EVALUATING ENTREPRENEURIAL TRAITS AND BUSINESS PRACTICES OF SMEs IN THE EASTERN CAPE

By

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Submitted in fulfilment of the requirements for a degree in Masters in Business Administration at the Nelson Mandela Metropolitan University

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Promoter: Prof M.D.M Cullen
DECLARATION

I, Matthew Klaas, 9912489 hereby declare that the Treatise for a degree in Masters in Business Administration to be awarded is my own work and that it has not been submitted for assessment or completion of any postgraduate qualification to another university or for another qualification.

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**Acknowledgements**

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- My Promoter, Professor Margaret Cullen, for her constant guidance, patience and encouragement throughout this research project. Professor Cullen without your expertise and time, this study would not have been possible. It has been a privilege to work with a Promoter who exhibits such enthusiasm and commitment towards her work and her students.
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- All the respondents who participated in this study your valuable contribution and time is greatly appreciated.
ABSTRACT

Small and Medium Size Enterprises (SMEs) are considered a vital catalyst for economic growth and a source of job creation. In South Africa, with the high levels of unemployment, the contribution made by SMEs is of particular importance. However this sector of the economy is plagued by a high rate of business failure.

In an effort to improve the current situation, this study sought to identify which business practices and entrepreneurial traits are present in SMEs in the Eastern Cape that may enhance business performance.

The research was carried out amongst SMEs in the Eastern Cape however the results and recommendations of the study can be applied to SMEs in other parts of the country.

The research methodology employed in this study was a quantitative approach. A web-based survey was distributed to potential respondents. The criteria used in identify potential respondents for the purpose of this study was that, the SME had to have less than 200 employees and been in business for more than three years. A combination of snowball and convenience sampling was used to select the sample. The researcher developed a conceptual framework using the literature as basis. The survey was distributed to 40 potential respondents. A total of 21 responses were received which translates to a 51 percent response rate.

Data analysis was performed by means of descriptive and inferential statistics. The study confirmed the existence of a significant relationship between the independent variables being human resource management, accounting, technology, internal controls and entrepreneurial traits and the dependent variables being business performance.

The study affirmed the notion that certain business practices and entrepreneurial traits should be prevalent in a SMEs business in order to enhance business performance. The findings of this study are such that these business practices should be present however the variables highlighted here are not absolute as there are other business practices that are of equal importance.
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CHAPTER 1: SCOPE OF THE STUDY

1.1 INTRODUCTION

Small and Medium Size Enterprises hereafter referred to as SMEs play a vital role in the economic growth of any country. This view is shared by Dragnic (2013) who maintained that contrary to their name SMEs play a significant role in the economic and social development of each community.

Emerging economies in Africa are contending with high levels of employment and at the same time experiencing relatively good economic growth. “SMEs cover about 90% of African business operations and contribute to over 50% of African employment and GDP” (Chodokufa, 2009 cited in Neneh & van Zyl, 2012:119). “These businesses have the ability to ensure an equitable distribution of income, promote general economic welfare amongst all citizens, improve the local market and make productive use of scare resources. Consequently, they enhance long-term economic growth within the country” (Nkosi, Bounds & Goldman, 2013). Hence the importance of SMEs in developing economies cannot be overly emphasized.

However the rate of business failure amongst SMEs remains high. “The high failure rate of most small enterprises raises concerns, not only for the owners, but for the government as well, especially from an economic development point of view” (Ligthelm 2008 as cited by Nkosi, Bounds & Goldman, 2013:4).

There are a number of factors, which are the cause of the high failure rates within this sector of the economy. These range from macro-economic factors, lack of business management skills and administration problems.

The survival and ultimate growth of SMEs is paramount to the realisation of economic growth in South Africa. This would have the resultant effect of creating the much needed jobs that are required in the country. It is therefore, from this premise that this study was undertaken. By considering which entrepreneurial traits and business practices should be in place within a SMEs business, which would enhance the business performance of SMEs.
1.2 PROBLEM STATEMENT

South Africa is classified as a developing economy. As in any developing economy, SMEs are the growth engine of the economy. This sector is lagging behind in South Africa. It is estimated that in developed countries, small businesses contribute approximately 50% of the GDP. Small businesses in South Africa only contribute around 30% of the GDP; however, they provide around 80% of the employment opportunities (Swart, 2011:10). One of the most pressing socio–economic issues that South Africa is facing is unemployment. According to Stats South Africa 2013, the current unemployment rate is 24.9%.

This means almost a quarter of the population is unemployed. In Mexico for example SMEs generate about 66.2% of the jobs in that country (Figueroa, Osuna and Reynoso, 2014). It is thus imperative that South Africa has a vibrant and successful SMEs sector. Success in this sector could potentially lead to a significant decrease in unemployment for South Africa.

The management dilemma is that there is such a high business failure rate amongst SMEs. This phenomenon is prevalent throughout the globe and South Africa is no exception. According to Brink et al. (2003:1) as cited in Ferreira et al. (2010), the estimated failure rate of SMEs in South Africa is between 70 and 80%. This failure rate is high. Since every business is a dynamic entity, each business would have its unique circumstances and causes for failure, however there would be an underlying commonality, since SME fall into the small business category as defined by the National Small Business Act.

It is therefore paramount for government and the business community at large that failure rate of SMEs is reduced. This can be achieved by assessing what business practices and entrepreneurial traits should be in place to ensure survival and ultimately success for SMEs. The rationale behind assessing these variables is that this could enhance the business performance of SMEs.

A study by Olawale and Garwe (2010:729) as cited in Barnard, Kritzinger and Krüger, (2011:112) “found that for small business development it is vital in emerging
economies, such as in South Africa, to attend to problems of unemployment and low economic growth”. It is therefore very important that business performance amongst SMEs is improved. This will enhance economic growth and create much needed jobs.

1.2.1 Conceptual Framework
Research studies which looked at business practices for SMEs have been conducted. Primarily the focus has been to assess one aspect or business practice that can enhance business performance. What is concerning with this approach, is that business is a dynamic and multiple faceted. It is thus difficult, if not impossible to enhance business performance by assessing one variable. A study which investigated the use of multiple business practices to enhance performance was undertaken by Neneh and van Zyl (2012). However the variables used in that study are different to the current research. The variables used in that study were marketing practices, strategic planning practices, human resource management practices, risk management practices, performance management practices and teamwork practices.

The independent variables in this study are Human Resources Management, Financial Management/Accounting, Internal Controls, Entrepreneurial traits technology and the use thereof. These variables are seen to have an influence on the dependant variable which is business performance.

It is therefore from this perspective that this research has been undertaken. By investigating what the basic fundamental business practices are and which should be in place that will enhance business performance. Therefore these variables that are investigated in this research study should not be viewed as absolute. Rather the viewpoint should be one of fundamentals for business survival and performance.

Barron (2001 as cited Van Eeden, Vivier & Venter, 2003: 13) points out that the ideas of SMEs are often good and the people behind them are competent but “they do not have a clue on how to run the business” and have no underlying understanding of business fundamentals. Nkosi, Bounds and Goldman (2013) maintained that the main reasons for the high failure rate seem to centre on insufficient business skills on the part of the person or group that initiates the business venture.
Individually the variables in this treatise have been well researched. However the purpose of this research paper, is to assess the combined effect of these variables on the performance of SMEs.

1.3 RESEARCH OBJECTIVES

1.3.1 Primary research objective
The primary objective of this study is to investigate the entrepreneurial traits and business practices that enhance the business performance of SMEs.

1.3.2 Secondary research objective
In pursuit of the primary objective of the study, the following secondary objectives are put forward:

- Review the literature available in order to define what SMEs are and their importance within the South African context, investigate the rate of failure among SMEs in South Africa;
- Based on the secondary sources define entrepreneurial traits, business practices and business performance;
- To investigate and explain which research methodology and data collection method will be used for this treatise;
- To conduct an empirical evaluation of the presence of the proposed entrepreneurial traits and business practices among SMEs in the Eastern Cape;
- To conduct an empirical evaluation on the level of business performance of SMEs in the Eastern Cape;
- To empirically test if there is a relationship between the business practices and business performance;
- To propose recommendations for the improvement of business performance of SMEs.

