both parties benefit. Commitment will be established and a better understanding of the motives of each party. Perhaps, insurance companies will not view SMEs as a risk and view them as a profitable investment as is the case with other insurance companies in both Australia and the United Kingdom discussed in chapter 2. In this case, insurance companies can captivate SMEs at the initial stage of trust, where they offer ideal policies and premiums that suit their needs. This will aid them to develop a level of trust that enables them to build a commitment with insurance companies. The importance of trust is further explained in section 3.2.1, p44. It should be emphasised that relationship building is part of the relationship marketing theory hence; references to relationship marketing will be used in this chapter.

The following section will explain the definition of a relationship and the origins of relationship marketing, as well as relationship building. It is important that an understanding of the key terms in this chapter be explored as they help in explaining the concept of relationship building.

### 3.2 WHAT IS A RELATIONSHIP?

Relationship marketing is based on the concept of an organisation’s effort to develop long term, beneficial links with customers. Insurance companies will need to establish a relationship that has mutual trust and commitment with SMEs. Trust and commitment should be established between both parties. There is a considerable overlap between trust and satisfaction as they both represent an overall evaluation, feeling or attitude about the other party in the relationship (Brink and Berndt 2004:30).

In relationship marketing, the term relationship refers to voluntary repeat business between a supplier and a customer where the behaviour is planned, cooperative, intended to continue or mutual benefit and is perceived by both parties as a relationship. Using this approach means that repeat purchase through lack of alternative suppliers or the operation of loyalty schemes can not be defined as relationship marketing (Little and Marandi 2003:23).
Relationships and Attitude

A major element of any relationship is attitude rather than behaviour. Relationships imply investment by both parties, and not all suppliers or customers will perceive the other party as a viable investment. The cost and benefits of complex relationships vary and are often difficult to quantify. Like any relationship, both SMEs and insurance companies must want the relationship to work (Vitale and Giglierano 2002: 343).

Relationships and loyalty

The basis for long-term relationships is satisfaction with prior experiences between the parties. The longer the relationship has had to mature, the greater its stability. Loyal customers remain loyal after an unsatisfactory experience (Vitale and Giglierano 2002: 344).

Relationships and corporate culture

Increases in competition and the ever-shorter life span of new technology are contributing to the evolution from transaction-based to relationship-based sales. Trust is the first element toward building a relationship (Vitale and Giglierano 2002: 345).

The following section will look at the definition of trust and commitment as it is a major component of relationship building. It is important to understand the key elements in the relationship building process in order to comprehend the importance of relationship building between SMEs and insurance companies.

3.2.1 Trust and Commitment

Trust is the first element that is needed in relationship building. It is the first stage in the relationship building process hence, the most important aspect. Trust exists when one party has confidence in the reliability and integrity of the exchange partner (Du Plessis, Jooste and Strydom 2001:90).
In the business-to-business transactions, trust is an important requirement for a successful relationship. Business buyers do not change suppliers as often as do consumers, and prefer to find reliable suppliers on whom they can depend on, that is, whom they trust to deliver specified services. Relationship building requires investment in time and resources as well as emotional bonding and forsaking of others this can only be facilitated through mutual trust between insurance companies and SMEs (Little and Marandi 2003: 50).

There is no universally agreed upon definition of trust. Moorman, Deshpande and Zaltman (1993) define trust as “a willingness to rely on an exchange partner in whom one has confidence”. Trust is defined by Morgan and Hunt (1994) as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it”. The key elements in the two definitions are confidence and maintenance. These terms show that for trust to be established there is need for confidence in the other party which warrants for the maintenance of that trust. Thus, it is important for SMEs and insurance companies to view each other in this respect as valuable and indispensible.

To understand relationship building there is need to look at trust and commitment. These two components are important as they are the foundation of relationship building. Before the term relationship building can be explained the basic foundation of the concept should be discussed. The following is a Model of trust and commitment, which shows a combination of factors that encourage and nurture trust and commitment between parties.
3.2.2 Model of Trust & Commitment

![Model of Trust & Commitment Diagram]

**Figure 3.1 Model of Trust & Commitment**  
Source: Adapted from Little and Marandi 2003:54

**A genuine customer orientation**

This implies achieving organisational goals by understanding customers through empathy, dialogue and proximity within a relationship-building framework. If insurance companies engage with SMEs as customers more frequently they would be able to understand their needs and expectations. This will lead to a mutual relationship between the two parties. When insurance companies are customer-oriented this helps to build trust between them and SMEs. Customer orientation involves customer care and customer service (Little and Marandi 2003:55).

**Efficient customer care and service mechanisms run by well-trained staff**

Mechanisms must exist for efficient and effective contact between supplier and customer. This is one of the most important areas when building a relationship. The customer expects the service provider to be well informed of the products that are
available on the market. This requires effort on the part of insurance companies to ensure that their staff is well-trained and will be able to offer quality customer care and service to SMEs (Little and Marandi 2003:55).

When dealing with customers insurance companies must know that they will not always see eye to eye with their customers (SMEs). Hence they need to have mechanisms in place and to equip their staff on how to handle such delicate matters. This is what customer care and services entails.

**Clear safe guards and redress mechanisms**

Companies must accept that it is inevitable that transactions will fail occasionally and dissatisfactions will occur. Proper mechanisms for recovery, which incorporate fairness and promptness, should be in place. This is also important in order for the maintenance of trust and commitment in the relationship. The last three components deal with the foundation of building trust they have explained customer orientation, customer care and service. The following elements in the trust and commitment model deal with a deeper level of commitment from both parties (Little and Marandi 2003:56).

**Sharing of and confidentiality of information**

Relationship building implies the customisation of products, which depends on a good understanding of the customer's situation and requirements. This requires the sharing of information and knowledge considered as confidential. Many customers are reluctant to pass on their details to producers. The customisation of policies by insurance companies for SMEs in different sectors and profit brackets means that SMEs should be willing to share information concerning their business. The effort is required from both parties. Having shared confidential information with the insurance companies SMEs will be able to get the insurance policies which are tailor made to suit their needs and within their financial resources. If insurance companies have more information they will be able to meet the needs of their customers (Little and Marandi 2003:56).
Sharing of power

When service providers commit resources to the acquisition and retention of a customer, the service providers surrenders the freedom or power to discontinue the relationship with the customer when they become difficult to satisfy. This in turn gives the customer greater power to negotiate the terms of the relationship. At the same time, the customer will also see a greater risk in switching to a new supplier, and the customer’s stake in the relationship will grow. At this stage a relationship has been established and the need to maintain such a relationship becomes important. The last three elements of the model deal with the maintenance of relationships (Little and Marandi 2003:57).

Avoidance of opportunistic behaviour

As the relationship strengthens and grows there may be opportunities for either party of short-term gain by engaging in behaviour, which will harm the other, for example, the increase of prices due to short-term changes in the market environment. This may result in the disappearance of trust. Insurance companies need to know that they can trust SMEs not to violate their relationship for example they need assurances that SMEs will not indulge in fraudulent activities. The same applies to SMEs they need to know that the insurance companies have their best interests at heart when it comes to pricing of insurance premiums. This boils down to trust and commitment, both parties need to meet their end of the bargain and keep their promises (Little and Marandi 2003:57).

Keeping of promises

Trust and commitment help to reduce anxiety because of the belief that a trusted and committed partner will not jeopardise the relationship by knowingly breaking promises. This is important for long-term relationships. Insurance companies should give their pay outs with in the timeframe they promised when SMEs put in their insurance claims. Likewise, SMEs should pay their premiums as agreed in their contracts. This can be achieved if parties share the same values (Little and Marandi 2003:56). The term value is defined in the section below.
Shared values

The chances of a successful partnership and commitment to a long-term relationship are minimised if the two parties do not share the same values. Shared values in this case refer to “the extent to which partners have belief in common about what behaviours, goals and policies are important or unimportant, appropriate or inappropriate and right and wrong” (Morgan and Hunt 1994:25). When parties share the same values and ethical principles it is easier for them to build a relationship, these include the paying of premiums by SMEs and payout of claims by insurance companies (Little and Marandi 2003:58).

Shared values and ethics such as, trust and commitment have to be genuine and born of choice in order to be at their most effective in building long-term relationships. Relationship building views the task of winning a customer as an ongoing process, developed gradually over time (Little and Marandi 2003:58).

The concept of relationship building focuses on systems rather than products. It is paramount at this point to define relationship building.

3.3 DEFINING THE TERM RELATIONSHIP BUILDING

The concept of relationship building emanated from the theory of relationship marketing. This makes it vital to understand the origins of the relationship marketing theory in order to have a deeper understanding of the relationship building process and how trust is a major component of this process. Much of contemporary relationship marketing theory originates from earlier work on the interaction and network approaches, which were developed from studies of marketing in business-to-business relationships.

There is no universally agreed definition of relationship marketing. Relationship marketing centres on all activities directed toward establishing, developing, and maintaining successful exchanges with customers. The nurturing and managing of customer relationships has emerged as an important strategic priority in most firms. This is because, loyal customers are far more profitable than customers who are
price sensitive and perceive few differences among alternative offerings. The second reason is that a firm that is successful in developing strong relationships with customers secures important and durable advantages that are hard for competitors to understand, copy or displace (Hutt and Speh 2007:90).

According to Grönroos (in Yau and Lee, 2000:2) relationship marketing is an interactive process in social context where relationship building is a vital concern. He suggests that it requires a mutual exchange and fulfilment of promises. He concentrates not only on the commercial benefit of relationship marketing for both parties, but also identifies the mutual benefit to be obtained from such relationships.

The objective of relationship marketing is therefore, to identify and establish, maintain and enhance, and, when necessary terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met. This is achieved through mutual exchange and fulfilment of promises (Brink and Berndt 2004:6).

Gordon (1998:9) defines relationship marketing as an ongoing process of identifying and creating new value with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focussing and management of ongoing collaboration between suppliers and selected customers for mutual value creation and sharing through interdependence and organisational alignment. In this case, the suppliers are insurance companies who are supplying the SMEs with insurance as a service. Having defined relationship marketing it is now easier to understand the relationship building process.

Boone and Kurtz (2006:409) define relationship building as developing and maintaining long term, cost effective exchange relationships with individual customers, suppliers, employees, and other partners for mutual benefit. Relationship building involves the whole organisation and its stakeholders. At this point a definition of what a relationship entails is imperative for clear comprehension of the relationship building process.

The following section looks at the components of the relationship building process. This will explain the different components that make up the process of relationship
building. There is need to carefully formulate strategies that can support the relationship building initiative by a business as will be discussed in the next section.

3.4 COMPONENTS OF THE RELATIONSHIP BUILDING PROCESS

The management of insurance companies need to understand the process of relationship building, before they can start building a relationship with SMEs. Every new initiative, relationship building is a process. A relationship can not be built over night, it takes careful planning and there is need to change certain aspects of the organisation to accommodate the relationship building process. There are approximately eight components of the relationship building process (Gordon 1998:22):

- Culture and values
- Leadership
- Strategy
- Structure
- People
- Technology
- Knowledge and Insight and
- Process

It is important that the organisation align all these aspects of its operation with its chosen customers and stakeholders. The above points are crucial elements in relationship building of which the relationship building team needs to be aware of, especially when it is business to business marketing, as is the case with insurance companies and SMEs.

- Culture and values

It is possible that organisations with dissimilar cultures can create value together, despite the fact that businesses may have different organisational goals a relationship can still be built. Both the cultures of the customer and the organisation must be flexible to the formation of an enduring relationship. This is one of the most
important elements to relationship building. Before a relationship can be built, there is a need to ensure that the foundation of the organisation, which is the organisational cultures and values of both parties, is firm. This means that they are strong enough to adapt to changes. The next step in the process is leadership. This is an important step because without the support of the leadership of the organisation the relationship building initiative between SMEs and insurance companies can not be successful (Gordon 1998:23).

- **Leadership**

The leaders of the organisation and its customers must be prepared to focus on the value that can be unlocked through relationship building. The mutual interests of the customers (SMEs) and suppliers of the service (insurance companies) must therefore be addressed through the relationship building process.

It is important to note that no company will usefully implement a relationship building initiative as long as the leadership in the company is focused on winning at the expense of others. In some companies, executives ensure that they maximise the value of each deal with every customer. Companies trying to forge relationships with this underlying approach to customers will find that customers have no interest in long term bounding with them. The opportunity to create new value, which is shared in a mutually beneficial way, will ensure a long-term relationship with customer’s overtime. Relationship building is therefore, a mutually beneficial process and once there is a violation of trust or suspicion, the relationship is doomed (Gordon 1998:24).

Leadership must view sharing as a virtue and must understand the real meaning of a relationship before committing the company into a relationship building process. Where companies have bargaining power relative to customers and suppliers, it is their role to initiate relationship building in the interest of their firm and their customers (Gordon 1998:24). The support of top management is important because relationship building is not a tactical strategy but a long term strategy and more of an organisational culture. This means that a strategy must be devised that can introduce this initiative and incorporated into the organisational culture.
- **Strategy**

Customer strategies develop the underlying capabilities needed to advance the customer relationship. The customer not the service, research and development or other competencies must be central to the business strategy if the company is to implement effective relationship building. Responsive service is, for example, a key dimension of the value customers seek and the company will do well by organising around individual customer relationships in a customer centric strategy (Gordon 1998:25).

Insurance companies will get a much clearer understanding of the needs of SMEs if their strategy is more ‘customer-centric’. Instead of offering insurance policies for businesses in general, they should largely have a more customised approach to product development such as a business insurance policy for SMEs in different sectors. Strategy also needs to be aligned between the company and its customers to ensure that both understand the direction of the other, enabling each to assess the other in its role as long term partner and create the value that they both want. Strategy therefore needs to be ‘customer-centric’, with relationship objectives and strategies geared to individual customers (Gordon 1998:25).

The more foundational part of the relationship building process has been discussed. It is important to discuss the framework of the process which is the organisational structure. The organisational structure is the framework which can either hold or break the relationship building process.

- **Structure**

The organisational structure of a company implementing this strategy must facilitate the strategy. The company must have managers that deal with specific clients. There should be managers who deal with new customers, current customers, employees and investors, rather than having a sales department and marketing department. The company needs to consider beyond traditional organisational structures such as business units organised by product or market. The organisation should rather be organised by relationship and capability (Gordon 1998:26).
The organisational structure is an important part of the process as it facilitates the growth of the relationship initiative. If insurance companies have relationship marketing managers who manage the relationships with various clients especially SMEs it will become easier for them to maintain and even forge new relationships with SMEs. However, this structure will not be successful if the organisations do not train its staff.

- People

Employees who deal directly with customers should be able to communicate with the customers in a manner that recognises them, remembers their contact history, understands the current customer’s issues, predicts anticipated behaviours and suggests appropriate responses. It is important that the people who deal with the customers be well informed in order for the relationship building process to work. Employees need to be trained, developed and groomed into being owners of the relationship building process, which seeks to build customer loyalty. As referred to in the trust and commitment model page 3, customer specifics (Gordon 1998:31).

The staff can be trained into being owners of the relationship building process owners. Systems need to be put in place that will be able to assist employees in managing these relationships. Technology can assist in the relationship building process (Gordon 1998:31).

- Technology

Technology can serve multiple roles in a company; this includes external and internal communication, computing and content. With external communication, insurance companies need to facilitate a two-way communication with SMEs. Internal communication involves the employees of insurance companies who should be aware of all the policies and know customer specifics.

The role of computing in the company is to ensure that they have all the information concerning their customers that can be of value when handling a customers’ account. The content includes the customer’s information, customer context, and customer behaviour and customer profitability. Insurance companies need to develop
technology to provide a better customer memory and give customers the communication options they want to help them repeat the purchase experience (Gordon 1998:30).

Insurance companies can use computer software which helps them keep databases with their customer’s information. Technology can also be used to communicate with customers. These help the insurance to obtain knowledge and insight on their customers.

- **Knowledge and Insight**

Technology must enable the relationship marketer to develop new knowledge and insight about the customer relationship and facilitate action on the information. The key challenge for relationship building is to secure resources for investment in individual customer knowledge and insight over the longer term. Digital equipment has elaborate customer knowledge and insight systems. Hence, insurance companies need to invest in customer knowledge and insight in order for them to get the information they need concerning the insurance needs of SMEs. Having set in place all the required components for relationship building it is important that the process for relationship building should be followed. Management needs to set into place a process that will ensure the success of the relationship building initiative (Gordon 1998:32).

- **Process**

Relationship building requires that processes be engineered around the customer, which may require essential changes to existing processes. Insurance companies should focus on creating value for existing customers and having the relationship managed in an integrated way, tying together the various processes, people and technologies with which customers can relate. The key element is to focus processes around existing customers, providing each customer with the value they want and communicating as every one wishes to be engaged (Gordon 1998:33).

Relationship building is therefore a process that does not happen overnight, but requires much investment in time, money and effort by the whole organisation.
Insurance companies can use relationship building as a tool to gain competitive advantage. As they create relationships with SMEs, it will make them feel as though the insurance companies know their needs and this creates a sense of attachment to them. They will now engage in business activities with insurance companies not only to obtain a service, but because they already know their needs and concerns (Gordon 1998:33).

Through relationship building insurance companies are therefore able to retain the loyalty of SMEs as a customer, which provides them with a competitive advantage over other financial institutions. The following section gives a detailed description of the phases of the relationship management process. After having built a relationship the insurance companies have to manage that relationship. A process can fall apart if there are no set mechanisms to manage the process hence, the importance of the relationship management process. This is to ensure the success of a business relationship between insurance companies and SMEs.

3.5 PHASES OF THE RELATIONSHIP MANAGEMENT PROCESS

When a company assesses and plans to improve, its relationships with its customers it can employ an eight phase relationship management process (Gordon 1998:137):

- Phase 0: Plan for a Plan
- Phase 1: Customer Assessment
- Phase 2: Benchmarking
- Phase 3: Company Assessment
- Phase 4: Statement of Opportunity
- Phase 5: Future State
- Phase 6: Business Case
- Phase 7: Change Management and Implementation

**Phase 0: Plan for a Plan**

This phase involves planning, providing management with justification for the expenditure of time and effort, and outlining the various components necessary to ensure the relationship building initiative delivers to management’s expectation. This
is where there is the formation of the team to work on the project (Gordon 1998:150). The plan being set, an assessment on the materials needed for the success of the relationship building initiative should be carried.

**Phase 1: Customer Assessment**

Customer profitability is reviewed in this stage. The company reviews with which companies and customers it makes its money. In this phase, insurance companies assess the SMEs to see if they are profitable.

There is measurement of relationship quality, considering the current state of the relationships the company has with each customer. This may require original customer research, to understand fully how the customer views the company, its services, people and other capabilities, both in absolute terms and relative to competitors (Gordon 1998:151). The information complied by the insurance companies will assist them in assessing their own service offering against those of competitors.

**Phase 2: Benchmarking**

Benchmarking is to measure the products of competitors according to specified standards in order to compare it with and improve on the products of the company. Hence, insurance companies need to benchmark in order to gain an advantage over its competitors. Benchmarking is possible through relationship building with SMEs and offering unique insurance packages (Gordon 1998:151).

**Phase 3: Company Assessment**

The company needs to take a close look at itself to determine what kinds of relationships are suitable to and even whether relationship building is appropriate. The company gets to assess itself and understand the implications of relationship building. The company needs to consider the limitations it could face to make the relationship building process a success. This could be organisational culture and the capabilities of the business, which include technology, and the adaptability of the firm to such an exercise (Gordon 1998:152).
Phase 4: Statement of Opportunity

The company needs to ensure that it positions’ itself well for relationship building. This is a scenario where customer’s preferences in services results in different service bundles which are unique and where communications, production and logistics processes can be organised in a manner that delivers the value that customers require. In this case, it means customising insurance policies for SMEs in different sectors (Gordon 1998:152).

Phase 5: Future State

In this phase, a series of assessments are done to allow the company to envision the future of this initiative, set measurable objectives for its attainment and then gauge customer amenability to the vision and objective, as stated. Insurance companies need to share their vision of relationship building with SMEs. They need to identify if there are any gaps that they need to fill in their relationship building process and their objectives. They also need to ensure that they set goals that are attainable (Gordon 1998:153).

Phase 6: Business Case

This is the phase, an investment in the whole program is made. Resources are to be committed into the whole process and the initiative is facilitated. There is an assessment of possible risk factors such as, competitors duplicating the initiative, customers rejecting the relationship building initiative, the organisational culture rejecting the initiative and the budget not being met. The company needs to look at the risks that may result in the failure of the relationship building process. If the company is able to overcome these obstacles then it can proceed to the next phase of implementation (Gordon 1998:154).

Phase 7: Change Management and Implementation

In this phase, the company will be planning the implementation of the entire relationship building process. This will require strong project management skills for
three main reasons. Firstly, relationship building affects the whole company and then the project manager will have a lot of ground to cover. Secondly, the relationship building process may face barriers to adoption, particularly from those whose activities may change significantly. Thirdly, many companies do not have much depth in project management and are unable to handle such an initiative (Gordon 1998:162).

Insurance companies need to ensure that they are able to support the relationship building process. It is not a simple process since it requires financial commitment, emotional commitment and the support of all the employees. The next section discusses the management of relationships within a global context. It is virtually unavoidable that the business world has become one big market due to globalisation. Products and services have become similar since there is not much differentiation anymore and physical barriers have diminished gradually. Insurance companies and SMEs cannot ignore this reality.

The next section will explain the Crises Management Model for SMEs. This model shows the importance of insurance for SMEs and how it is essential for their recovery in the event of a crisis.

3.6 THE CRISIS MANAGEMENT MODEL FOR SMEs

Allan Manning formulated the crisis management model for SMEs after realising a gap in literature in the field of SMEs sector. He considered an extensive range of previous theories before he formulated the model. As part of reality testing a proposed theory, a researcher needs to have a thorough grasp of the past theoretical issues through literature. Darlington and Scott (2003) suggest that in order to propose theory creation, the researcher needs to have a clear understanding of the relevant theory, as well as knowledge of contemporary issues (Manning 2004: 40).

The review of the theories undertaken showed that there are limited theories on how SMEs manage their crises. However, past research concentrating predominately on large organisations is available. Allan Manning’s study addresses this shortfall by
concentrating on SMEs. The theoretical framework utilised in this model incorporated the following:

- Competitive Forces Approach
- Resource Based Perspective Model
- Dynamic Capabilities Theory
- Benchmarking
- Stakeholder Theory
- Business Continuity Planning
- Risk Diversification and Insurance (Manning 2004: 40).

These models appear to be of use in managing a crisis. However, while they cover very similar situations, they have areas that do not overlap. These and other models developed for crisis management have become so complex that it would be hard for a ‘generalist’ business manager, typically found in an SME, to understand and implement them at the time of a crisis. This model consists of a hybrid of the existing models and, based on the key components that are more appropriate for SMEs facing a major crisis (Manning 2004: 42).

Manning derived the six phases and eighteen steps in his model for SMEs based on the theories mentioned on the previous page. This model is yet to be tested on South African SMEs. The literature reviewed by the researcher has shown no indication of this model being used in South Africa or in Africa.

However, Manning’s theoretical model is suitable for the research at hand. This is due to its extensive cover on the recovery of SMEs once they have been affected by a crisis. Manning’s model explains the importance of insurance in the recovery of a business. A vast number of theories on crises management that were reviewed have shown to be formulated for large corporations. Manning has managed to combine them and these theories and formed one that is suitable and less cumbersome for SMEs owners or managers to adhere to in times of crisis.
### CRISIS MANAGEMENT MODEL FOR SMES

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<tr>
<th>STEP</th>
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<td><strong>PHASE 1 – Crisis Impact Analysis</strong></td>
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<td>Appoint a loss manager</td>
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<td>2</td>
<td>Investigation into cause</td>
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<tr>
<td>3</td>
<td>Make safe</td>
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<td>4</td>
<td>Internal assessment of the extent of the crisis</td>
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<td>5</td>
<td>Assessment of crisis on external environment</td>
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<td>Assess actual or potential media coverage</td>
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<td>Consider appropriateness of pre-crisis business strategy</td>
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<td>8</td>
<td>Review adequacy of insurance</td>
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<td>9</td>
<td>Evaluate mental and physical condition of business owners or management</td>
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<td></td>
<td><strong>PHASE 3 – Evaluate Options and Select from Alternatives</strong></td>
</tr>
<tr>
<td>10</td>
<td>Availability, lead times and cost of repair or replacement options</td>
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<tr>
<td>11</td>
<td>Identification of potential mitigation strategies</td>
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<td>12</td>
<td>Development of Business Recovery Plan or Exist Strategy</td>
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<td><strong>PHASE 4 – Communication and Agreement</strong></td>
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<td>Communicate plan to relevant stakeholders</td>
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<td>Obtain acceptance</td>
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<td><strong>PHASE 5 – Implementation</strong></td>
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<td>15</td>
<td>Action Business Recovery plan</td>
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PHASE 6 – Completion and Transfer to Long Range Strategic Plan

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<th>Sign off each completed action plan and communicate progress</th>
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<td>18</td>
<td>Communicate end of crisis to key stakeholders</td>
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Figure 3.2 Crisis Management Model for SMEs Adapted from Manning

3.6.1 Phase 1 – Crisis Impact

It is important for the owners or management of the SME to understand that this is an information gathering stage to allow a considered opinion to be reached on the future of the business. In case of a significant event such as a major fire, care must be taken in the answers given to questions from staff, customers, suppliers, media and insurance representatives about the future of the business. It is best to inform them that the future plans of the business will be communicated, this is considered the best approach (Manning 2004: 239).

The consequences of comments made without a full understanding of all the facts, particularly at a time of great stress, can be difficult to undo. The liability for the cause of the crisis should not be admitted to any third party (Manning 2004: 239).

Step 1: Appoint a loss Manager

The first step for the SME owner or manager is to appoint an experienced loss manager to assist with the crisis recovery. The earlier the appointment the better, as it is easier to set the business recovery and insurance claim process up from the start than to try to correct early unnecessary mistakes. While, the SME manager or owner may be unlucky enough to encounter one or two crises of this type in their working life, such an expert has the experience and training of many years and this will prove invaluable to the recovery process (Manning 2004: 240).

Step 2: Investigation into cause

In the case of some crises, the cause is obvious. For example, here is a violent storm. Others, such as a fire may appear more important to investigate. The insurer carries out an investigation to determine two main issues:
a) Does the loss fall within the scope of the policy;

b) Is there a right of recovery from any third party?

The loss manager should be able to obtain the preliminary findings of the investigators, particularly the insurance appointed investigators, to see if there is any cause for alarm or if a second opinion should be called for. The witnesses to the accident should be interviewed if necessary. A copy of the reports on cause assists in the following:

a) Determining if the business owner's insurance policy will respond;

b) Establish if there is a right of recovery from any third party (this is particularly important where there are uninsured losses, that is, through under insurance);

c) Establish if the business owner will be found legally liable for any injuries or damage to third parties on their property;

d) Establish if there are likely to be any penalties for breaches of government regulations; and

e) Reducing the likelihood of the same event causing damage in the future, in other words a risk management tool (Manning 2004: 243).

Step 3: Make Safe

Once the investigation is complete, and sometimes to allow the investigation to be conducted safely, making the work area safe is necessary. This may be authorised by the local council authority, the police or the owner of the property. If the insurer accepts liability, the reasonable costs of make safe are covered. Costs can easily get away at this time as there is typically no tendering phase and controls on costs. The extent of the make safe and the method of make safe need to be managed if possible (Manning 2004: 244).

Step 4: Internal Assessment of the extent of the Crisis

This stage involves a careful check of all of the physical assets of the business. Careful documentation with photographs or videos is recommended. These assets include human resources, premises, stock, and contents other than stock, data and
records. Ongoing insurance arrangements need to be put in place to insure the damaged portions of the SME’s assets (Manning 2004:244).

**Step 5: Assessment of Crisis on External Environment**

A check on the external environment needs to be carried out. The external environment includes the impact on customers, suppliers, other stakeholders and environment issues (Manning 2004: 246).