1.3.3 Research design objectives
In order to attain the above-mentioned objectives, the following research design objectives are pursued:
• A secondary literature review on the variables being explored ie: Human Resources Management, Accounting and Financial skills, Technology and Internal Control;
• Based on the secondary literature review construct a questionnaire which will used to collect the primary data on the prevalence of variables being explored;
• Execute the data collection by emailing the link to questionnaire to at least 45 respondents;
• Capturing the data in an Excel computer software programme;
• Request the Nelson Mandela Metropolitan University Statistics Department to analyse the data collected;
• Interpret the results and draw conclusions;
• Provide recommendations to SMEs.

1.3. 4 THE NULL HYPOTHESES

Based on the proposed framework that was constructed by the researcher. The following null hypothesis were formulated in this regard.

Null Hypotheses
H01. There is no significant relationship between Financial management and the dependant variable.

H02. There is no significant relationship between Human resources management and the dependent variable.

H03 There is no significant relationship between Internal controls and the dependent variable.

H04 There is no significant relationship between Technology and the dependent variable.
H05 There is no significant relationship between Entrepreneurial Traits and the dependent variable.

1.4 THE METHODOLOGY OF THE STUDY

1.4.1 Research paradigm

There are two types of generally accepted research paradigms, one being positivism, the other interpretivism. Collis and Hussey (2009) describe a research paradigm as a framework that guides how research should be conducted, based on the people’s philosophies and their assumptions about the world and the nature of knowledge.

Aluko (2006:201) maintained that quantitative or positivistic research design allows flexibility in the treatment of data, in terms of comparative analyses, statistical analyses, and repeatability of data collection in order to verify reliability.

Draper (2009:27) maintained that qualitative, in the context of research, refers to quality in the sense of hallmarks, features, character, nuances, complexity, or nature of the phenomenon under study.

Therefore the research paradigm that will be adopted for this study is positivistic or quantitative as relationship between the independent and dependent variables will be tested using statistical measures.

1.4.2 Sampling and population

Primary data will be collected using a questionnaire. A sample was selected, as it was not feasible to test the entire population. Collis and Hussey (2009) defined a sample as subset of a population. The population in this instance consists of all SMEs in the Eastern Cape. SMEs in South Africa are defined as businesses with 1-200 employees, turnover less than 50 million and assets not exceeding 18 million. (Falkena et al., 2001 as cited in Mahembe, 2011).

The following criteria were used to define the population of SMEs for the purpose of this study:

- The business has less than 200 employees;
• The SME has been in business for a period of not less than three years.

A combination of snowball, judgmental and non-probability sampling was used to select potential respondents. The questionnaire was distributed to 45 potential respondents. SMEs in the Eastern Cape were chosen as the population as the researcher is based in Port Elizabeth and from a logistical perspective it will be easier to administer the questionnaire.

1.4.3 Research Instrument and data collection
The research instrument that will be used to collect the primary data will be a web based self-administered questionnaire. According to Govender, Mabuza, Ogunbanjo and Mash (2014:1) “Questionnaires offer an objective means of collecting information about people’s knowledge, beliefs, attitudes and behaviour.”

The questionnaire was developed by reviewing the literature on the independent and the dependant variables. The questionnaire consists of three sections, section A, B and C. Section A consists of questions that are aimed at gathering the biographical and general information of the respondent. This section included questions on gender, number of years in business, number of employees in the business race and level of education.

Section B and C of the questionnaire consisted of questions relating to the independent and dependent variables respectively. There were a total of 43 questions for sections B and C of the questionnaire. A 5 point Likert scale was employed to measure the variables from the survey instrument. The Likert scale was used to assess the respondents agreement with the statements presented. Refer below to a breakdown of the numbering and statements of Likert scale as presented on the questionnaire.

1 = Strongly agree
2 = Agree
3 = Neutral
4 = Disagree
1.4.4 Data Analysis

The Nelson Mandela Metropolitan University Statistics Department assisted in the analysis of the empirical results. Descriptive statistics such as means, standard deviations, minimum, maximum, quartile and median where used in the data analysis of each question. In addition to the above inferential statistics such a correlation analysis were used in order to generalise the results of the sample over the entire population.

The reliability of the research instrument is of vital importance. Collis and Hussey (2009) maintained that reliability is the absence of differences. The reliability of the questions presented for testing were statistically evaluated using the Cronbach alpha.

1.5 DEFINITION OF CONCEPTS

Variables
Dependent - Business performance
Independent - a) Financial Management/Accounting
               b) Human Resources Management
               c) Internal Controls
               d) Technology
               e) Entrepreneurial Traits

1.5.1 Accounting/Financial Management
Accounting skills are the totality of skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise (Akande, 2011).

1.5.2 Human Resources Management
Hargis and Bradley (2011) defined Human resource management as the design, development, and implementation of interrelated people management practices that
influence how well an organisation can attract job applicants, retain motivated and
successful employees, and ultimately impact job performance and organisational
effectiveness.

1.5.3 Internal Control
Internal control consists of methods and procedures embedded in the organisation of
the company and adopted by management to ensure the smooth functioning of all
business functions of the company (Kapic, 2013:63)

1.5.4 Technology
Fouche, Smallwood and Emuze (2011:2) defined technology as knowledge, products,
processes, tools, methods and systems employed in the creation of goods and/or
services.

1.5.5 Entrepreneurial Traits
Moruku (2013) states that recent times, attention has been turned to entrepreneurial
orientation (EO) to account for entrepreneurial performance. Rauch, Wiklund, Lumpkin
and Frese (2009:763) concluded that consistently in the literature, EO consists of a
three dimensional construct which is pro-activeness, innovativeness and risk taking.

1.5.6 Business performance
According to Neneh and van Zyl (2012), assessing a firm’s performance and its
measurement is difficult, because performance refers to several organisational
outcomes, which include both subjective and objective elements. For the purposes of
this study business performance will take the form of financial and non-financial
metrics.

1.6 OUTLINE OF THE STUDY

The study will comprise of the following chapters:

Chapter 1 provides an introduction and the outline of the study. The chapter presents
the problem statement, conceptual model, research objectives, sample, measuring
instruments and the chapter concludes with definitions of the concepts.
In Chapter 2 a literature review was performed in order to define what SMEs are and their importance in the South African context. The chapter proceeds to investigate the rate and reasons for failures amongst SMEs. Based on the literature the chapter also defines each of the variables as per the conceptual framework.

In Chapter 3, the methodology of the study is discussed. This includes the research approach (paradigm), the sample, measuring instruments and data analysis procedures.

In Chapter 4, the empirical results were reported and interpreted.

In Chapter 5, the empirical results were discussed and conclusions were drawn. The chapter also includes recommendations to entrepreneurs and limitations of the study.
CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION
The important contribution that Small and Medium-Size Enterprises (hereafter referred to as SMEs) can make to employment and income generation has increasingly been recognised all over the world (Cant and Ligthelm, 2005). SMEs have thus become a major focal point for policy makers within Governments. Abor and Quartey (2010) described SMEs as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines.

In South Africa, with the high levels of unemployment, the contribution made by SMEs is of particular importance, considering that SMEs account for approximately 91% of formal business entities in the country (Abor and Quartey, 2010). However, despite the contribution made by SMEs to economic development, these entities face numerous challenges that have resulted in a high failure rate among business within this sector.