**Step 6: Assess Actual or Potential Media Coverage**

Media management during the recovery process is considered essential and hence has its own step in the Crisis Management model. The assessment should look out for interest of media, message given by the media, potential damage on business from the media. Lastly, whether there is a need for professional media management advice (Manning 2004: 247). It is important to manage what the media will portray about the business because it can affect the levels of business confidence that clients have towards the business.

3.6.2 Phase 2 – Data Gathering & Data Analysis

**Step 7: Consider the appropriateness of the Pre-Crisis Business Strategy**

A crisis creates both threats and opportunities. Prior to the formulation of Business Recovery Plan and its contents, it is important to have a stated goal. If the decision made is that the SME will survive, the goal of the plan will be to take the business to a point where the long-term strategic plan of the business takes over. If the Business Recovery Plan is to wind up, sell or otherwise dispose of the business, then obviously the Business Recovery Plan will reflect this goal. The importance of this step is that it requires the SME owner or management to consider where they want to be long-term, set the goals, and then the Business Recovery Plan will compliment that long-term plan (Manning 2004: 247).
Step 8: Adequacy of Insurance Program

The funding of the recovery of the business from the crisis will be met by the SME’s insurance policy. An assessment of how the policy will respond needs to be undertaken. It is an extremely complex area, and the use of highly qualified and experienced claims expert is recommended. The insurance broker can typically provide an overview, but the claims expert may provide a much more detailed explanation of the various options available (Manning 2004: 247).

This review should be in respect of the property cover as well as business interruption, other possible covers 3 and, in cases of damage or injury to third parties, the liability policies. It is important to assess what the insurance covers and what is not covered by insurance (Manning 2004: 247).

Step 9: Evaluate Mental & Physical Condition of Business Owner /Management

The owners and management of the SME must assess their own mental and physical condition. The recovery process will be demanding. This should be factored into the Business Recovery Plan (Manning 2004: 248). There is no point in having a manager that is stressed and unable to manage the crisis at such a critical point in the recovery process.

3.6.3 Phase 3 – Evaluate Options & Select from Alternatives

At this point, the decision on the future of the business and the draft Business Recovery Plan is formulated.

Step 10: Availability, Lead Times and Cost of Repair or Replacement Options

At the internal assessment of the extent of the crisis, Step 4, data requested showed whether the building and machinery needs repairs or needs replacement. Estimations are made on the costs and timing of each option. This data is required to analyse the options open to the business. This may take several weeks to gather.

3 Examples here are general property, contract works, computer policies
Once the information is at hand, decisions on whether to repair or replace and the funding of the replacement and a time schedule can be done (Manning 2004: 248).

**Step 11: Identification of Potential Mitigation Strategies**

The assessment of the external environment at Step 5 will have identified the requirements of customers and alternative means of supply. The following issues need consideration:

- The cost and benefit of options such as hiring equipment, outsourcing, importing, and using competitors;
- The likely response of the business interruption policy;
- Quality of service or product from this alternative method of supply (Manning 2004: 249).

**Step 12: Development of Business Recovery Plan or Exit Strategy**

Having gathered all the data and analysed the various options, the owners and or management will then be in a position to draft the appropriate plan. If the decision made is not to recover, then the plan will set out the business exit strategy, considering all the stakeholders, including staff and financiers, as well as the owners themselves. This is a Business Exit Plan (Manning 2004:249).

If the decision for the recovery of the business suffices, the formulation of a Business Recovery Plan is probable. This should include a timetable, cost budget and cash flow analysis. It should be in considerable detail with action plans, responsibilities and review dates. There is a need for expert advice in areas such as taxation implications, financial planning, leases and other legal issues, as well as insurance required on the various alternatives, regardless of whether the plan is documenting an exit scheme or business recovery strategy (Manning 2004:249).

Tentative approval from the insurer may be required, as may an agreement in principle from a bank or financier for additional funding requirements. This model accommodates the fact that not all businesses will survive, for a multitude of reasons. The steps of this Crisis Management Model are equally important for an exit strategy as they are for a Business Recovery Plan (Manning 2004:249).
3.6.4 Phase 4 – Communication and Agreement

Step 13: Communicate Plan to Relevant Stakeholders

Once the recovery plan is prepared, the outcome can be communicated to the various stakeholders, these include customers, builders, suppliers, repairers and staff. Insurers need to be advised so that they appreciate that the business will be continuing (Manning 2004:250).

Step 14: Obtain Acceptance

To improve the chances of success for the Business Recovery Plan, the plan needs acceptance from the key stakeholders. This includes the traditional key stakeholders of employees, customers and suppliers, but also the new key stakeholders to the survival of the firm, for example, the insurer, loss adjusters and builders. The insurer needs to agree to the timing and size of progress payments, while builders and repairers need to understand the timing of payments and the documentation needed to fulfil the requirements of the loss adjuster or insurer (Manning 2004:250).

3.6.5 Phase 5 – Implementation

Step 15: Action Business Recovery Plan

The specific action plans are implemented, from the placing of orders for new equipment, to the implementation of any loss mitigation strategies (Manning 2004:251).

Step 16: Monitor and Review Performance of Stakeholders

The regular monitoring of the performance of the stakeholders to the timetable and desired quality standards set out in the specific action plans is required. The performance and quality of the existing resources, including outsourced work of the company to meet the demands of customers, will need ongoing monitoring. Formal review meetings at regular intervals and or pre-agreed milestones can both assess
the performance of the stakeholders this allows for early intervention to avoid or diminish the impact of the issues that may delay the recovery process (Manning 2004:251).

3.6.6 Phase 6 – Completion and transfer to Long Range Strategic Plan

Step 17: Sign off each Completed Action Plan and Communicate Progress

As each component of the Business Recovery Plan is completed, it should be signed off and all loose ends of the item, including documentation, completed and passed to the relevant parties or stakeholders. There is need to communicate the completion of major components of the Business Recovery Plan to stakeholders (Manning 2004:251).

Step 18: Communicate End of Crisis to Key Stakeholders

To reinforce that the crisis was just a short-term event in the life of the business, a formal notification of the survival of the business is required. The ongoing strategy of the business should be restated to move the focus from what has been, to what is yet to occur (Manning 2004:251).

The reason for the use of the term ‘Phase’ in the model is that business continuity planning, the Business Recovery Plan will be a living document. The steps in the model are flexible. Hence, they do not have to be completed by all sections of the business at the same time. The business will move through the six phases, perhaps working on different steps of separate aspects of the recovery process, at the same time. The term ‘Phase’ was chosen to reflect the fluid nature of the recovery process (Manning 2004:251).
3.7 SUMMARY

The Crisis Management Model for SMEs has eighteen steps and six phases that an SME owner or manager can follow in the event of insurable peril. The model has a lot of emphasis on insurance because it is the most important factor for the recovery of the business. This necessitates relationship building between insurance companies and SMEs. The six phases suggested in Manning’s model seem to be much easier for SMEs to follow. Although this model has never been tested on South African SMEs the theories used in its formulation show that it is possible that this model can be suitable for South Africa. The Australian economy does not differ that much from the South African economy. This can be an area for further research.

Globalisation has led businesses to focus on relationship building to gain competitive advantage over their competitors and to make profits. Relationship building must be a part of their business pillar in this globalised environment, where competition has become stiff due to the standardisation of goods and services.

Goods and services are becoming more similar over the past decade, hence the need to differentiate products and services. This can be done by building relationships with their customers. Through a well supported and managed relationship building initiative companies can have a competitive edge over their business rivals. If businesses are able to build relationships with their customers, they will be able to create value for both customers and themselves. Thus, insurance companies can have a profitable relationship with SMEs, as they will be able to offer them the services that they want. Their relationship will be stronger but this relationship building initiative will only be successful if well implemented by the insurance companies.

Businesses have seen the tip of the e-commerce iceberg in the form of globalisation of markets, a transaction-based economy, marketing-driven business process re-engineered, the elimination of conventional intermediaries and mergers and acquisitions in unprecedented volume. "Bricks and mortar" is swiftly being replaced by "clicks and mortar" as the new, ubiquitous, customer-focused, cyberspace paradigm inexorably takes hold (Gingrande 2001).
In such a business environment, which is faced by globalisation, insurance companies need to develop their strategies based on the advancement of the e-commerce era. This is where businesses can have business transactions without necessarily meeting face to face but over the internet. Insurance companies need to invest in improving their technological support, as some SMEs might prefer to conduct business over the internet.

Rapidly changing business environments, caused by globalisation are driving the need for businesses to retain their best customers and building competitive advantage through customer loyalty. This is because of the increase in competition not only by local and nationally based competitors but competition from international companies as well.

With the evolving needs of business to business commerce, customers are now looking for greater responsiveness, reliability and quality. More and more companies are working towards creating a strategically beneficial business relationship with customers via multiple channels, understanding and responding to the needs of customers with a range of products and services (Sohi 2002).

Globalisation has necessitated the need for relationship building with the different stakeholders, which the business is dealing with in general. Not only does it emphasise the need for relations with business customers, or individual customers, but with all stakeholders to ensure the growth of the business sector in South Africa especially with the global economic slow down that is being experienced.
CHAPTER FOUR

RESEARCH METHODOLOGY

“To write it, it took 3 months; to conceive it – 3 minutes; to collect the data in it – all my life.” Scott Fitzgerald (1921)
4.1 INTRODUCTION

A research process involves the application of various methods and techniques in order to create scientifically obtained knowledge by using objective methods and procedures (Welman and Kruger 2001: 2). Business research can be defined as a systematic investigation of phenomena of interest to business decision makers. The use of scientific business research, which is a specialised type of investigation characterised by the rigor of the analytical tools and techniques applied, can result in research-based decision making becoming an important tool for those organisations seeking competitive advantage. Some of the defining characteristics of scientific business research are:

- The purpose of the research must be defined
- The research process must be detailed in a research proposal;
- The research design must be thoroughly planned
- The limitations must be frankly revealed;
- The analysis of the data must be sufficiently adequate to reveal its significance and the methods of analysis should be appropriate;
- The findings must be presented unambiguously;
- The conclusions must be justified (Cooper and Schindler 1998:14-18).

This chapter will be focusing on the research methodology and research design. The methodology section will focus on the research instruments, population, sample, data analysis and statistical techniques. The last three sections of this chapter will be looking at the limitations of the study, ethical considerations and conclusions.

4.2 RESEARCH DESIGN AND PLAN

The research design is the plan and structure in terms of which the study is carried out so as to obtain answers to research problems. According to Kerlinger and Lee (2000:10), the plan constitutes the overall scheme or program of research. It has also been argued that different research problems lead to different research designs and
methods which in turn result in the collection of different types of data and different interpretations of that data.

Bless and Smith (1995:19) suggests that in conducting explorative and descriptive research, the survey design can be used to collect information from several units of analysis. The current study is descriptive in that the study is being conducted to determine and describe “the characteristics of the variables of interest” which is the business relationship between SMEs and insurance companies. According to Kerlinger and Lee (2000), survey research is useful in studying the relative incidence, distribution, and interrelations of sociological and psychological variables. For this reason, survey research can be classified as field studies with a quantitative orientation.

The researcher selected the survey design to conduct the study, using a quantitative research approach. The main purpose of a survey is to obtain information from, or about, a defined set of people, or population. The quantitative research is used to answer questions about relationships among variables with the purpose of explaining, predicting and controlling phenomena (Leedy and Ormord 2001). The survey design is suitable for collecting reliable data which is able to answer the research problem.

This study used one research instrument, designed specifically for the population targeted. The measurement instrument was in the format of a questionnaire. The questionnaires were administered to the owners/managers of SMEs and insurance companies in the Nelson Mandela Metropolitan Area. The following are advantages of using questionnaires:

- It is possible to survey a broader population;
- They are cheaper than one on one interviews;
- People may be more willing to be truthful because their anonymity is guaranteed;
- They are easier to analyse.

However, there are disadvantages associated with this technique. Questionnaires have the disadvantage of not allowing the researcher to interact, or often even to observe, respondents, this when questionnaires are sent through post or
electronically mailed. However, in self administered questionnaires the researcher is given a chance to interact with respondents. They are also limited in the depth to which the researcher is able to probe any particular respondent and do not allow any digression from the set format (Hofstee 2006: 133).

4.3 RESEARCH METHODOLOGY

Leedy and Ormrod (2001), state that to extract meaning for the data collected, one employs what is commonly called research methodology. They argue that the methodology to be used for a particular research problem should always take into account the nature of the data that will be collected in resolution of the research problem. Mouton (2001: 56) and De Vos (2002:137) point out that research methodology can be defined as the process, instruments and procedures to be used in business research.

Before attempting any form of quantitative analysis it is important to be clear about the kind of data involved. There are three main kinds that are encountered in research; nominal, ordinal and interval.

- **Nominal scales**: this is the lowest level of measurement, the scale with the least matching to the number system. The gender classifications, male or female, or occupational classifications such as manager or owner of business in the current study (Easterby-Smith, Thorpe and Lowe 2006:138).

- **Ordinal scales**: Classifications into ordered qualitative categories; for example, social class (1, 2, 3), where the values have a distinct order, but their categories are qualitative in that there is no natural (numerical) distance between their positive values. An example of ordinal scales in the current study is the education level of respondents.

- **Interval**: when the measurement conveys information about the ordering of magnitude of the measurement and about the distance between the values (Sekaran 2003:71). With questionnaire responses one can not be sure that the difference between ‘agree’ and ‘strongly agree’ is the same as the difference
between ‘neither agree nor disagree’ and ‘agree’. It is only when looking at classifications such as age, weight, or salary that we can be confident that the interval between, 25 years and 30 years is the same as the interval between 47 years and 52 years (Easterby-Smith 2006 138).

4.3.1 Data collection instruments

There is no simple answer as to which of the available methods of data collection the researcher should use when collecting data. There are however, three major criteria for evaluating a measurement tool (Cooper and Schindler 2003:231):

- Validity refers to the extent to which the test measures what we actually wish to measure;
- Reliability has to do with the accuracy and precision of a measurement procedure; and
- Practicality is concerned with a wide range of factors of economy, convenience and interpretability.