It is thus important that research is undertaken to investigate the entrepreneurial traits and business practices that enhance the business performance of SMEs which result in the objective of this study, based on the literature review the focus will be on entrepreneurial traits and four business practices (Human resources management, Financial Management, Internal controls and technology) that enhance business performance. In terms of business performance a number of factors will be considered in measuring performance these will be financial and non-financial metrics.

2.2 Definition of Small and Medium Size Enterprises
There is general consensus throughout the world on the importance of SMEs for economic development and job creation (Kabongo and Okpara, 2009). However, there are varying definitions worldwide of what constitutes SMEs. According to Abor and Quartey (2010) the issue of what constitutes a small or medium enterprise is a major concern in the literature. Different authors have given different definitions to this category of business. It is thus clear that SMEs suffer from a definition problem. This chapter attempts to define what constitutes a SME, firstly from a global perspective
and then in the South African context. The purpose of investigating this definition is to develop an understanding of what SMEs are.

In general, SME definitions can be broadly categorised into two definitions: economic and statistical. Under the economic definition, a firm is regarded as small if it meets the following three criteria: (1) it has a relatively small share of the market place; (2) it is managed by owners, or part owners, in a personalised way and not through the medium of a formalised management structure; and (3) it is independent in that it is not part of a larger enterprise (Mahembe, 2011).

The statistical definition, on the other hand, is used in three main areas: (1) quantifying the size of the small firm sector and its contribution to GDP, employment and exports; (2) comparing the extent to which the small firm sector’s economic contribution has changed over time; and (3) in a cross country comparison of the small firms’ economic contribution (Mahembe, 2011).

According to Mahembe (2011) these definitions, however, have a number of weaknesses. For example, the economic definition, which states that a small business is managed by its owners or part owners in a personalised way and not through the medium of a formal management structure, is incompatible with its statistical definition of small manufacturing firm which might have up to 200 employees (Mahembe, 2011).

SMEs in the European Union [EU] are defined as enterprises with fewer than 250 employees, provided that they are independent of other enterprises and do not have sales that exceed €50 million or an annual balance sheet that exceeds €43 million (Eurostat, 2011 as cited Edinburgh Group, 2012). SMEs are further subdivided into micro, small and medium size enterprises (50 to 249 employees). Larger enterprises are defined as those with 250 employees (Edinburgh Group, 2012). From the definition above it is apparent that the European Union places its primarily focus on the number of employees in the company when defining SMEs.

Countries such as the United States of America [USA] apply differing criteria for different business sectors. The Table 2.1 below gives the definitions of, SMEs in
various sectors as set out by the Small Business Administration of the USA (Edinburgh Group, 2012).

Table 2.1 Definition of SMEs according Small Business Administration of the USA

<table>
<thead>
<tr>
<th>Sector</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Manufacturing firms</td>
<td>&lt;= 500 employees</td>
</tr>
<tr>
<td>Wholesale trade firms</td>
<td>&lt;= 100 employees</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Maximum $750,000 in average</td>
</tr>
<tr>
<td>Retail trade and most service firms</td>
<td>Maximum $6.5million in average annual receipts</td>
</tr>
<tr>
<td>General and heavy construction (except dredging)</td>
<td>Annual average receipts of maximum $31million</td>
</tr>
</tbody>
</table>

(Source: Senderovitz, 2009 cited in Edinburgh Group, 2012)

In South Africa, the principal framework that is used to define Small and Medium Size Enterprises is the National Small Business Development Act of 1996. This act uses a similar approach to that used by the Small Business Administration of the USA, in the sense that different criteria are applied for different business sectors.

The South African definition goes a step further by categorising businesses into Medium, Small, Very Small and Micro. The definition also uses the total full-time equivalent of paid employees, total annual turnover and total gross asset value (fixed property excluded) (National Small Business Act of 1996). The formal definition of a small business as defined by the National Small Business Act of South Africa, 1996 is as follows “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Table and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Table opposite the smallest relevant size or class as mentioned in column 2 of the Table; (vii). Table 2.2. is table viii of the NSB Act.
<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification</th>
<th>Size or class</th>
<th>Total full-time equivalent of paid employees <em>Less Than</em></th>
<th>Total annual turnover <em>Less Than</em></th>
<th>Total gross asset value (fixed property excluded) <em>Less Than</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>R 4.00 m</td>
<td>R 4.00 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 2.00 m</td>
<td>R 2.00 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>R 0.40 m</td>
<td>R 0.40 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
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<tr>
<td>Mining and Quarrying</td>
<td>Medium</td>
<td>200</td>
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<td>Small</td>
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<td>R 3.00 m</td>
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<tr>
<td>Manufacturing</td>
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<td>Micro</td>
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<td>R 0.15 m</td>
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<tr>
<td>Electricity, Gas and water</td>
<td>Medium</td>
<td>200</td>
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<tr>
<td>Retail and Motor trade and Repair services</td>
<td>Medium</td>
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<td>R30.00 m</td>
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<tr>
<td>Wholesale Trade Commercial Agents and Allied services</td>
<td>Medium</td>
<td>100</td>
<td>R50.00 m</td>
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<td>Small</td>
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<td>Micro</td>
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<td>R 0.15 m</td>
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<tr>
<td>Catering, Accommodation and other Trade</td>
<td>Medium</td>
<td>100</td>
<td>R10.00 m</td>
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2.3 The importance of SMEs within the South African Context

Even though there may be no consensus worldwide and in the literature on the definition of SMEs, most countries in the world are in agreement on the important role SMEs play in economic development. The important contributions that the SMEs have made to the economic development of various countries of the world especially the developing countries cannot be underestimated (Akande, 2011).

Small businesses are now considered a mechanism for creating employment, reducing poverty and addressing other socio-economic imbalances (Molapo, Mears and Viljoen, 2008). This is one of the primary reasons why SMEs have become a focal point for policy makers within Government. The Nigeria Chamber of Commerce, Industry, Mines and Agriculture argued that Small businesses are the vehicle for rapid industrialisation and development of any nation (NACCIMA, 2006 as cited in Akande, 2011).

SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari et al., 2011 as cited in Edinburgh Group, 2012).
Japan has the highest proportion of SMEs among the industrialised countries, accounting for more than 99% of total enterprises (EIU, 2010 as cited in Edinburgh Group, 2012). When combining the data for those countries for which reasonably good data are available, SMEs account for 52% of private sector value added, which provides a reasonable estimate for the sector’s global economic contribution (ACCA, 2010 as cited in the Edinburgh Group, 2012).

In the developing economies, the SME sector plays a more pivotal role in economic development and job creation. Larger firms are under-represented in these economies due to lack of skills and underdeveloped infrastructure amongst others. Therefore the SME sector becomes the key driver of economic growth and job creation (Abor and Quartey, 2010). However, depending on the stage of development of the country, the SME sector may be largely informal, thus decreasing its recorded contribution to economic development.

In developing countries, over 90% of all firms outside the agricultural sector are SMEs or micro-enterprises. These firms produce a considerable part of the GDP. In Morocco, for example, 93% of industrial firms are SMEs, accounting for 38% of the production, 33% of investment and 30% of exports (Edinburgh Group, 2012). In Ghana, SMEs are even more prominent in the local economy, representing about 92% of Ghanaian businesses and contributing about 70% to Ghana’s GDP (Abor and Quartey, 2010).