Questionnaire

Self administered questionnaires were distributed by the researcher to collect data from the owners or managers of SMEs. The questionnaires were structured as follows:

Section A: Business Information

This section had closed ended questions to gather information such as size of business, occupation, educational level and type of business. Respondents were expected to tick the space containing the applicable response. The rationale behind these questions was that it placed the results in a frame of reference and provided insight into the difference between educational levels and entrepreneurial behaviour.
**Section B: Profile of Business activities**

Closed ended and open ended questions were used to gather information on the type of insurance policies that the business has purchased. Although asking a few open ended questions is said to put respondents at ease, by giving them an opportunity to express themselves in their own words gives them a sense of control. They also allow for a more in-depth answer when required (Hofstee 2006:133).

**Section C: Crises Management**

This section had closed ended questions which were used to gather information on the knowledge of respondents on crises management. They were asked whether they had knowledge regarding risk management and business recovery plans for their businesses in the event of a crisis. The questionnaire included the following:

- A short cover letter explaining the purpose of the research;
- Brief instructions about how to complete the questionnaire;
- The questions were varied, but similar questions were kept together in groups (Easterby-Smith *et al.* 2006: 134).

**4.3.2 Pre-testing of the research instrument**

The questionnaire was pre tested amongst 20 of the respondents. According to Roberts-Lombard (2002: 132), pre-testing refers to the testing of the questionnaire on a small sample of respondents to identify and eliminate potential questions. The main objective of the pilot study was to test the language used in the questionnaire, comprehension and ambiguity. The pilot study revealed that some of the questions where found to be ambiguous and unclear, hence the questions were given more clarity. Most of the respondents did not want to divulge information on their insurance, the researcher asked fewer questions on insurance. The pre-testing also helped in the validity and reliability testing of the research instrument.
4.3.3 Validity

Validity is a question of how far we can be sure that a test or instrument measures the attribute that it is supposed to measure. This is not too easy to ascertain, because if one already had a better way of measuring the attribute, they would be no need for a new instrument (Easterby-Smith et al. 2006:134). Validity when used in research may mean the ability of a scale or measuring instrument to measure what is intended to measure (Zikmund 2003: 302). The literature on research methodology identifies three major and common ways of ensuring validity namely; content validity, construct validity and criterion-related validity. The researcher ensured that content validity for the research instrument was carried out.

Content validity

The content validity or face validity of a measuring instrument provides adequate coverage of the concept. According to Cooper and Schindler (2003: 211), if the instrument contains a representative sample of the universe of the subject of interest then content validity is good. The research literature agrees that content validation is judgemental process that can be done in many ways. According to Cooper and Schindler (2003:212) the researcher may choose to do it alone or may use a panel of experts to judge ho well the instrument meets standards. The questionnaire which was used in this study was given to a statistician to evaluate it for face and content validity as well as for conceptual clarity and investigative bias. In terms of using the information gathered through the questionnaire, it must be emphasised that no summative scores were used for interpretation purposes but rather the answers to individual items in the questionnaire.

4.3.4 Reliability

Reliability is a primarily a matter of stability: if a question is administered to the same individual on two different occasions the question is, will it yield the same result? Reliability refers to demonstrating that the operations of a study can be repeated, and still attain the same results. The main problem with testing this in practice is that no one can be sure that the individual and other factors have not changed between the
two occasions. Hence, it is more common to examine what is known as, equivalence reliability, which is the extent to which different items intended to measure the same thing correlate with each other (Easterby–Smith et al. 2006:135).

Ideally, tests for validity and reliability should be made at the pilot stage of an investigation, before the main phase of data collection. Responses to items are correlated with each other to provide reliability coefficients and indications of the accuracy of the results that might be produced. The validity and reliability of the questionnaires used to collect data can be measured statistically using a number of statistical tests. To measure this, a Chi-square test was used to calculate approximate p-values. The Chi-square test is used to test if a sample of data came from a population with a specific distribution, in other words, it is used to examine the strength of the association between collected data and the specified distribution. The p-value is the probability of observing a Chi-square statistic at least as large as the one actually observed, given that there is no association between a variable of data occurring by chance.

Each statistical test has an associated null hypothesis, thus the p-value is the probability that a sample could have been drawn from the population being tested given the assumption that the null hypothesis is true. A p-value of 0.05 indicates that there would only be a five percent (5%) chance of drawing the sample being tested if the null hypothesis was actually true.

It also shows a ninety five percent (95%) confidence level, implying that the researcher is ninety five percent (95%) confident that the questions were significant to provide responses appropriate to the research objectives. A large number of the questions proved to be significant as they were less than 0.05 indicating that there is a strong association between the data collected from the sample and the observed frequency distribution. This shows that the questions used in this study are reliable to measure the objectives and test the outcomes of the hypotheses.

The researcher carried out the reliability testing of the instrument on all the questions used to test the hypotheses. Both Cronbach’s alpha (α) and the Chi-square goodness of fit test were employed. Cronbach’s alpha (α) indicates the overall reliability of a questionnaire and values around 0.8 and 0.7 are good for ability tests.
(Field 2009:675). On all the questions used to test the hypotheses all the questions where found to be reliable with Cronbach’s alpha (α) = .8 and .7. The p-values of all the hypotheses were as follows:

<table>
<thead>
<tr>
<th>P-Values</th>
<th>Hypotheses</th>
</tr>
</thead>
</table>
| p .8> .05 | **Primary Hypothesis**  
|          | **H₀**: SMEs in the Nelson Mandela Metropolitan Area do not have insurance cover for their business. |
| p .7> .05 | **Secondary Hypotheses**  
|          | **H₁**: The level of training in the field of short term insurance and the factors influencing the purchase of insurance by SME managers or owners has an effect on their relationship with insurance brokers. |
| p 0.8> .05 | **H₂**: SMEs who have an insurance policy and have been approached by insurance broker have a business relationship with insurance companies. |
| P .7> .05 | **H₃**: The size, level of education, having a Recovery Plan and the knowledge of insurance products influence the purchase of an insurance policy by the SME managers or owners. |

### 4.3.5 Survey Area

The research was conducted in the Nelson Mandela Metropolitan Area. The researcher chose this area because it is the largest city in the Eastern Cape Province where most SMEs are registered. It covers the urban areas of Port Elizabeth, Uitenhage and Despatch. Port Elizabeth, the largest city in the province is well known as the first port to be established in the province. The new Coega Industrial Development Zone (IDZ) and the associated deepwater port of Ngqura are being developed 15km east of Port Elizabeth. The metropole has a majority of African population (55%), with a higher coloured (24%) and white (18%) proportions of the population than the rest of the province (Province of the Eastern Cape 2007). A map of the area of study is illustrated below in the dark shaded area:
4.3.6 Population and sample

The population is defined as a collection of all the observations of a random variable under study and about which one is trying to draw conclusions in practice. A population must be defined in very specific terms to include only those units with characteristics that are relevant to the problem (Wegner 2003:5).

There is one population target for this current study, that is, SMEs in the Nelson Mandela Metropolitan Area. Zikmund (1997: 417) describes the target population as the complete group of specific population elements relevant to the research project.

It is possible to construct a sampling frame, having defined the population. A sampling frame is a listing of all the elements in a population and the actual sample is then drawn from this listing. It is possible that biases could exist between the
opinions of members of the sample frame and population. Therefore, the adequacy of the sampling frame is crucial in determining the quality of the sample drawn from it.

Sample frames may differ from the population in the following ways:
- The frame may contain ineligibles or elements that are not part of the population;
- The frame may contain duplicate listings, and frame may omit units of the population, which is by far the most serious problem.

The population and the sample for this study is illustrated below in figure 4.1.

**Figure 4.1** Target population, sample units, sample elements and actual sample size for the study.

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target Population</strong></td>
<td>Businesses in the Nelson Mandela Metropolitan Area</td>
</tr>
<tr>
<td><strong>Sample Units</strong></td>
<td>SMEs in the urban areas of Port Elizabeth, Uitenhage and Despatch.</td>
</tr>
<tr>
<td><strong>Sampling Elements</strong></td>
<td>SME owners/managers in the urban areas of Port Elizabeth, Uitenhage and Despatch.</td>
</tr>
<tr>
<td><strong>Actual Size</strong></td>
<td>The 203 respondents that returned questionnaires</td>
</tr>
</tbody>
</table>

(Researcher’s own construction)

There is no complete list of all SMEs in South Africa; the researcher contacted the head of Small Enterprise Development Agency (SEDA) in Port Elizabeth to get the number of SMEs registered in the Nelson Mandela Metropolitan Area.
4.3.7 Sampling technique

Techniques that make use of probability theory can both greatly reduce the chances of getting a non-representative sample and, permit precise estimation of the likelihood that a sample differs from the population by a given amount. Cooper and Schindler (2003: 197) state that in a sample each population element is selected individually. The population can also be divided into groups of elements with some groups randomly selected for study. The general aim of probability sampling is to obtain a subset of a population that is representative of it.

Cluster sampling is also known as area sampling, this method can be used when no complete sampling frame exists for the population of interest and where it would be impractical to create one. It involves random sampling of units at various levels (Thomas 2004: 107). The following are characteristics of cluster sampling:

- With cluster sampling the population will be divided into subgroups, each with a few elements in it. The subgroups are selected according to some criterion or availability in data collection;
- Heterogeneity is to be secured within subgroups and homogeneity between subgroups, but the opposite is usually experienced;
- The number of subgroups is randomly chosen (Cooper and Schindler 2003: 196).

The sampling technique that was used was cluster sampling; it was most suitable for the current study because there was heterogeneity between subgroups and homogeneity within subgroups. The SMEs were divided into clusters according to the number of employees as this is consistent with the definition of SMEs which was provided in section 2.4.1 p23. The different clusters had SMEs that had the same number of employees as one cluster, one cluster contained small businesses and the other had medium sized businesses as illustrated:

<table>
<thead>
<tr>
<th>Employees</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>5 to 20</td>
</tr>
<tr>
<td>Medium</td>
<td>20 to 200</td>
</tr>
</tbody>
</table>

Source: Adapted from Zaayman (2003:16).
4.3.8 Sample size

The level of precision, or in other words, the level of sampling error one is willing to accept in a research influences the sample size. In reality the sample statistic is known but the population statistic is unknown, so, the difference between the sample and the population value can be assessed in terms of the likelihood that a sample value differs by a certain value from the population value (Leedy 2005:35).

Precision is directly related to sample size that would be required to achieve a given level of precision. Cooper and Schindler (2003:190), recommend that since researchers can never be 100% certain that a sample reflects its population; they must decide how much precision they need and in making this decision. Some principles that influence sample size include:

1. The greater the dispersion or variance within the population, the larger the sample must be to provide estimation precision;
2. The greater the desired precision of the estimate, the larger the sample must be;
3. The lower the interval range, the larger the sample must be;
4. The higher the confidence level in the estimate, the larger the sample must be;
5. The greater the number of subgroups of interest within the sample, the greater the sample size must be, as each subgroup must meet the minimum sample size requirements;
6. If the calculated sample size exceeds 5 percent of the population, sample size may be reduced without sacrificing precision.

It was estimated that there were approximately 2400 registered SMEs in the Nelson Mandela Metropolitan Area. According to the Rao-soft sample size calculator software, using 95% confidence interval with a margin of error of 5%, the sample size was 332 SMEs. There were only 203 respondents who gave back their questionnaires.
4.3.9 Data analysis and statistical techniques

There are two major components of the discipline of statistics: descriptive and inferential statics. Descriptive statistics can be defined as condensing large volumes of data into a few summary measures. Inferential statistics is defined as the area of statistics which extents the information extracted from a sample to the actual environment in which the problem arises (Rosnow and Rosenthal 1999:10).

**Descriptive Statistics**

Descriptive statistics which was used in this study include frequency counts, mean scores, standard deviations and cross tabulations. The descriptive analysis was carried out in section 5.2 p 9. Kerlinger (1986:127) defines frequencies as the number of objects in sets or subsets. In simpler terms, the number of times a certain answer appears in the data. The mean calculates an average across a number of observations and the standard deviation is the square root of the variance around the mean, in other words, how well the mean represents the data (Field 2005:6).

Variance is one of the key concepts in quantitative research analysis. The aim of research is to explain or account for the variance in dependent variables. The variability among a set of values is summarised in a statistic called standard deviation. This summarises the degree to which a set of measures are bunched up or spread out around the mean value. Where they are widely spread, the standard deviation will be larger than the when they are tightly grouped together. The variance that is shared by variables gives grounds for claiming that they are causally related. The strength of relationships between variables is assessed using measures of association and correlation (Thomas 2004: 209).

**Cross-tabulation**

The relatively simple device of the cross-tabulation can be used to great effect. The frequency distribution displays the distribution of the cases across the categories of a single variable. Cross-tabulation is produced when two or more variables are juxtaposed (Thomas 2004:209).
A cross-tabulation is just a more advanced method of presenting frequency data. It presents the frequencies in a matrix. Cross-tabulations were done on some of the variables in the study because they enabled the researcher to explain the meaning of the data better (Vos et al. 2002:15) because of the associations between the data (Davis 1999). For instance: Size of business and educational level.

### Cross-tabulation of size of business*educational level.

<table>
<thead>
<tr>
<th>Education</th>
<th>Small</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Primary Frequency</td>
<td>11</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>91.7%</td>
<td>8.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>High School Frequency</td>
<td>62</td>
<td>16</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>79.5%</td>
<td>20.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Diploma Frequency</td>
<td>46</td>
<td>17</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>73.0%</td>
<td>27.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Tertiary Frequency</td>
<td>19</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>54.3%</td>
<td>45.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Other Frequency</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>83.3%</td>
<td>16.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total Frequency</td>
<td>143</td>
<td>51</td>
<td>194</td>
</tr>
<tr>
<td></td>
<td>73.7%</td>
<td>26.3%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Inferential statistics

The following inferential techniques will be used:

- **Chi-Square Test**

The Chi-Square Test procedure tabulates a variable into categories and computes a chi-square statistic. This goodness-of-fit test compares the observed and expected frequencies in each category to test either that all categories contain the same proportion of values or that each category contains a user-specified proportion of values (SPSS 11.4: 2004). This is the significance test used when making use of the cross-tabulation technique. This was employed when the primary hypothesis was being tested it is illustrated below.
Chi-square Goodness-of-fit-test on SMEs having an insurance policy.