South Africa is also classified as a developing nation and therefore has an economy that is heavily reliant on the SME sector. It is estimated that 91% of the formal business entities in South Africa are SMEs. They also contribute between 52 to 57% to GDP and provide about 61% to employment (Abor and Quartey, 2010). To further contextualise the importance of SMEs for the South African economy, the unemployment statistics would have to be assessed, as unemployment is one of the most pressing socio-economic issues that South Africa is facing today. According to Stats South Africa 2013, the unemployment rate is 24,9% (STATS SA, 2013). Therefore almost a quarter of the population is unemployed. It is thus imperative that South Africa has a vibrant and successful SME sector in order to alleviate the unemployment issue.
The importance of SMEs in the South African context can be seen by the multitude of government support programs and interventions in this sector. The Government’s main agencies and funds are mainly distributed across five different departments: (1) the Department of Trade and Industry (the DTI); (2) the Department of Economic Development (DED); (3) the Department of Science and Technology (DST); (4) the Presidency; and (5) the Department of Agriculture. Small business falls under the Minister of Trade and Industry and specifically under two of the Department’s units; the Enterprise Organisation and the Empowerment and Enterprise Development Division. The department has various entities under it, namely:

i) **Small Enterprise Development Agency (Seda) - [www.seda.org.za](http://www.seda.org.za)**

As an agency of the DTI mandated to support small enterprises, Seda, was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The Godisa Trust and the Technology Programmes were integrated into Seda in 2006, becoming Seda Technology Programme (STP) (Mahembe, 2011).

ii) **National Empowerment Fund (NEF) – [www.nefcorp.co.za](http://www.nefcorp.co.za)**

Set up in 1998 and operational in 2004, the NEF aims to fund black-owned and empower (both big and small) businesses. Between 2003 and March 31 2010, the fund made 208 disbursements of over R1.5 billion. Of these, 156 worth R457 million went to small black-owned businesses or franchisees (through the Imbewu Fund) (Mahembe, 2011).

iii) **National Small Business Advisory Council (NSBAC)**

The National Small Business Advisory Council (NSBAC), launched in 2006, falls under the DTI and reports to the Minister of Trade and Industry. The council has eight members and serves to advise the Minister on ways to boost support to small businesses. The first council collapsed after two years in 1998 amid allegations of mismanagement. The Department of Economic Development (DED) was set up in 2009 to co-ordinate the South African Government’s economic policy. The Department oversees various entities, including:
iv) Industrial Development Corporation (IDC) - www.idc.co.za
The Government’s development finance institution was set up in 1940 and the funding of small businesses forms a large part of its mandate. The IDC falls under the Department of Economic Development. The IDC financed 159 small enterprises to the tune of R2.13 billion (from a total of R10.9 billion) in 2008/2009. This compares to 94 dispersals the year before, valued at R933 million (out of a total of R8.4 billion). One hundred and forty two of the net approvals during 2010 (67% of the total number of approvals) were for SMEs. R2.103 million (more than 23% of the total value of approvals) were for these SMEs (companies with fewer than 200 employees, turnover less than R51 million and/or less than R55 million total assets) (Mahembe, 2011).

v) SA Micro-finance Apex Fund (Samaf)
The South African Micro-Finance Apex Fund (Samaf) was established to provide access to microloans and support to the social capital mobilisation. Samaf is a wholesale funding institution tasked to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for the purpose of growing their own income and asset base. The primary purpose of samaf is to reduce poverty and unemployment and also to extend financial services to reach deeper and broader into the rural and peri-urban areas (Mahembe, 2011).

2.4. Investigating the failure rate and reasons thereof among SME in South Africa
With so much government intervention and assistance the question then begs, why is there such a high failure rate among SMEs South Africa? Akande (2011: 372) stated that “the contribution of SMEs to development is widely acknowledged, however entrepreneurs face many obstacles that limit their long term performance and invariably their development”. According to Brink et al. (2003:1) as cited in Ferreira et al. (2010), the estimated failure rate of SMEs in South Africa is between 70 and 80%. This failure rate is high. Kruger and Rootman (2012) cited many reasons for this high failure rate but there has been nothing conclusive on this subject. Since every business is a dynamic entity, each business would have its unique circumstances and
causes for failure, however there would be an underlying commonality, since SMEs fall into the small business category as defined by the NSB act.

There are a number of factors, which could be the cause of the high failure rates within this sector of the economy. These range from macro-economic factors, lack of business management skills and administration problems. According to Lind (2000) as cited Stephenson (2006), small-scale businesses in developing countries are often plagued with poor cost accounting, lack of quality awareness and non-existent business planning and performance monitoring. They do not consider information as a significant asset in decision-making. Abor and Quartey (2010) argued that red tape and bureaucracy are also seen as stumbling blocks for the development of SMEs. Excessive regulatory compliance for SMEs requires SMEs to seek the assistance of professionals and advisors which comes at extra cost.

The importance of SMEs for economic development and job creation especially in the South African context cannot be over emphasized. Despite this, the failure rate of these businesses is high. Therefore the primary research objective is to investigate the business practices and entrepreneurial traits that will enhance overall business performance.

2.5 Importance of Human Resources
The methods of conducting business have undergone transformation over the last decade. With the advent of industrialisation and globalisation, business entities have become more complex and advanced in their processes. However even with these major advancements in technology and machinery, people are still considered to be a valuable resource within the business. According to Nicu (2012:1) it is well known that the people of a company are a strong resource for business and that the human resources function is valuable in assisting the workforce in order to accomplish the objectives of the company. The productivity of a company is strongly related to its people and its strategies.

Brewster et al. (2008) maintained that the role human resources can play in gaining a competitive advantage for an entity is well documented in literature. This is according to the resource based theory where human capital is viewed as one of the company
resources. Fox (2013:81) alluded to this by saying that the resource based view of management relates to human resources (i.e., the knowledge, skills, and abilities of employees within a firm) by suggesting that a firm will be most successful when they cumulatively evaluate the human resource practices and strategies that enable the business to remain competitive. Utilising the resource based view to understand the importance of a firm’s human resources, employees are considered a source of competitive advantage when their: knowledge and skills add value; are rare and difficult to imitate and cannot be substituted by technology or other resources.

There are numerous examples in business where human resources have helped companies gain a competitive advantage. A case in point is Zappos.com, where the leaders consistently focused on designing training programs to help employees deliver quality customer service throughout its rapid growth. These firms clearly linked their human resource management practices to their competitive business model (Chafkin, 2009 as cited in Hargis and Bradley, 2011).

This is further supported by research conducted by Fox (2013) on 300 Canadian Manufacturers where it was found that focus on companies human resources management resulted in specific advantages. Small businesses which emphasize motivating components of human resource management show a better financial performance and small businesses which emphasize informing and training components of human resource management show better operational performance.

However, having considered the importance of human resources in gaining and competitive advantage in business and the effect this function has on the performance of the firm, human resources management remains a fairly informal practice when it comes to SMEs. This view is shared by Massey and Campbell (2013:80-81) who state that “at a time when small businesses need strong human resources management practices to manage their growth, the HR function is typically an underdeveloped functional area in the organisation”.

A major issue that typically faces SMEs when it comes to human resources is the fact that SMEs have to compete with the larger enterprises in the procurement of skills. This view is shared by Massey and Campbell (2013:79) who state that “small
businesses must compete effectively for labour with their larger counterparts. This is more difficult in light of the disparity in total compensation, especially benefits”. That being said it is imperative that SMEs understand the importance of human resource management on the overall performance of the firm.

2.5.1 Defining Human Resources Management

Human resource management represents the design, development and implementation of interrelated people management practices that influence how well an organisation can attract job applicants, retain motivated and successful employees and ultimately impact job performance and organisational effectiveness (Hargis and Bradley, 2011). Human resources management practices consists of employee recruitment and selection, training, compensation and HR policies.

2.5.2 Employee Recruitment and Selection

Employee recruitment and selection practices focus on attracting talented applicants to a business, identifying the applicants that are most qualified and ultimately making the hiring and placement decisions (Hargis and Bradley, 2011). This is one of the most important processes in the human resources function as the business needs to find capable and motivated employees. The recruitment process can take the form of referrals, newspaper advertisements, face to face interviews and recruitment agencies amongst others.

This process has remained largely informal in SMEs. This could be a disadvantaging factor for SMEs. Kotev and Slade (2005) as cited in Massey and Campbell (2013:79) reported that it is expected as firms grow, the skills and abilities required to perform various functions and activities would no longer be available from the familiar and informal recruitment sources preferred by the owner-manager. Thus, a greater variety of formal recruitment sources would be used to attract suitable candidates. As firms grow, multiple selection techniques would be used, in addition to interviews, to reduce errors in selecting employees recruited from sources unfamiliar to the owner-manager.

2.5.3 Employee Training

Employee training and development are programs initiated by the firm to better equip employees in the performance of their day to day employment activities. Training
programs can involve formal class-based training sponsored by professional organisations, systematic on-the-job training, or informal methods such as mentorship programs or peer feedback regarding job performance. As such, training is another important component of human resource management activities (Hargis and Bradley, 2011). Training is time consuming, but an investment in training can result in increased worker competence and motivation. The business benefits through increased productivity and profitability (Massey and Campbell, 2013).

2.5.4 Employee Compensation
Employee compensation consists of the monetary value of employees compensation for services rendered to the entity. Employee compensation helps to ensure that the entity is able to attract, recruit and retain the correct calibre of candidate and is a key motivational factor for employees. In order to achieve the above employee compensation should be market related. However as previously mentioned SMEs face a challenge in this regard as they have to compete with larger counterparts in there remuneration offers, especially benefits. Massey and Campbell (2013) argued that this disparity results in greater employee turnover. Firms that offer benefits have a 26.2 percent lower probability of having an employee leave in a given year.

2.5.5 HR Policies
According to Massey and Campbell (2013) the adoption of formal employment procedures at the managerial level will lag behind that at the operational level for small firms, as owner-managers prefer to employ the few managers required from family and friends. Few owner-managers have formal and professional policies on human resource-related issues such as promotions, incentives and disciplinary action. From an internal perspective these policies provide guidance on the internal procedures including performance evaluations from an external perspective these policies ensure that the firm is complies with legalisation.

The effective management of the human resources function can have positive effective on business performance. This was confirmed by a study conducted by Fox (2013) who found that the implementation of Strategic Human Resources increases the firm’s performance. Neneh and van Zyl (2012) also found that SMEs can thus increase their performance by developing and executing best HRM practices.
2.6 Accounting and Financial Management

Managing a business enterprise has become an increasingly complex exercise nowadays. Organisations can no longer be led through traditional methods based on intuition, experience and talent, manifested by a manager (Miculescu and Miculescu, 2012). Stakeholders require up to date and relevant information for the purpose of decision making and reporting. Only with the help of information can the deciding party permanently observe the economic processes for the entity as a whole (Miculescu and Miculescu, 2012). Furthermore, it essential that relevant and reliable financial information is available to actively monitor business performance.

This view is shared by, Oladejo (2008) as cited by Akande (2011) who argued that accounting skill is necessary for successful entrepreneurial and small business development in Nigeria. This is because the inability to install a proper accounting system would disallow business monitoring, reporting and performance evaluation that are germane to the business survival.

According to Miculescu and Miculescu (2012: 698) accounting information comes as an intrinsic component of the informational system and it is a useful instrument to run a modern enterprise, due to the following factors:

- The majority of decisions in an entity are provided by accounting;
- It has the role of supporting the management by offering information related to planning and control;
- It allows managers to have an image of the whole organisation;
- It has the role of helping managers reduce waste and create value;
- It links other components of the information system of the entity (marketing, production, personnel, etc.);
- It is a measurement instrument for the economic performances.

SMEs seldom have the resources to conduct accounting duties in house (Perks and Smith, 2008). In this regard, there are two options which are available to SMEs. Firstly, to start with smaller accounting functions within the business. This view is shared by
Akande (2011:374) who states “that small business should start small but while starting small the aim of becoming big should not be jettison. Those important procedures that would be duly followed when the activities of such becomes big must be imbibed when the enterprise is operating as small enterprise”.

Secondly, SMEs can and should make use of external professional accountants to perform this vital function, if they do not have the capabilities in house. According to Mole (2002) as cited by Devi and Kamyabi (2012) professional accountants play a critical role in assisting SME owner/managers to manage their companies effectively.

What is the definition of accounting skills and financial management? Accounting skills are the totality of skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise (Akande, 2011). Kruger and Rootman (2012) see financial management as the functions that are performed by the financial manager and the finance department of a business. These functions include keeping records, paying employees and suppliers, receiving payments from customers, borrowing, purchasing assets, selling inventory and distributing profits.

The Financial Accounting Standards Board defined the objectives of financial reporting as the process of providing useful information in economic decision making and, in addition, be useful in determining present and future cash flows (FASB 1978). The criteria used by FASB to define financial reporting are all paramount to the effective running and providing direction to a business entity.

It is therefore essential that SMEs have some sort of bookkeeping and financial recording system in place for a number of reasons which are listed below:

1) To ensure compliance with legislation;
2) To monitor business performance;
3) To facilitate effective decision making;
4) To manage working capital and cash flow.
The generation of financial information is of vital importance to monitor business performance. Akande (2011) argued that accounting skills are highly contributory to entrepreneurial performance and are therefore required to be possessed by owner managers for effective small business development. A study by Devi and Kamyabi (2012) revealed that a firm’s performance improves directly to the extent to which the firm engages a professional accountant as advisor.

2.7 Internal Controls
In recent years there have been major corporate failures and scandals around the world. This has resulted in greater emphasis being placed on corporate governance and internal control. Jokipi (2010:115) shares the same sentiments when he states that increasing business failures have resulted in firms placing more emphasis on the implementation of internal controls.

All the functions within the business carry varying degrees of importance specifically within their functional areas, for example human resources manages the human capital element of the firm and finance function manages the financial aspects of the firm. However, the internal controls are the overarching attachment that ensure the effective functioning of the individual processes and the business as a whole. According to Kapic’ (2013:63), “Internal control consists of methods and procedures embedded in the organisation of the company and adopted by management to ensure the smooth functioning of all business functions of the company”. Hence internal controls are important to all businesses including SMEs. As internal controls are in place to ensure the business achieves its objectives. An internal control system potentially enhances a firm’s monitoring and reporting processes, as well as ensuring compliance with laws and regulations. In this way effective internal control has a critical role to play a firm’s success (Jokipi, 2010).

The principle framework used for internal controls is the Committee of Sponsoring Organisations (COSO) framework. The COSO integrated framework identifies internal controls as process, affected by entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of reporting;
- Compliance with laws and regulations.

The COSO integrated framework has five key components that will assist the entity in achieving its objectives. The components are control environment, risk assessment, control activities, monitoring activities, information and communication all of which will be discussed separately. Visual representation of the key components are internal controls is depicted in Figure 2.1.

Figure 2.1 Five key components of internal controls as per COSO integrated Framework

(Source www.Soxonline.com)

2.7.1 Control environment
The control environment is the foundation for all other components of internal controls. The board and senior management establish the tone at the top regarding the importance internal control and expected standard conduct. The control environment provides discipline, process and structure (COSO Integrated Framework, 2011).

2.7.2 Risk Assessment
Risk assessment involves a dynamic and iterative process for identifying and analysing risk to achieving the entity’s objectives, forming a basis for determining how
risk should be managed. Management should consider changes in the external environment and within its own business model that may impede its ability to achieve its objectives.

2.7.3 Control Activities
Control Activities are the actions established by policies and procedures to help ensure that management directives to mitigate risks and to the achievement of the objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes and over the technology environment (COSO Integrated framework, 2011).

2.7.4 Information and communication
Information is necessary for an entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally and provides the organisation with the information needed to carry out day to day activities. Communication enables all personnel to understand internal control activities responsibilities and their importance to the achievement of the objectives (COSO Integrated framework, 2011).

2.7.5 Monitoring Activities
The organisation selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal controls are present and functioning. The organisation evaluates and communicates internal control deficiencies in timely manner to those parties responsible for corrective action including senior management (COSO Integrated framework, 2011).