<table>
<thead>
<tr>
<th>Have Insurance Policy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>.188</td>
</tr>
<tr>
<td>df</td>
<td>1</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.665</td>
</tr>
<tr>
<td>Exact Sig.</td>
<td>.718</td>
</tr>
<tr>
<td>Point Probability</td>
<td>.105</td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 84.0.

- Cronbach’s Alpha

Cronbach’s alpha is the most common form of internal consistency reliability coefficient. Cronbach’s alpha (α) indicates the overall reliability of a questionnaire and values around 0.8 and 0.7 are good for ability tests (Field 2009:675).

4.3.10 Statistical significance

Test statistics such as the inferential techniques described above, are used to tell the researcher about the true state of the population-inferred from the sample. Field (2005:31) explains that there are two possibilities in the real world (in the actual population):

1. There is, in reality, an effect in the population; or
2. There is no effect in the population.

Although we have no way of knowing if this is the true situation, Fields (2005:31) explains that by looking at the test statistically and the associated probability, one can decide which of the two is the most likely. A general decision rule is set against which the p-value is evaluated when deciding whether the observed effect in the sample is true also for the population.

The diagram below shows how being approached by an insurance broker and having an insurance are significant (p=.00) in affecting whether a business relationship between SMEs and insurance companies exist or does not exist.
ANOVA results showing how being approached by an insurance broker and having an insurance policy affect the business-to-business relationship between SMEs and insurance companies.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.947</td>
<td>2</td>
<td>.974</td>
<td>7.219</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>21.986</td>
<td>163</td>
<td>.135</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.934</td>
<td>165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>5.265</td>
<td>12</td>
<td>.439</td>
<td>3.596</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>18.668</td>
<td>153</td>
<td>.122</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.934</td>
<td>165</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Approached by Broker, Have Insurance Policy

4.3.11 Data preparation

Once the questionnaires were returned and were prepared for analysis. This involves editing or cleaning, handling blank responses, coding, and processing.

Editing or cleaning the data

Editing or cleaning refers to the checking of data and correcting any errors like respondents inadvertently not answering questions in which case respondents are traced and corrections made. When answers are consistent the respondents can be traced. Although this may be time consuming it is better done early before the data is analysed.

Data coding

According to Terre Blanche and Durrheim (2002:98), coding involves applying a set of rules to the data to transform information from one form to another. This involves converting the questionnaire into numeric form in order to allow for quantitative analysis.
4.3.12 Data analysis procedure

The data was analysed by the Statistics Department of the University of Fort Hare. The statistical package which was used to analyse the data is the Statistical Analysis System V8 (SA). The packages Statistica and SPSS were also used for the analysis of graphs. The statistical method used to analyse the data was Chi-Square test for independence.

4.4 Ethical Considerations

The (American) Academy of Management published a Code of Ethical Conduct which included a section on research. The preamble to the code outlines a number of responsibilities these include prudence in research design, human subject use, confidentiality; result reporting and proper attribution of work is a necessity. The code itself deals with the following:

- The need for honesty in the conduct of research;
- The need for rigour in the design, execution and reporting of studies; and
- The protection of research participants (Thomas 2004:95).

4.5 LIMITATION OF THE RESEARCH

Due to limited time and financial limitations the researcher was unable to do a more extensive research. The area of study is in the Nelson Mandela Metropolitan Area and the researcher was based in Alice. This requires travelling to and from the research area, thus, it added to the cost of the empirical research. The cost of research was high because it included travelling, accommodation and food.

4.6 SUMMARY

The chapter provided a comprehensive description of the research methodology. An overview of the research design was also provided. The sampling methods used to collect the data from SMEs in the Nelson Mandela Metropolitan Area were provided. The researcher used cluster sampling technique to group the respondents into two
clusters using the information provided by the head of the Small Enterprise Development Agency in the Nelson Mandela Metropolitan Area. The respondents were divided into two clusters according to the number of employees under their employment. A questionnaire was developed and was administered by the researchers to the SME owners/managers in the Nelson Mandela Metropolitan Area.

The following chapter will give a comprehensive discussion on the findings of the study. All the results were analysed and interpretations of the research objectives and hypotheses are presented. The researcher used tables, pie charts, bar graphs and statistical analysis to assist in reaching the research objectives.
CHAPTER FIVE

PRESENTATION OF RESULTS

“The shrewd guess, the fertile hypothesis, the courageous leap to a tentative conclusion – these are the most valuable coin of the thinker at work” Jerome Seymour Bruner (1960)
5.1 INTRODUCTION

The previous chapter explained the data collection methods. The data was collected from the respondents and it was coded. Descriptive statistics, cross-tabulations and inferential statistics were performed on the data. This chapter deals with the analysis and presentation of the empirical data. However, before the data was analysed, reliability and validity tests were performed on the data, using Cronbach’s Alpha values and Pearson’s Chi-square goodness of fit test on the questions used to test the hypotheses.

The chapter reveals the results on a question by question basis. The results of each question will start by stating the question as formulated in the questionnaire (refer to addendum 1, p141). The chapter further deals with the analysis and interpretation of the distributed questionnaires. Interpretations and conclusions are the end result of the research process. The results will be illustrated using tables, pie charts and graphs. The presentation of results will begin by analysing the responses to Section A (Business Information), Section B (Insurance and Business Relationship) and Section C (Crises Management). The primary and secondary hypotheses were tested at the end of the chapter.

The statistical analyses conducted illustrate the extent to which the results yielded answers to the research objectives that underpin this study. The primary aim of the study was to establish whether SMEs in the Nelson Mandela Metropolitan Area have insurance for their businesses and to analyse the factors that influenced the business-to-business relationship between SMEs and insurance companies.

Descriptive information on each question is also provided in this chapter, allowing for in depth-interpretation of the results. A large number of Pearson’s correlations were computed. The Pearson’s correlation coefficient $R$ tests the hypothesis that the correlation is different from zero (that is, different from no relationship between variables). The correlation coefficient has to lie between $\pm 1$. A coefficient of +1 indicates a perfect positive relationship; a coefficient of -1 indicates a perfect negative relationship and zero indicates no relationship. The correlation coefficient measures the size of an effect where values of: $\pm 1$ represent small effect, $\pm 0.3$ is a
medium effect and ±.5 a large effect (Field 2009: 193). The next section discusses the results obtained from the returned questionnaires.

5.2 THE DESCRIPTIVE AND FREQUENCY STATISTICS OF THE RESEARCH FINDINGS ON A QUESTION TO QUESTION BASIS

5.2.1 SECTION A: BUSINESS INFORMATION

This section identifies and discusses the business information related to SMEs, and the respondent's answering on behalf of the businesses. Questions relating to the size of business, the occupation of respondents running the business, their educational level, the type of business and the number of employees.

**Question 1:** The size of the business. This question enables the researcher to obtain information on whether the business is small or medium sized.

**Table 5.1 Classification of the businesses who participated in the research.**

<table>
<thead>
<tr>
<th>Size of business</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>132</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Medium</td>
<td>71</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Comment:**

The study showed that there were 65% small businesses and 35% medium sized businesses who participated in the research in the Nelson Mandela Metropolitan Area. This affirms the literature review which shows that small businesses contribute more to the South African GDP than medium sized businesses, as there are many small businesses that operate within the economy (refer to section 2.4.2, p26).

Question 2 relates to occupation of the respondents to enable the researcher to establish whether the respondent is the owner or manager.
**Question 2:** Occupation of respondents.

**Table 5.2 Occupation of respondents.**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>82</td>
<td>40.4</td>
<td>40.4</td>
<td>40.4</td>
</tr>
<tr>
<td>Partner</td>
<td>11</td>
<td>5.4</td>
<td>5.4</td>
<td>45.8</td>
</tr>
<tr>
<td>Middle Management</td>
<td>36</td>
<td>17.7</td>
<td>17.7</td>
<td>63.5</td>
</tr>
<tr>
<td>Supervisor</td>
<td>53</td>
<td>26.1</td>
<td>26.1</td>
<td>89.7</td>
</tr>
<tr>
<td>Other</td>
<td>21</td>
<td>10.3</td>
<td>10.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Comment:**

There are 40.4% owners of SMEs, 5.4% who were partners, 17.7% were middle management, 26.1% were supervisors and 10.3% were other. This affirms studies carried out by Mutezo (2005: 81) on SMEs in Tshwane where 86% of the respondents were owners of the business. This shows that most SMEs are managed by their owners.

Question 3 examines the educational qualifications of respondents. The question enabled the researcher to obtain information on the education levels of respondents.

**Question 3:** Educational level.
Table 5.3 Educational level of respondents.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Upper Primary</td>
<td>12</td>
<td>5.9</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Valid High School</td>
<td>78</td>
<td>38.4</td>
<td>40.2</td>
<td>46.4</td>
</tr>
<tr>
<td>Valid Diploma</td>
<td>63</td>
<td>31.0</td>
<td>32.5</td>
<td>78.9</td>
</tr>
<tr>
<td>Valid Tertiary</td>
<td>35</td>
<td>17.2</td>
<td>18.0</td>
<td>96.9</td>
</tr>
<tr>
<td>Valid Other</td>
<td>6</td>
<td>3.0</td>
<td>3.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>194</td>
<td>95.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>9</td>
<td>4.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comment:**

Generally SME owners/managers who participated in this research have gone to high school (40.2%) and a diploma (32.5%). Of the respondents who participated in the research 18% have tertiary education, 3% have other forms of education and 6.2% have upper primary education. This shows that 50.5% of the respondents have post high school qualification (diploma or tertiary education). This is consistent with the research findings by Shafeek (2006: 101) on SMEs in the Eastern Cape where 73% of the respondents had a post secondary qualification.

As part of an in-depth analysis of the business information variables, the size of the business and educational levels were examined through a cross-tabulation of the variables. Table 5.4 presents the cross-tabulation between the size of the business and education levels.
Table 5.4 Cross-tabulation of size of business*educational level.

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Primary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>91.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td>High School</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>62</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>79.5%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Diploma</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>46</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>73.0%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Tertiary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>54.3%</td>
<td>45.7%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>83.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency</td>
<td>143</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>73.7%</td>
<td>26.3%</td>
</tr>
</tbody>
</table>

Comment:

There is a significant relationship between the size of the business and educational level with \( \chi^2 = 10.46 \) (4), \( p = .03 \). Out of the respondents who were small businesses most of them (91.7%) had upper primary and for medium sized businesses 45.7% of the respondents had tertiary education. A further correlation analysis revealed that there is a significant correlation between size of business and educational level \( r = .181 \), \( p = .006 \) (one-tailed) illustrated in table 5.5 below. The study showed that medium sized enterprise owners or managers have higher education levels than small business owners or managers.

Table 5.5 Correlation between Size of business and Educational level.

<table>
<thead>
<tr>
<th>Size Of Business</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
<th>N</th>
<th>Education</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size Of Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.181</td>
<td>.006</td>
<td>203</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>.181</td>
<td></td>
<td></td>
<td>1</td>
<td>.181</td>
<td></td>
<td>194</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>.006</td>
<td></td>
<td></td>
<td></td>
<td>.006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>194</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>194</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (1-tailed).
Question 4 relates to the type of business this helped to establish the type of industry that the respondents operate.

**Question 4:** The type of business.

**Fig 5.1 Type of Business.**

![Pie chart showing the distribution of business types: Retail 37%, Manufacturing 20%, Service 12%, Transportation 5%, Financial 12%, Franchise 14%]

**Comment:**

The largest type of business is the retail sector (37%), followed by the manufacturing sector (20%) and the franchise business sector (14%). The conclusions of this study differ with the findings in the research done by Mutezo (2005:83), where 40.9% of the SMEs in Tshwane were in the services sector.

Question 5 relates to the number of people that were employed by each SME. This question enabled the researcher to classify the size of the business the respondent belonged (refer to section 1.7.3, p15).

**Question 5:** Number of people currently employed.
Comment:

According to the classification of the size of business in section 1.7.3 most of the respondents employ 1-20 employees (65%) and 35% employ 20-100 plus employees. This is in line with Mutezo’s (2005:83) research findings in Tshwane where 64.8% of the businesses were small business employing 1-20 employees.

The next section focuses on the insurance information and business relationship of SMEs and insurance companies.

5.2.2 SECTION B: INSURANCE AND BUSINESS RELATIONSHIP

The first question in this section asked respondents on whether they had received any form of insurance training. Table 5.6 shows the number of respondents who had insurance related training.

Question 1: Insurance related training.
Table 5.6 Insurance related training.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>34</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>169</td>
<td>83.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>203</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Comment:

A large number of respondents (83.3%) had not received any form of insurance related training and only 16.7% of the respondents received insurance training. This question helped the researcher to analyse the second secondary hypothesis, establishing whether having insurance training influenced the purchasing of an insurance policy by SME owners/managers (refer to section 5.4.3, p 112).

The next question relates to the number of SMEs who want to be trained in the field of short term insurance.

Question 2: SMEs who want short term insurance training.

Table 5.7 SMEs who want insurance training.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>129</td>
<td>63.5</td>
<td>72.1</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>50</td>
<td>24.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>179</td>
<td>88.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>24</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>203</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Comment:

The study shows that, 72.1% of the respondents want to be trained on short term insurance related matters and 27.9% do not want any training. This question helped
the researcher to establish the existence of a relationship between SMEs and insurance companies.

Question 3 examines whether SMEs have been approached by insurance brokers. This question helped the researcher in the testing of the second secondary hypothesis (refer to section 5.4.3, p 112).

**Question 3: SMEs Approached by insurance brokers.**

**Table 5.8 SMEs approached by insurance brokers.**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>134</td>
<td>66.0</td>
<td>66.0</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>69</td>
<td>34.0</td>
<td>34.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>203</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Comment:**

Of the SMEs who participated in the research 66% of the respondents had been approached by an insurance broker within the past six months and 34% had not been approached. This question was highly significant in testing the second secondary hypothesis.

As part of an in-depth analysis, a correlation analysis was carried out on the two variables, approached by broker and having a business relationship with insurance company.
Table 5.9 Correlation between being approached by insurance broker and having a business relationship.