In principle there are three types of internal controls procedures; these are prevention controls, detective controls and corrective control procedures. Preventive controls are aimed at preventing errors and fraud and are therefore “a priori” control operating at the time of the formal and material validity of the document for a document in general to be authentic. Detective controls are controls that are aimed at detecting, i.e. the detection of irregularities and errors after their creation. corrective controls are oriented to correcting problems identified by detective controls to the previous level of
control, while detective controls indicate adverse events and focus attention on the problem, while the corrective controls solve the problem (Kapić, 2013).

Internal controls are applicable for all sizes of entities large and small. This is a view that shared by COSO Integrated framework (2011:20) which states that the five components of internal controls are applicable for smaller entities as for larger ones. However implementation approaches may vary for smaller entities. This is particularly true as the level of segregation of duties and the reporting structures would vary in SMEs. Cost versus benefit is also a consideration when it comes to the implementation of internal controls. It is essential that cost control procedures are lower than the benefits that can be expected by implementing them because the only way to justify the existence of internal controls (Kapić, 2013).

However the benefits of implementing internal controls cannot be discounted, more so because internal controls have a positive influence on firm performance, as the purpose of internal controls is to ensure that the firm achieves its objectives (Jokipii, 2010).

2.8 Technology
The last quarter of the 20th century has seen tremendous growth in the use of Information and Communication Technology (ICT’s) in many aspects of the economy (Ulanga, 2011). Every aspect of human life is affected by technology. Technology is evolving and has a positive effect on business, from accounting packages, human resource management systems to the way people communicate within the firms. Technology plays a pivotal role in the way business is conducted these days. Adewoye and Akanbi (2012:64) maintained that in order to succeed (or even survive) in this dynamic world, companies must take not only traditional actions such as lowering cost but also keep pace with ever changing capabilities of ICT.

Stephenson (2006:168) maintained that one of the primary reasons small-scale businesses in developing countries have continued to face growth challenges despite significant support from governments and other organisations is their technological capabilities or lack thereof. Despite great technological advancements globally, small-scale businesses are still hindered by their lack of technological implementation.
Without this technology, these small businesses find it difficult to either compete, or grow.

The accessibility of ICT has increased making technology not only the preserve of larger corporations but accessible to SMEs. Adewoye and Akanbi (2012) concluded that an important characteristic of ICT is that it is mostly scale neutral and available to small firms and poor countries as well, although their access is restricted by poor infrastructure and high cost of procuring it.

However the benefits of adopted technology within the business far outweigh the cost of the same. A study by Ulanga (2011) found that SMEs that utilise ICT have access to market information thereby increasing their market regions. Adewoye and Akanbi (2012) maintained that the non-adoption or low level of adoption of ICT device by the SMEs affects their profitability. It is thus imperative that SMEs embrace and adopt technology in the running of their businesses.

Fouche, Smallwood and Emuze (2011:2) defined technology as knowledge, products, processes, tools, methods and systems employed in the creation of goods and/or services. From this definition it is clear that technology can help firms achieve their objectives and increase efficiency. There are many forms of ICT these days from mobile phones, social networks, internet, intranet, e-commerce and electronic mail. It is therefore a business specific decision on which forms of ICT the entity will adopt.

It is crucial that SMEs adopt ICT in order to enhance business performance. Research conducted by Adewoye and Akanbi (2012) on adoption ICT by SMEs found that return on equity and net profit was affected positively after ICT had been adopted with the firm.

2.9 Entrepreneurial Traits

Many policy makers agree that entrepreneurs and the new businesses they establish, play a critical role in the development and well-being of their societies (Turton and Herrington, 2012). The majority of private sector companies have been created by entrepreneurs, some having evolved from being SMEs to becoming the multinational or listed corporations that they are today.
It is thus important that entrepreneurs and their behaviours are understood, as they have an important role to play in our society. Research has shown that a strong association exists between an individual’s perceptions of entrepreneurial desirability and feasibility (Turton and Herrington, 2012). Desirability means that an entrepreneur must view entrepreneurial venturing as a desirable future state. Internally, s/he needs to have a strong desire to pursue an opportunity and must believe that the business is worth pursuing. Feasibility means that the entrepreneur must possess the abilities necessary to achieve the desired state. That is, the entrepreneur must have the ability to explore and exploit an opportunity (Chen, Su and Wu, 2012).

Entrepreneurship has been characterised by a number of researchers as a combination of innovativeness, risk taking ability and pro-activeness (Sharma and Dave, 2011). Peneder (2009:77) concluded that entrepreneurship has been correctly characterised as one of the most intriguing but equally elusive concepts in economics. Part of the difficulty in pinning down its precise meaning stems from the sheer weight of the very fundamental functions it is held responsible for. Depending on what intellectual tradition is followed, entrepreneurship either enhances the allocative efficiency for given ends and means, or drives the dynamic performance of the system through the progressive creation of new products, processes or markets.

The term Entrepreneurial Orientation (EO) has been used to describe some of the entrepreneurial traits and behaviours displayed by entrepreneurs. This is a view shared by Moruku (2013) who states in recent times, attention has been turned to entrepreneurial orientation (EO) to account for entrepreneurial performance. Alarape (2014) concluded that the EO concept describes a type of behaviour concerned with opportunities and resources utilisation.

Rauch, Wiklund, Lumpkin and Frese (2009:763) concluded that consistently in the literature, EO consists of a three dimensional construct which is pro-activeness, innovativeness and risk taking. Each of these constructs will be discussed individually below.
2.9.1 Pro-activeness
Montiel-Campos (2011:95) defined pro-activeness as taking initiative and pursuing new business opportunities. Alarape (2014) described pro-activeness as an opportunity seeking, forward looking perspective involving the anticipation and acting on future needs which may or may not related to the present line of operation and the aggressiveness in responding to trends and demand that already exist in the marketplace. Pro-activeness is an important trait for the entrepreneurial process as entrepreneurs have to consistently seek and exploit new business.

2.9.2 Risk taking
Entrepreneurs are perceived to be risk takers thus having a propensity towards risk. Montiel-Campos (2011:95) defined risk taking as the tendency of the firm to support projects in which profits are uncertain. Macko and Tyszka (2009:471) maintained that there are two types of risk: chance related risk and skills related risk. The distinguishing factor of these two types of risks is that with the later the decision maker has some level of control over the outcome. Macko and Tyszka (2009) were of the opinion that decision makers who overestimate the probability of positive outcomes in the situation where they have some control over the outcome results believe in their abilities. This is an indicator of a high level of self-confidence or self-efficacy. Individuals with higher self-efficacy were more prone to risk taking, whereas individuals with lower self-efficacy were less prone to risk taking.

2.9.3 Innovation
Innovation reflects a firm’s tendency to engage in new ideas, experimentation and creative processes that may lead to new products, new technology and services (Alarape 2011:220). Even though the above definition is geared towards the firm this remains an entrepreneurial trait as it is the entrepreneur who runs the firm. It is thus important that the entrepreneur possesses this trait as the business environment has become vastly competitive and consumers are becoming sophisticated in their product needs. Therefore entrepreneurs need to be creative in finding solutions to these problems.
Another entrepreneurial trait that will be investigated as part of this study is autonomy. Moruku (2013:44) described autonomy as the need to act independently of others to bring about ideas and vision. This trait is important as entrepreneurs normally venture out on their own with limited support in pursuit of ideas and vision.

It is thus imperative that an entrepreneur possess certain entrepreneurial traits in order to enhance firm performance. According to Sharma and Dave (2011) there is a significant relationship between entrepreneurial orientation and firm performance.

**Summary**

Assessing a firm’s performance and its measurement is difficult, because performance refers to several organisational outcomes, which include both subjective and objective elements (Neneh and van Zyl, 2012). Firm performance can take the form of financial and non-financial metrics. For the purpose of this study both paradigms will be used to measure performance.