<table>
<thead>
<tr>
<th></th>
<th>Approached by Broker</th>
<th>Business-to-Business Relationship with Insurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approached by Broker Pearson Correlation</td>
<td>1</td>
<td>.387*</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>203</td>
<td>187</td>
</tr>
<tr>
<td>Business-to-Business Relationship with Insurer Pearson Correlation</td>
<td>.387*</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>187</td>
<td>187</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (1-tailed).

The results show that there is a significant effect between a SME owner/manager being approached by an insurance broker and having a business relationship with an insurance company, $r = .39$, $p$ (one-tailed) < .001.

The next question examines whether SME owners/managers have an insurance policy for their business. This question helped the researcher to answer the main research question of how many SMEs have insurance policies for their businesses (refer to section 5.4.1, p 106).

**Question 4:** SMEs with insurance policies.

Table 5.10 Number of SMEs with insurance policies.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>81</td>
<td>39.9</td>
<td>41.3</td>
<td>41.3</td>
</tr>
<tr>
<td>No</td>
<td>115</td>
<td>56.7</td>
<td>58.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>196</td>
<td>96.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>7</td>
<td>3.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Comment:

The study revealed that most of the respondents do not have insurance policies for their businesses (58.7%) and only 41.3% of the respondents have insurance policies for their businesses. This was also discussed in (section 5.4.1, p 106).

Question 5 examines the type of insurance that SME owners/managers have for their business. This also helped the researcher to analyse the objectives of the research.

**Question 5:** Type of insurance policy held by SMEs.

**Fig 5.3 Type of insurance policy cover.**

The insurance policy cover that most SME owners/managers have for their business was a policy that covered their vehicles (43%). Insurance cover for personal liability was the second highest at 31%. The study showed that 30% of the respondents had an insurance policy covering electronic equipment, stock & money and risk. Another 27% of the respondents had an insurance policy cover for their buildings and 24% of
them had an insurance policy covering their contents, please (refer to section 2.5.3 p34) for the detailed explanations on what each policy covers.

While respondents could choose more than one type of insurance policy cover the most overlap was between the above mentioned policies, vehicle, personal liability, equipment, stock& money, risk, buildings and contents.

The next question relates to the view of taking insurance by SME owners/managers.

**Question 6**: The view of taking having insurance for the business.

**Fig 5.4 View of taking insurance for the business.**

![Pie chart showing views on taking insurance for the business](image)

**Comment:**

The majority of the respondents have a positive view about taking out an insurance policy for their business (91%). Whilst, only 4% of the respondents are indifferent and 5% have a negative view about taking insurance for their business.

Question 7 examines the variables that play an important role in the decision making process of SMEs owners/managers when they purchase an insurance policy for their business. This question helped the researcher to answer the first secondary hypothesis (refer to section 5.4.2, p 108).
**Question 7:** Factors that play an important role when purchasing an insurance policy.

**Fig 5.5 Factors that influence the purchasing of an insurance policy cover.**

![Bar chart showing factors influencing insurance policy purchase](chart.png)

**Comment:**

The study revealed that out of all the factors that influenced SME owners/managers to purchase an insurance policy for their business, the following were very important factors, type of policy (85%), affordability (85%), cost (89%), advantages (79%), durability (70%) and customer care (59%). These results were very useful in the testing of the first secondary hypothesis (section 5.4.2, p 108).

The next question related to the business-to-business relationship between SMEs and insurance companies. This question was the foundation of the secondary research objectives.

**Question 8:** Business-to-business relationship between SMEs and insurance companies.
Table 5.11 Business-to-business relationship between SMEs and insurance companies.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>146</td>
<td>71.9</td>
<td>78.1</td>
<td>78.1</td>
</tr>
<tr>
<td>No</td>
<td>41</td>
<td>20.2</td>
<td>21.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>187</td>
<td>92.1</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>16</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comment:

The study shows that 78.1% of the respondents have a business-to-business relationship with an insurance company. Whilst, 21.95% of the respondents did not have a relationship with an insurance company. This research finding helped the researcher to test the secondary hypotheses of this study (refer to section 5.4.2, p 108 and section 5.4.3, p 112).

Question 9 examines the factors that influence the building of the relationship between SMEs and insurance companies.

**Question 9**: Factors influencing the relationship building between SMEs and insurance companies.
Comment:

The most important factors that influenced relationship building as indicated by the respondents were reliability of insurer (96%), staff knowledge (78%) and brand name of insurer (61%). These findings are in line with the Model of Trust & Commitment (section 3.2.2, p 46) which discusses the factors that influence the foundations of trust and commitment in business relationship building.

The next question relates to the product knowledge of respondents on the available insurance products for their business. This question helped the researcher to analyse the third secondary hypothesis (refer to section 5.4.4, p 116).
**Question 10:** Product knowledge of SMEs owners or managers.

**Table 5.12 SME owners/managers who are aware of the insurance products offered by insurance companies.**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>126</td>
<td>62.1</td>
<td>66.3</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>64</td>
<td>31.5</td>
<td>33.7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>190</td>
<td>93.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>13</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>203</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Comment:**

The study shows that 66.3% of the respondents are aware of the different insurance products that are offered by insurance companies. Whilst, 33.7% of the respondents are not aware of the insurance products offered by insurance companies.

The next section focuses on the crises management knowledge of the SME owners/managers.

**5.3 SECTION C: CRISES MANAGEMENT**

This last section of the questionnaire asked respondents on their general knowledge on crises management.

**Question 11:** Does the business have a Recovery Plan in the event of a crisis?
Table 5.13 Number of respondents with a Business Recovery Plan.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>113</td>
<td>55.7</td>
<td>68.1</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>53</td>
<td>26.1</td>
<td>31.9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>166</td>
<td>81.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>37</td>
<td>18.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Comment:

The study shows that 68.1% of the respondents have a Business Recovery Plan for their business in the event of a crisis. Whilst, 31.9% did not have a Business Recovery Plan. The question helped the researcher to test the third secondary hypothesis (refer to section 5.4.4, p 116).

**Question 12:** SME owners or managers who are familiar with the term Risk Management.

Table 5.14 Number of respondents familiar with the term Risk Management.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>113</td>
<td>55.7</td>
<td>60.8</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>73</td>
<td>36.0</td>
<td>39.2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>186</td>
<td>91.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>17</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Comment:

Most of the respondents were aware of the term risk management (60.8%) and only 39.2% of them were not familiar with the term. The need for knowledge on risk management has already been discussed in section 1.1, p2.
The last question examines the importance of protecting businesses from risks.

**Question 13:** The importance of protecting a business from risks

**Table 5.15 View of respondents on protecting their business from risk.**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>128</td>
<td>63.1</td>
<td>68.8</td>
<td>68.8</td>
</tr>
<tr>
<td>No</td>
<td>58</td>
<td>28.6</td>
<td>31.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>186</td>
<td>91.6</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>17</td>
<td>8.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comment:**

The study illustrates that 68.8% of the respondents viewed protecting their business from risk as important. Whilst, 31.2% of the respondents did not view protecting their business as important.

The next section focuses on hypothesis testing.

**5.4 HYPOTHESIS TESTING**

Researchers must demonstrate instruments are reliable since without reliability, results are not replicable. Reliability analysis can be used to measure the consistency of a questionnaire. Cronbach’s alpha is the most common form of internal consistency reliability coefficient. Cronbach’s alpha (α) indicates the overall reliability of a questionnaire and values around 0.8 and 0.7 are good for ability tests (Field 2009:675).
5.4.1 Primary Hypothesis

$H_0$: SMEs in the Nelson Mandela Metropolitan Area do not have insurance cover for their business;

$H_1$: SMEs in the Nelson Mandela Metropolitan Area have insurance cover for their business.

Table 5.16 Reliability test on the questions for SMEs and insurance policies.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.817</td>
<td>.814</td>
<td>9</td>
</tr>
</tbody>
</table>

The size of the business, having insurance and the type of insurance held, all had high reliabilities, all Cronbach’s $\alpha = .82$.

Chi-square goodness of fit test is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. The chi-square test is always testing what scientists call the null hypothesis, which states that there is no significant difference between the expected and the observed result (Garson 2009). According to our literature review it is expected that SMEs in general do not have insurance policies for their businesses (refer to section 1.1 p.2).
Table 5.17 Chi-square Goodness-of-fit-test on SMEs having an insurance policy.

<table>
<thead>
<tr>
<th></th>
<th>Have Insurance Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>.188°</td>
</tr>
<tr>
<td>df</td>
<td>1</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.665</td>
</tr>
<tr>
<td>Exact Sig.</td>
<td>.718</td>
</tr>
<tr>
<td>Point Probability</td>
<td>.105</td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 84.0.

The output above shows the value of chi-square ($\chi^2$) = .19 and the degrees of freedom on which this was based, was 1. It was tested at 5% level of significance, it was discovered that SMEs do not have insurance policies for their business, with a p > .05 ($\chi^2 = .19(1)$ p=.67). This means that the null hypothesis which states:

*SMEs in the Nelson Mandela Metropolitan Area do not have insurance cover for their business is accepted.*

The hypothesis is further supported by the number of SMEs that do not have insurance policies as shown in the diagram below:
There were 41.3% of the respondents who had insurance policies and 58.7% did not have insurance. This shows that SMEs in the Nelson Mandela Metropolitan Area do not have insurance for their business.

### 5.4.2 First Secondary Hypothesis

**$H_0$:** The factors influencing the purchase of insurance by SME owners or managers has no effect on their relationship with insurance brokers;

**$H_1$:** The factors influencing the purchase of insurance by SME owners or managers has an effect on their relationship with insurance brokers;

**Table 5.18 Reliability analysis for questions on having insurance training, factors influencing the purchase of insurance and having a business-to-business relationship.**

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.698</td>
<td>.709</td>
<td>7</td>
</tr>
</tbody>
</table>
Having training, the factors influencing the purchase of an insurance policy and having a business-to-business relationship, all had high reliabilities, all Cronbach’s α = .7. A multiple regression analysis\(^4\) as well as, Analysis of variance (ANOVA) was employed to test statistically, the significance of the null hypothesis.

**Table 5.19 Multiple Regression Model for the effect of insurance training and factors influencing the purchase of insurance on business-to-business relationship.**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.309(^a)</td>
<td>.095</td>
<td>.089</td>
<td>.385</td>
</tr>
<tr>
<td>2</td>
<td>.554(^b)</td>
<td>.307</td>
<td>.260</td>
<td>.347</td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), Insurance training  
\(^b\) Predictors: (Constant), Insurance training, Cost, Advantages, Affordability, Durability, Brand Of Insurer, Type of Policy, After Sales Care, Disadvantages

The value of R\(^2\) in Model one is .095, which shows that insurance training account for 9.5% of the variation in SMEs business-to-business relationship with insurance companies. Model two which regresses the factors influencing the purchase of insurance policy by SMEs and their business-to-business relationship has R\(^2\) = .307, which means that these factors account for 30.7% of the variation in SMEs business-to-business relationship.\(^5\) The next table of analysis is the ANOVA.

\(^4\) Multiple regression, is a technique employed to account for (predict) the variance in a dependent variable. It can establish that a set of independent variables explains a proportion of the variance in a dependent variable at a significant level (Garson, 2009).

\(^5\) The correlation coefficient squared (known as the coefficient of determination R\(^2\), is a measure of the amount of variability in one variable that is shared by the other.R\(^2\) is used to show how much of this variability is shared by predictors (Field 2009:173).
Table 5.20 ANOVA results showing the effect of insurance training and the factors influencing the purchase of insurance on business-to-business relationship.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2.201</td>
<td>1</td>
<td>2.201</td>
<td>14.839</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>20.917</td>
<td>141</td>
<td>.148</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.119</td>
<td>142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>7.097</td>
<td>9</td>
<td>.789</td>
<td>6.546</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>16.022</td>
<td>133</td>
<td>.120</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.119</td>
<td>142</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Insurance training

b. Predictors: (Constant), Insurance training, Cost, Advantages, Affordability, Durability, Brand Of Insurer, Type of Policy, After Sales Care, Disadvantages

c. Dependent Variable: Business-to-Business Relationship with Insurer

ANOVA aims to show whether the model, overall, results in a significantly good degree of prediction of the outcome variable (Field, 2009:208). When tested at 95% confidence interval and 5% margin of error, the results reported that training and the factors influencing the purchase of insurance have a significant effect on the business-to-business relationship between SMEs and insurance companies. This can be seen from a p-value of .000 in table 5.4, which indicates significance of the model.
<table>
<thead>
<tr>
<th>Model</th>
<th>(Constant)</th>
<th>Insurance training</th>
<th>(Constant)</th>
<th>Insurance training</th>
<th>Brand Of Insurer</th>
<th>Affordability</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Durability</th>
<th>Cost</th>
<th>After Sales Care</th>
<th>Type of Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.595</td>
<td>.161</td>
<td>3.691</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.401</td>
<td>.104</td>
<td>.309</td>
<td>3.852</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1.780</td>
<td>.540</td>
<td>3.296</td>
<td>.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.343</td>
<td>.107</td>
<td>.264</td>
<td>3.211</td>
<td>.002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.197</td>
<td>.065</td>
<td>-.244</td>
<td>-3.055</td>
<td>.003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.233</td>
<td>.073</td>
<td>-.267</td>
<td>-3.179</td>
<td>.002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.124</td>
<td>.054</td>
<td>-.191</td>
<td>-2.293</td>
<td>.023</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.064</td>
<td>.050</td>
<td>.106</td>
<td>1.283</td>
<td>.202</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.039</td>
<td>.045</td>
<td>.069</td>
<td>.870</td>
<td>.386</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.035</td>
<td>.099</td>
<td>.028</td>
<td>.355</td>
<td>.723</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.024</td>
<td>.031</td>
<td>.064</td>
<td>.777</td>
<td>.439</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.014</td>
<td>.086</td>
<td>-.013</td>
<td>-.166</td>
<td>.869</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Business-to-Business Relationship with Insurer

It was further observed that the factors that influenced the purchase of insurance such as the brand name of insurer (p = .003), affordability (p = .002) and advantages (p = .02) have a significant effect on the business-to-business relationship between SMEs and insurance companies. Statistically this means that these factors can determine the existence or non existence of a business-to-business relationship between SMEs and insurance companies.

Statistically, the null hypothesis is rejected and the alternative hypothesis is **accepted**. It is concluded that:

*The factors influencing the purchase of insurance by SME owners or managers has an effect on their relationship with insurance brokers.*
5.4.3 Second Secondary Hypothesis

H₀: SMEs who have an insurance policy and have been approached by insurance broker do not have a business relationship with insurance companies;

H₂: SMEs who have an insurance policy and have been approached by insurance broker have a business relationship with insurance companies.

Table 5.21 Reliability analysis for questions on the type of insurance, having an insurance policy, approach by an insurance broker and business-to-business relationship.

<table>
<thead>
<tr>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.802</td>
<td>.794</td>
</tr>
<tr>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

The type of insurance, having an insurance policy, approached by insurance broker and business-to-business relationship, all had high reliabilities, all Cronbach’s α = .8. ANOVA (Analysis of variance) as well as multiple regression were used to test the statistical significance of the hypothesis.

Table 5.22 ANOVA results showing how being approached by an insurance broker and having an insurance policy affect the business-to-business relationship between SMEs and insurance companies.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.947</td>
<td>2</td>
<td>.974</td>
<td>7.219</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>21.986</td>
<td>163</td>
<td>.135</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.934</td>
<td>165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>5.265</td>
<td>12</td>
<td>.439</td>
<td>3.596</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>18.668</td>
<td>153</td>
<td>.122</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.934</td>
<td>165</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Approached by Broker, Have Insurance Policy

c. Dependent Variable: Business-to-Business Relationship with Insurer

There are two models that were fitted into our multiple regression analysis. The first model, Model one included having an insurance policy and being approached by broker. These factors had an effect on business-to-business relationship between SMEs and insurance companies, F (2.163) = 7.23, p< .05. Model two included the type of insurance held by SME owners/managers for their business and this was also found to be significant with a p<.05.

<table>
<thead>
<tr>
<th>Coefficients a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
</tr>
<tr>
<td>Have Insurance Policy</td>
</tr>
<tr>
<td>Approached by Broker</td>
</tr>
<tr>
<td>2 (Constant)</td>
</tr>
<tr>
<td>Have Insurance Policy</td>
</tr>
<tr>
<td>Approached by Broker</td>
</tr>
<tr>
<td>Vehicle/fleet</td>
</tr>
<tr>
<td>Buildings</td>
</tr>
<tr>
<td>Contents</td>
</tr>
<tr>
<td>Electronic equipment, Stock &amp; Money</td>
</tr>
<tr>
<td>Public Liability</td>
</tr>
<tr>
<td>Personal liability</td>
</tr>
<tr>
<td>Employee's Liability</td>
</tr>
<tr>
<td>Employee Dishonesty</td>
</tr>
<tr>
<td>Risk</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Business-to-Business Relationship with Insurer
It was further observed (refer to the table above) in the first model that being approached by an insurance broker is significant ($p = .000$) in predicting the business relationship between SMEs and insurance companies. Whilst having an insurance policy ($p > .05$) is not necessarily a predictor of having a business relationship with insurance companies. This is illustrated in Fig 5.2, p94.

In model two, having an insurance policy that covers buildings, electronic equipment, stock & money, personal liability, employees liability and other insurance policies were seen to be significant with $p$-values less than .05.

**Fig 5.8 SMEs who have insurance policies, have a business relationship with insurance companies and have been approached by an insurance broker.**

The graph illustrates that 79.5% of the respondents who agreed to having been approached by an insurance broker and 38.9% who agreed to have an insurance policy also agreed to having a business relationship with an insurance company. Of those who had not been approached by an insurance broker 20.5% said yes to having a business relationship with an insurance company, 61.1% respondents without an insurance policy had a business relationship with insurance companies.

The study shows that 62.2% of the respondents who did not have an insurance policy did not have a relationship with an insurance company, and 63.4% who were not approached by an insurance broker did not have a relationship with an insurance company.
company. The results also illustrated that 36.6% of the SMEs who were approached by an insurance broker did not have a business relationship with an insurance company. Of those respondents who had insurance policies 37.8% did not have a relationship with an insurance company.

Hence, statistically we reject the null hypothesis and conclude that alternative hypothesis which states that:

*SMES who have an insurance policy and have been approached by insurance broker have a business relationship with insurance companies is accepted.*

### 5.4.4 Third Secondary Hypothesis

**H₀:** The size of the business, level of education, having a Recovery Plan and the knowledge of insurance products does not influence and the purchase of an insurance policy by the SME owners or managers;

**H₃:** The size, level of education, having a Recovery Plan and the knowledge of insurance products influence the purchase of an insurance policy by the SME owners or managers.

Table 5.23 Reliability analysis of the responses on having insurance policy, having a Recovery Plan, knowledge of insurance products, education level and size of business.

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.708</td>
<td>16</td>
</tr>
</tbody>
</table>

The knowledge of insurance policy, having a recovery plan, the knowledge of insurance products, level of education and the size of the business were all statistically reliable with Cronbach’s α = .70.
Table 5.24 Simple Regression Model showing the relationship between having an insurance policy and size of business, level of education, having a Recovery Plan and the knowledge of insurance products.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.711&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.505</td>
<td>.492</td>
<td>.351</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Size Of Business, Aware of insurance Products, Education, Have Recovery Plan

In the model summary above, the results show that the predictors, size of business, product knowledge, education level and having a Recovery Plan are positively related to having an insurance policy with a coefficient of $R = .71$. The value of $R^2 = .505$, which means that all these predictors account for 50.5% of the variation on whether an SME owner/manager has an insurance policy or they do not have insurance policy for their business.

Table 5.25 ANOVA showing the relationship between having an insurance policy and the size of the business, level of education, having a Recovery Plan and the knowledge of insurance products.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>19.148</td>
<td>4</td>
<td>4.787</td>
<td>38.779</td>
<td>.000&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>18.763</td>
<td>152</td>
<td>.123</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37.911</td>
<td>156</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Size Of Business, Aware of insurance Products, Education, Have Recovery Plan

b. Dependent Variable: Have Insurance Policy
<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.327</td>
<td>.159</td>
<td>14.662</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Have Recovery Plan</td>
<td>.441</td>
<td>.411</td>
<td>4.731</td>
</tr>
<tr>
<td></td>
<td>Aware of insurance Products</td>
<td>-.193</td>
<td>-.184</td>
<td>-2.164</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>-.199</td>
<td>-.373</td>
<td>-6.279</td>
</tr>
<tr>
<td></td>
<td>Size Of Business</td>
<td>-.412</td>
<td>-.349</td>
<td>-5.747</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Have Insurance Policy

The Analysis of variance (ANOVA), as well as a regression analysis was used to test the statistical significance of the hypothesis. When tested at a 5% level of significance, results have shown that the size of business, education level of the manager/owner, having a Recovery Plan and knowledge of insurance products plays a significant role in determining the purchase of an insurance policy by SMEs. This can be seen from a p-value = .000.

All the predictors shown in table 5.9 have p<.05. The study results indicate that the size of the business (p = .000), education level of the manager or owner of an SME (p = .000), having a Recovery Plan (p = .000) and knowledge of available insurance products (p = .03) has an impact on whether SME owners/managers have an insurance policy for their business (p = .000). The overall model shows a significant relationship between SME owners/managers who had an insurance policy for their businesses and the four variables named above. This implies that the alternative hypothesis which states the following:

*The size, level of education, having a Recovery Plan and the knowledge of insurance products influence the purchase of an insurance policy by the SME owners or managers, is significant at p< .05 and is accepted.*
5.5 SUMMARY

This chapter provided the results on a question by question basis for the total sample. The main findings are that the primary null hypothesis was accepted $p > .05$ as it was found that it was statistically significant to accept the null hypothesis. SMEs in the Nelson Mandela Metropolitan Area were found not to have insurance policies for their business. The three alternative secondary hypotheses were found to be statistically significant.

It was discovered that the size of the business does influence the purchase of insurance cover in the testing of the third secondary hypothesis. Whist, the size of the business determined the level of education of the business owner/manager. The medium sized businesses were managed or owned by people who had post high school educational training. An interesting fact was that, the results highlighted that, there was a significant relationship between businesses that had been approached by insurance brokers and their having a business-to-business relationship with an insurer. In general, the results illustrated that there were many factors that influenced the business-to-business relationship between SMEs and insurance companies.

The next chapter will provide conclusions and recommendations based on the findings contained in this chapter. Conclusions related to the primary and secondary hypothesis will be discussed. There-after, recommendations on improving the business-to-business relationship between SMEs and insurance companies will be given. In addition, recommendations on how government can ensure that SMEs have insurance for their business will also be provided. The chapter will also discuss areas of further study.
CHAPTER SIX

CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR FURTHER RESEARCH

“The difficulty lies, not in the new ideas, but in escaping the old ones, which ramify, for those brought up as most of us have been, into every corner of your minds.” John Maynard Keyens (1919)
6.1 INTRODUCTION

The research results were discussed in the previous chapter. The primary null hypothesis was accepted as the study revealed that 58.7% of SMEs who were part of the research in the Nelson Mandela Metropolitan Area do not have insurance cover for their businesses. Whilst all the alternative secondary hypotheses were accepted and all the secondary null hypotheses were rejected. In the first secondary hypothesis, the study revealed that training in the field of short term insurance and the factors influencing the purchase of insurance by SME owners/managers had an effect on their business relationship with insurance companies. The second secondary hypothesis revealed that, SMEs with insurance policies and those approached by insurance brokers have a business relationship with insurance companies. Finally, the study revealed that the size, level of education, having a Recovery Plan and knowledge of insurance products had an influence on the purchasing of an insurance policy by SME owners/managers for their business.

This chapter will focus on conclusions and recommendations. There will be emphasis on the benefits of relationship building between SMEs and insurance companies in the Nelson Mandela Metropolitan Area. Finally, conclusions will be drawn on the need of insurance policies for SMEs and the factors that influenced the relationship building process between SMEs and insurance companies in the Nelson Mandela Metropolitan Area. Recommendations for further research will also be discussed.
6.2 SUMMARY OF MAJOR FINDINGS

6.2.1 SMEs and Insurance Policies

The primary objective of this research was to establish whether SMEs in the Nelson Mandela Metropolitan Area have insurance policies for their businesses. The results for the hypothesis testing showed that most of the SMEs in the Nelson Mandela Metropolitan Area do not have insurance policies for their businesses. The analysis of questions 4 revealed that most SMEs do not have insurance for their businesses (58.7%). Only 41.3% of SME owners/managers stated that they had insurance policies for their business. The analysis of question 5 reveals that out of the SME owners/managers who had insurance policies for their businesses, 43% of them had a policy for their vehicles. The analysis of the question also revealed that insurance policy cover for personal liability, risk, electronic equipment, stock and money were among the policies that SME owners/managers had for their businesses. This implies that the SME owners/managers in the Nelson Mandela Metropolitan Area are keen to protect their capital investments.

The responses to question 6 and 7, when analysed revealed the views of the SME owners/managers on taking insurance, and the majority of them (91%) view taking insurance for their businesses as a positive action. Whilst, the responses to question 7, dealt with the factors that influenced the purchasing of an insurance policy. Once analysed the results showed that the most important factors were costs, affordability, type of policy and advantages. These results coupled with the low percentage of SMEs with insurance for their business helps the researcher to reach to the conclusion that the factors mentioned above result in SME owners/managers not acquiring an insurance cover for their businesses.

SME owners/managers level of education and the knowledge of insurance products do play a huge part in the purchasing of insurance policies. The responses to questions 1, 3 and 10 were regressed in the analysis of the third secondary hypothesis (refer to section 5.4.4, p 116). The responses to question 3, revealed that the largest number of SME owners/managers have high school certificate and a diploma. A further analysis was carried out, the results revealed that medium sized
enterprises owners/managers have a higher education levels than small sized enterprises. The conclusion that was drawn from these results was that, SME owners/managers that run a medium sized business have a higher educational qualification than those that run a small business.

The responses to question 11, 12 and 13 revealed that SME owners/managers had an idea of what crises management entails. SME owners/managers had a Recovery Plan for their businesses in the event of crisis. They were also aware of the term risk management and the importance of protecting their businesses from risk. These results are not reflective of the responses of the large number of SMEs without insurance policies. The research findings show that SME owners/managers were aware of the importance of insuring their business but due to other factors such as costs, affordability, type of policy and advantages, they do not have insurance policy covers for their businesses.

6.2.2 Business Relationship

The research findings have established that there were many factors that influenced the existence of a business-to-business relationship between SMEs and insurance companies. The responses to question 8 revealed that most of the SMEs had a relationship with an insurance company (78.1%). This business relationship was influenced by many factors (question 9). Although the responses showed that there was a relationship between the two constructs, most SME owners/managers who participated in this research still did not have insurance cover for their businesses.

The study revealed that the reliability of an insurer, staff knowledge and brand name of the insurer have a great impact on the decision made by SME to build a relationship with insurance companies. A deeper analysis on the responses to questions 3 and 8 revealed that being approached by an insurance broker has a positive correlation with the SME owner/manager having a business relationship with an insurance company. Out of the respondents who had been approached by an insurance broker, 79.5% of the SME owners/managers had a business relationship with an insurance company. The results helped the researcher to conclude that any
form of interaction between SME owners/managers and insurance companies helps to facilitate a business relationship between the two constructs.

The analysis of the responses to question 1 in Section B of the questionnaire reveals that only 16.7% of SME owners/managers had any form of training on short term insurance and most of them (72.1%) want to be trained in this field. The training of SME owners/managers is crucial for the relationship building process between SMEs and insurance companies. This shows that SME owners/managers had not been offered any form of training or informative workshops by insurance companies. Although, more than half of them (66%) had been approached by an insurance broker (question 3 of section B).

Although SMEs in the Nelson Mandela Metropolitan Area do not have insurance, they still have a business relationship with insurance companies. In all, there are factors that influenced the relationship between SMEs and insurance companies. SME owners/managers were aware of the importance of protecting their business from risks; yet, the cost and affordability of the insurance policy covers are hindering them from purchasing insurance policy covers.