Enhancing business performance is of increasing interest to all business leaders in today’s business environment (Neneh and van Zyl, 2012) It is important that SMEs understand and manage the business process effectively, as better management of the business process could improve business performance. In addition the entrepreneur has to exhibit certain entrepreneurial traits to enhance business performance.
CHAPTER 3: RESEARCH DESIGN

3.1 INTRODUCTION

In Chapter 2, a literature review was conducted in order to investigate the significance of SMEs in the context of the South African economy, using the literature as a reference point. In addition to this, the previous chapter defined entrepreneurial traits and certain key business practices such as human resources, financial management, technology and internal controls. This information is relevant to the primary research question which is “what business practices and entrepreneurial traits are implemented by SMEs and do they effect business performance?”

This chapter outlines the research methodology that will be used in this study. The key points under discussion are the research methodology employed, sampling, research instrument, data collection and analysis procedures.

3.2 RESEARCH METHODOLOGY

There are two types of generally accepted research paradigms, one being positivism, the other interpretivism. Collis and Hussey (2009) described a research paradigm as a framework that guides how research should be conducted, based on the people’s philosophies and their assumptions about the world and the nature of knowledge.

Positivistic research is one that focuses on theories to predict social phenomena. Researchers using this paradigm apply logical reasoning so that precision, objectivity and rigour underpin their approach, rather than subjectivity and intuitive interpretation. (Collis and Hussey, 2009).

Under positivism, theories provide the basis of explanation, permit the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled. Explanations consist of establishing causal relationships between the variables by establishing causal laws and linking them to a deductive or integrated theory (Collis and Hussey, 2009). Positivism research paradigm is often referred to quantitative research.
Interpretivism is underpinned by the belief that social reality is not objective but highly subjective as it is shaped by our perceptions. Interpretivism focuses on exploring the complexity of social phenomena with the view to gaining interpretive understanding (Collis and Hussey, 2009). Therefore the research is not based on statistical results but rather based on gaining an interpretive understanding. Interpretivism research is commonly referred to as qualitative research.

The main differences between qualitative and quantitative research are explained in the tabular format in the Table 3.1 below.

Table 3.1: Differences between qualitative and quantitative research

<table>
<thead>
<tr>
<th>Positivism (Quantitative)</th>
<th>Interpretivism (Qualitative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use large samples</td>
<td>Use small samples</td>
</tr>
<tr>
<td>Have an artificial location</td>
<td>Have a natural location</td>
</tr>
<tr>
<td>Be concerned with hypothesis testing</td>
<td>Be concerned with generating theories</td>
</tr>
<tr>
<td>Produce precise, objective, quantitative data</td>
<td>Produce rich, subjective, qualitative data</td>
</tr>
<tr>
<td>Produce results with high reliability but low validity</td>
<td>Produce findings with low reliability but high validity</td>
</tr>
<tr>
<td>Allow results to be generalized from the sample to the population</td>
<td>Allow findings to generalised from one setting to another similar setting</td>
</tr>
</tbody>
</table>

Source: Collis and Hussey (2009)

According to Table 3.1, it can be seen that quantitative research is concerned with hypothesis testing, which will allow the results to be generalised from the sample to the population. Therefore the paradigm that will be adopted in undertaking this research project is a quantitative research paradigm. The advantage of using this methodology is that a hypothesis can be developed. Moreover, larger amounts of data can be collected and analysed in a shorter period of time using the quantitative methods. A hypothesis has been developed for the purposes of this study. A discussion on the proposed hypothesis is presented below.

3.3 Hypothesis
Since the methodology adopted in this research project is a quantitative approach, a hypothesis was proposed to test the relationship between the dependent variable and the five independent variables. The research objective of this study is to determine what business practices and entrepreneurial traits are implemented by the SMEs and how these affect the business performance of SMEs.

A review and analysis of the existing literature assisted in developing the theoretical framework that will be used in this empirical study. The following hypotheses were developed to test the positive relationship:

- H1 The implementation of Human Resources Management in a SME enhances the business performance of the SME;
- H2 The implementation of Financial Management in a SME enhances the business performance of the SME;
- H3 The implementation of Internal Controls in SME enhances the business performance of the SME;
- H4 The use of technology by an SME enhances the business performance of an SME;
- H5 The possession of certain entrepreneurial traits by the business owner enhance the business performance of that SME.

Figure 3.1 presents the conceptual model of the proposed hypotheses.

Figure 3.1 Conceptual Model
3.4 Data Collection and research instrument.

The research instrument that will be used to collect the primary data will be a web based self-administered questionnaire. According to Govender, Mabuza, Mash and Ogunbanjo (2014:1) “Questionnaires offer an objective means of collecting information about people’s knowledge, beliefs, attitudes and behaviour.”

The questionnaire included a covering letter. The covering letter explained the purpose of the study, the information that will be required from respondents and instruction on how to complete the questionnaire. The covering letter also assured the respondents that their confidentiality would be maintained for the purposes of this empirical study.

The questionnaire was developed by reviewing the literature on the independent and the dependant variables. The questionnaire consists of three sections, section A, B and C. Section A consists of questions that are aimed at gathering the biographical and general information of the respondent. This section included questions on gender, number of years in business, number of employees in the business, race and level of education.

The Section B consists of questions on the independent variables being human resources management, financial management, internal controls, technology and entrepreneurial traits. This section of the questionnaire was designed to measure the prevalence of the abovementioned business practices within the respondent’s business.

Section C consists of questions aimed at assessing the business performance of the SME. The questions were based on both financial and non-financial metrics in order to measure business performance of the SME. There are a total of 43 questions for sections B and C of the questionnaire. A 5 point Likert scale was employed to measure the variables from the survey instrument. The Likert scale was used to assess the respondents agreement with the statements presented. Refer below to a breakdown of the numbering and statements of Likert scale as presented on the questionnaire.

1 = Strongly agree
2 = Agree
3 = Neutral
4 = Disagree
5 = Strongly disagree

3.5 Sampling

Primary data will be collected using a questionnaire. A sample was selected, as it was not feasible to test the entire population. The population in this instance consists of all SMEs in the Eastern Cape. The Eastern Cape was chosen as the population because the researcher is based in Port Elizabeth and from a logistical perspective it will be easier to administer the questionnaire.

The findings of the survey will be generalised over the entire population of SMEs in Eastern Cape. According to Collis and Hussey (2009) a sample is a subset of a population, therefore the sample has to be representative of the entire population to ensure the validity of the research.

For the purposes of this research project the sample will consist of SMEs in the Eastern Cape. The most common basis by which to define small and medium-sized enterprises is by their number of employees (Ayyagari et al., 2003 as cited by Booysen, 2011). Therefore the criteria used in defining the population of SMEs for the purposes of this study are the following.

- The business has less than 200 employees;
- The SMEs has been in business for a period of not less than three years.

3.5.1 Sample Size.

The sample size used in this project is 21 SMEs in the Eastern Cape. A combination of snowball, judgmental and nonprobability sampling has been used. The use of snowball sampling ensured that contact was made with a Port Elizabeth business person who has over 20 years experience in the field of business. He in turn identified other members of the business community in and around the Eastern Cape who made up the total sample size of 21 SMEs business owners. The criteria used in identifying
the members of the business community was that each potential respondent had to have been in business for a period of not less than three years.

3.6 Administration of the Research Instrument

The research instrument was administered via email with a link to a web-based online questionnaire. Accompanying the email was the covering letter as mentioned above. The questionnaire was sent out to the 40 potential respondents via email in June 2014. Respondents were requested to complete the questionnaire by July 2014. Follow up emails and phone calls were made to the respondents to encourage them to complete the questionnaire.

3.7 Questionnaire pre test

A pre-test of the questionnaire was performed using three business people. The pre-test respondents were asked to complete the questionnaire. The purpose of the pre-test was to ascertain the time it took to complete the questionnaire, the level of ambiguity if any in the questions and to ascertain if there were any grammatical or spelling errors in the questionnaire. After the completion of the questionnaire the respondents were requested to provide any feedback regarding the points mentioned above.