6.3 RECOMMENDATIONS

6.3.1 SMEs and Insurance

The study revealed that SME owners/managers in the Nelson Mandela Metropolitan Area do not have insurance cover for their businesses. The following recommendations can be made. The owners/managers of SMEs need to be informed about the importance of having an insurance policy for their business. There is a big difference between their acknowledgment of the importance of having an insurance policy and them actually having an insurance policy for their businesses. There is unpredictable weather phenomenon that is occurring around the world. These adverse conditions can result in floods, fires and other natural disasters, because of these and many other disasters that can be faced by small businesses there is need
for them to be prepared. The absence of adequate insurance by SME owners/managers has major implications on the SME sector. In the event of a fire, flood or even theft means that the SME owner/manager will have to cover the costs of recovery using funds that were not allocated for such an eventuality, this may result in the business being unable to recover from such a crisis. The business will close down and people will loose their jobs.

The responsible bodies such as SEDA and ECDC who offer SME training workshops can use these workshops to train SME owners/managers on the importance of insurance in terms of survival of the business.

The South African government can put in place legislation that enforces SME owners/managers to have insurance policies that cover their employees and their assets. This is a sure way of making sure that SMEs are protected from any form of crisis that may disturb the day-to-day running of their businesses.

Whilst most SME owners/managers do not have insurance policy covers for their businesses, it is well noted that there are many factors that are hindering the purchasing of insurance cover by owners/managers operating in this sector. Namely, cost, affordability, advantages and the type of insurance offered by the insurance company. Insurance companies need to carry out more research on their clients. They need to do full needs analysis on SMEs where they look at the type of policies that would best suit their businesses and their budget. The needs of SMEs differ with in different sectors and they are also in different financial brackets. One-size-fits-all in terms of insurance becomes impossible. Insurance companies need to carry out research more frequently for them to find out what sort of insurance products and premiums suit the SMEs in different sectors and financial brackets.

In Australia, they have legislation to protect retail clients by increasing the duty of disclosure. This is in the form of the Financial Services Reform Act 2001. This Act includes the insurance industry in the requirement for adequate disclosure. The South African government has a similar legislation, the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS), but this law needs to be amended in order for it to protect the retailers and SMEs.
6.3.2 Financial Advisory and Intermediary Services Act 37 of 2002

There was no formal system of regulating financial advisors and intermediaries. The FAIS Act aims at creating a formal system of regulating financial advisors and intermediaries. The Act aims to achieve professional conduct by Financial Services Providers (FSP), better informed clients and a professional responsible sector. Under the Act, consumer education is seen as a proactive consumer protection measure as provided in section 32 of the FAIS Act\(^6\). The Financial Services Board Act (Act 97 of 1990) mandates the Financial Services Board to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users of financial products and services.

Short term insurance companies are under the FSP which are affected by the FAIS Act. It is the mandate of the Financial Services Board (FSB) to educate the financial service providers about the regulations of the Act. In turn, the financial service providers are supposed to educate their clients on the various financial products that are available to them.

In order to establish professionalism within the FSP’s in South Africa, the Act lays down strict standards for the market conduct of both FSP’s as well as representatives (insurance brokers). In the FAIS Act General Code of conduct, certain disclosures have to be made by the FSP to the client (SMEs). The purpose of the code of conduct is to ensure that the clients receiving financial advice will be able to make informed decisions, that their reasonable financial needs with regards to financial products be appropriately and suitably satisfied. The authorised FSP is required to:

- Seek from clients appropriate and available information regarding their financial situations, financial product experience and objectives in connection with the financial service required;

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\(^6\) The Registrar may take any steps conducive to client education and the promotion of awareness of the nature and availability of the Ombud and other enforcement measures established by or in terms of this Act, including arrangements with the Ombud representative bodies of the financial services industry, client and consumer bodies, or product suppliers and authorised financial services providers and their representatives to assist in the disclosure of information to the general public on matters dealt with in this Act.
• Whenever reasonable and appropriate, provide to the client any material contractual information and any material illustrations, projections or forecasts in the possession of the provider;

• In particular, at the earliest reasonable opportunity, provide, where applicable, full and appropriate information of the details of the product and its benefits. This includes information such as:

  • the name, class or type of financial product concerned and the nature and extent of benefits to be provided, including details of the manner in which such benefits are derived or calculated and the manner in which they will accrue or be paid;

  • Concise details of any special terms or conditions, exclusions of liability, waiting periods, loadings, penalties, excesses, restrictions or circumstances in which benefits will not be provided;

  • any guaranteed minimum benefits or other guarantees;

  • to what extent the product is readily realisable or the funds concerned are accessible;

  • Any restrictions on or penalties for early termination of or withdrawal from the product, or other effects, if any, of such termination or withdrawal.

Insurance companies are clearly not following the code of conduct as provided by the FAIS Act as most of the SMEs (83.3%) have not been given any form of training or information workshops. SMEs want to be informed about the insurance products that are available and those that are affordable. The FSB needs to amend the Act and introduce stiffer penalties to those who do not meet the requirements of the law. Strict monitoring measures have to be introduced by the FSB that can be implemented through the Registrar as provided in the Act. Although there are penalties that are incurred by those who default form this Act, the enforcement of this
law will not be effective unless practical and tougher measures are introduced. The South African government must review this law.

6.3.3 Business-to-business relationship

The owners/managers of SMEs in the Nelson Mandela Metropolitan Area have a business relationship with insurance companies. However the study has shown that there are many factors that influence the business relationship between SMEs and insurance companies. Insurance companies should increase their interaction with SMEs. They need to hold frequent workshops for SMEs where they can get a chance to inform them of their various product offering. Insurance companies can hold research programmes twice a year, where they can be able to find out what sort of insurance cover they need to offer SMEs and at the costs that they can afford.

One of the major factors that influenced the relationship building process between SMEs and insurance companies is the reliability of the insurer (96%). Insurance companies can use workshops, road shows and they can hold summits where they can invite SMEs. This will give them a chance to interact with their clients and create a platform where they can provide information concerning their premiums and pay outs when a claim has been made. Insurance companies need to build a relationship with SMEs and trust should be the foundation (refer to section 3.2, p 43). They need to train their staff on how to deal with SME owners/managers, their products and payment plans as well as claims. This is all part of the relationship building process (refer to section 3.4, p 51).

The study revealed that 72.1% of the SME owners/managers want to be trained about insurance. Insurance companies can therefore, hold frequent workshops and training sessions with SME owners/managers so that they can have an understanding of the type of insurance policy covers that their businesses need, the premiums and how insurance claims can work for them. Based on the number of SME owners/managers who have been trained, insurance companies are not holding needs analysis with their client (SMEs). It is required under the FAIS Act of 2002 that they hold educational workshops, to enable them to get the needs of their clients and offer them products that suit their financial bracket. This is in breach of the
requirements stipulated by this Act. The government needs to ensure that insurance companies follow the law and if they fail to meet the requirements stiffer penalties need to be introduced. In other words, the government should amend the Act and introduce stiffer penalties to those who default.

6.4 AREAS FOR FUTURE RESEARCH

A similar study amongst SMEs and insurance companies in other South African provinces can be carried out. This can be carried out using the same methodology and measurement instrument. Comparisons can be made between the SMEs and insurance companies. This would help to provide clarity on whether there is a business relationship between SMEs and insurance companies.

6.5 SUMMARY

In this chapter the main conclusions, recommendations and areas for further research were discussed. Conclusions were also drawn on the factors that influenced the business relationship between SMEs and insurance companies in the Nelson Mandela Metropolitan Area. All the primary and secondary objectives were achieved and it can, therefore, be concluded that the results have added value to the body of knowledge on the need for insurance for SMEs and the reinforcement of the FAIS Act. Insurance companies need to start a relationship building process with their clients and inform their clients about their product offering. It is necessary that they carry out a needs analysis on their clients. The results have shown that there is lack of informative workshops provided for SME owners/managers by insurance companies. A major part of relationship building is communication and customer assessment (refer to section 3.5, p 56).

The empirical investigation also validated the hypotheses. The following conclusions have been drawn. SME owners/managers do not take out insurance policies for their businesses. It was further discovered that there are various factors that influenced relationship building between SMEs and insurance companies, namely the reliability of an insurer, staff knowledge and brand name of insurer. It was also revealed that the size of the business, level of education of manager/owner, having a Business
Recovery Plan and having the knowledge of insurance products influenced the purchasing of an insurance policy by an SME owners or managers. SME owners/managers expressed an interest in short term insurance by indicating their willingness to be trained in this field. This suggests that insurance companies are not complying with the code of conduct that is provided in the Financial Advisory and Intermediary Service Act of 2002.
LIST OF REFERENCES


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SPSS 11.4. 2004. Statistical Package for Social Sciences;


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DEPARTMENT OF BUSINESS MANAGEMENT
SMALL AND MEDIUM ENTERPRISE QUESTIONNAIRE.

The Department of Business Management is currently doing research investigating the bilateral relationship between Small and Medium enterprises and short term insurance companies in the Nelson Mandela Metropolitan Area. Your assistance with the completion of this questionnaire will be highly appreciated since it will assist the researcher in reaching the desired objectives of the research. All information obtained will be kept in strict confidence.

SECTION A: BUSINESS INFORMATION (Please mark the appropriate box with an X)

1. Size of the business  
   - Small  
   - Medium

2. Occupation  
   - Owner  
   - Partner  
   - Middle management  
   - Supervisor  
   - Other

3. Educational level  
   - Upper primary  
   - High school  
   - Diploma  
   - Tertiary  
   - Other

4. Type of business  
   - 4.1 Service  
   - 4.2 Manufacturing  
   - 4.3 Retail  
   - 4.4 Franchise  
   - 4.5 Financial  
   - 4.6 Information  
   - 4.7 Utilities  
   - 4.8 Real estate  
   - 4.9 Transportation
4.10 Other

5. How many people do you currently employ?

1-10 ☐ 11-49 ☐ 50-100 ☐ Not more than 100 ☐

SECTION B: Insurance and Business Relationship (Select an option by marking with an X in the appropriate block)

1. Have you received any from of insurance related training?
   Yes ☐ No ☐

2. If no, do you want to be trained in the field of short term insurance to improve your knowledge on available products?
   Yes ☐ No ☐

3. Have you been approached by insurance brokers in the past six months?
   Yes ☐ No ☐

4. Does your company have an insurance policy?
   Yes ☐ No ☐

Motivate.................................................................
.................................................................
.................................................................
 ......................

5. If your answer is Yes to question 4, please tick the insurance policy (ies) that you currently have.

5.1 Vehicle / fleet ☐
5.2 Buildings ☐
5.3 Contents
5.4 Electronic equipment, stock & money
5.5 Public Liability
5.6 Personal accident
5.7 Employee’s liability
5.8 Employee Dishonesty
5.9 Risk
5.10 Other

If other please specify ……………………………………………………………………………………..
……………………………………………………………………………………………………………………………..

6. How do you view taking insurance for your company?

Negative ☐ Positive ☐ Indifferent ☐

7. When purchasing an insurance policy which of the following variables play an important role in your decision making? (Indicate with an X the appropriate alternative on the grid where 4 represents very important, 3 represents important, 2 represents unimportant and 1 very unimportant)

<table>
<thead>
<tr>
<th>7.1 The type of policy offered</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2 Affordability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7.3 Durability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7.4 Customer care</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7.5 After sales</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>7.6 Advantages</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
7.7 Disadvantages

7.8 Brand name of the insurer

7.9 Cost of the insurance policy

8. Do you have a business-to-business relationship with any short term insurance company?

Yes  No

Motivate ………………………………………………………………………………………………………………………………………

9. What are the factors that would influence your business to build relationship with short term insurance companies?

9.1 Reliability of insurer

9.2 Brand name of insurer

9.3 Staff efficiency

9.4 After sales services

9.5 Staff friendliness of insurer

9.6 The product knowledge of staff of insurer

9.7 Other

If other, please specify

……………………………………………………………………………………………………………………………………

……………………………………………………………………………………………………………………………………
10. Are you aware of the different insurance products offered by the short term insurance companies for your business?

Yes  [  ]                     No  [  ]

Section C: Crises Management

11. In the event a crisis (fire, theft, and flood) does your business have a Recovery Plan?

Yes  [  ]                     No  [  ]

12. Are you familiar with the term “Risk Management”?

Yes  [  ]                     No  [  ]

13. Do you think it is important to protect your Business from risks?

Yes  [  ]                     No  [  ]

Your co-operation in the completion of this questionnaire is greatly appreciated.
TO WHOM IT MAY CONCERN
MISS KUDAKWASHE CHODOKUFA, STUDENT NUMBER: 200301950

Is enrolled for a Master in Commerce Degree by dissertation entitled:
“Analysis of the Business Relationship between SMEs and Insurance Companies in the Nelson Mandela Metropolitan Area”.

She has to conduct a survey amongst the SMEs in the Nelson Mandela Metropolitan Area to collect data about the research problem at hand. It will be greatly appreciated if you could assist her wherever possible with her data collection to enable her to successfully complete the survey. The information supplied by participants will be treated as confidential and the questionnaire will be stored in a database anonymously. It will only be used for academic purpose.

Thank you in advance for your co-operation and support in this regard. Please feel free to contact the undersigned should you require additional clarity.

Yours sincerely

Dr Herbst
H.O.D – Department of Business Management
University of Fort Hare (Alice Campus)
Private BagX1314, Alice 5700
Tel: 040 602 2117

27 July 2009
TO WHOM IT MAY CONCERN

I, Esrina Madamombe, a Pass Coordinator in the Teaching and Learning Centre of Fort Hare, truthfully confirm that I proofread, and edited Chodokufa Kudakwashe’s Masters in Commerce (Business Management) dissertation. It took me two weeks to finish the work.

I specifically focused on the language part of the dissertation, with various interventions on logic, unity, cohesion, and coherence. Grammar fundamentals, also, became an area of focus. For example, I detected errors on the use of the concord (subject verb agreement), punctuation, run-ons, comma splice, dangling modifiers, and the incorrect use of quantifiers, tenses, articles, circumlocution, redundancy, repetition and other common errors such as the use of non – standard expressions or informal language.

I trust that the work that I did meets the requirements, as expected by your office.

Yours faithfully

Ms E. Madamombe (Pass Coordinator)
Teaching and Learning Centre
E- Mail: passalice@ufh.ac.za
Telephone No: +27 40 602 2240