3.8 Reliability

The reliability of the research instrument is of vital importance. Thanansegaran (2009) defined reliability as the degree to which measures are free from error and therefore yield consistent results (i.e. the consistency of a measurement procedure). Collis and Hussey (2009) maintained that reliability is the absence of differences.

Reliability consists of two dimensions, repeatability and internal consistency (Zikmund, 2003:300 as cited by Thanansegaran, 2009). Repeatability refers to the fact that if the test is to be administered to the same respondents at separate periods in time, the test should produce similar results.
Internal consistency will be measured using the Cronbach’s alpha. According to Thanansegaran (2009) the Cronbach’s alpha is a reliability coefficient that measures inter-item reliability or the degree of internal consistency/homogeneity between variables measuring one construct/concept i.e. the degree to which different items measuring the same variable attain consistent results. Therefore measuring internal consistency is useful in measuring a series of items intended to measure the same variable.

3.9 Validity
Collis and Hussey (2009) define validity as the extent to which the research findings accurately reflect the phenomena under study.

According to Thanansegaran (2009) a measure is valid if it measures what it is supposed to measure and does so cleanly – without accidentally including other factors. The focus here is not necessarily on scores or items, but rather inferences made from the instrument. Therefore, validity in the case of the research instrument has been achieved by reviewing the literature relating to the dependant and independent variables. Thereby ensuring that all the questions measure what is intended to be measured for the purposes of the research project.

Summary
In this chapter the research methodology that will be used for this study was explained by exploring to the two main research paradigms. The chapter went further by elaborating on the proposed hypothesis, the type of research instrument that will be used, the sample and sample size. Thereafter the process of how the questionnaire will be administered was discussed and finally the reliability and validity of the study. The following chapter will present and analyse the empirical findings.
CHAPTER 4: EMPIRICAL RESULTS

4.1 Introduction

Chapter 3 outlined the research methodology which was used for this treatise. The key points which were discussed in the preceding Chapter were research methodology employed, sampling, research instrument, data collection and analysis procedures. The purpose of the empirical study was to evaluate the entrepreneurial traits and business practices of SMEs in the Eastern Cape.

A sample was selected, as it was not feasible to test the entire population. The population in this instance consists of all SMEs in the Eastern Cape. A combination of snowball, judgmental and non-probability sampling was used. The questionnaire was administered to 40 potential respondents. A total of 21 responses were received which translates to a 51 percent response rate.

According to Collis and Hussey (2009), a sample is a subset of a population. The sample has to be representative of the entire population to ensure the validity of the research. Therefore the sample selected consisted of SMEs who have been in business for not less than three years. Even though the sample size in this empirical study was N=21, the respondents participating in the study were viewed as representative of the entire population of SMEs in the Eastern Cape for the following reasons:

- The sample consisted of male and female entrepreneurs;
- The respondents’ business experience varied from 3-6 years to more than 9 years in business;
- The respondents were from different racial groups;
- The respondents were from diverse business sectors.

The Nelson Mandela Metropolitan University Statistics Department assisted with the analysis of all the data received from the completed questionnaires. A combination of descriptive statistics and inferential statistics was used to analyse the data. Inferential statistics allowed the researcher to use this sample to make generalisations about the population from which the sample was drawn.
In this chapter the analysis of the survey results follows the same structure as the questionnaire, whereby each sub section is analysed and discussed separately. The chapter concludes with a summary of all survey sections results.

4.2 The Empirical Results

4.2.1 Analysis and interpretation of the results of section A.

Section of A of the questionnaire consisted of questions aimed at gathering demographic data about the respondents and their business. The demographic data collected covered various aspects such gender, race, educational qualification, the number of years the business had been in operation and the number of employees in the business. The sample size for the demographic data was N=16. This differed to the overall sample size of N=21. The reason for this difference is that 5 of the completed questionnaires, demographic section could not be used. This was as result of the initial set-up of this section of the questionnaire. The primary purpose of the demographic section of the questionnaire is to gather background information on the respondents and does not address the primary research question. The purpose of the research is to evaluate the entrepreneurial traits and business practices of SMEs in the Eastern Cape. Therefore the fact the sample size for the demographic section of the questionnaire is slightly less does not have an adverse effect the overall empirical results.

4.2.1.1 Gender

As can be seen from Table 4.1, the majority of respondents were males who accounted for 75% of the total sample. Female respondents made up the remaining 25%.

Table 4.1 Responses according to gender (n=16)

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>12</td>
<td>75%</td>
</tr>
<tr>
<td>Female</td>
<td>4</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire
4.2.1.2 Race

From Table 4.2 it can be seen that 75% of the respondents were African and 25% of the respondents were white. No responses were received from people of Coloured or Asian descent.

Table 4.2: Responses according to race (n=16)

<table>
<thead>
<tr>
<th>Race</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>14</td>
<td>75%</td>
</tr>
<tr>
<td>White</td>
<td>2</td>
<td>25%</td>
</tr>
<tr>
<td>Coloured</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Asian</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire
4.2.1.3 Educational qualification

The educational qualifications of the respondents are spread across various categories. As can be seen from the Table 4.3, 19% of the respondents had a Matric, 25% had a Degree/Diploma, 31% had an Honours Degree and 25% had a Masters degree.

Table 4.3: Responses according to Educational qualification (n=16)

<table>
<thead>
<tr>
<th>Educational qualification</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matric</td>
<td>3</td>
<td>19%</td>
</tr>
<tr>
<td>Degree/Diploma</td>
<td>4</td>
<td>25%</td>
</tr>
<tr>
<td>Honours Degree</td>
<td>5</td>
<td>31%</td>
</tr>
<tr>
<td>Masters</td>
<td>4</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire
4.2.1.4 Number of years in business

This section assesses the number of years that the entrepreneur has been operating the business. As can be seen from Table 4.4 the majority of the respondents had been in business for more than 9 years. These respondents made up 88% of the sample. The remaining 22% of the respondents had been in business for between 3-6 years.

Table 4.4: Responses according to number of years in business (n=16)

<table>
<thead>
<tr>
<th>Number of years in business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 – 6 years</td>
<td>2</td>
<td>12%</td>
</tr>
<tr>
<td>7 – 9 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>+ 9 years</td>
<td>14</td>
<td>88%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire
4.2.1.5 Number of employees in the business

As can been seen from Table 4.5, the size of the businesses according to the number of employees employed differed. Where 69% had less than 50 employees, 19% employed more than 50 but less than 100 employees, 6 % of the respondents indicated that they employed more than 101 but less than 150 employees and 6% of the respondents indicated that they employed more than 151 but less than 200 employees.

Table 4.5: Responses according to the number of employees (n=16)

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>50&lt;</td>
<td>11</td>
<td>69%</td>
</tr>
<tr>
<td>51 &gt; 100</td>
<td>3</td>
<td>19%</td>
</tr>
<tr>
<td>101&gt; 150</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td>151&gt; 200</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.3 Analysis and interpretation of the results of section B

Section B consists of questions aimed at gaining an understanding of the prevalence of certain business practices in the respondent’s organisation. In addition, this section assesses the entrepreneurial traits of the respondents and the level of business performance of the entities.

The business practices that were assessed in this section of the questionnaire were question 3 = human resources management, question 4 = accounting and financial management, question 5 = internal controls, questions 6 = technology and question 7 = entrepreneurial these are the independent variables. Question 9 of the survey relates to business performance, for the purpose of this research project, business performance is referred to as the dependent variables.

According to Wegner (2007) descriptive statistics condense large volumes of data into a few summary measures. This is achieved through summary measures such as tables and graphic displays.
Descriptive statistics such as means, standard deviations, minimum, maximum, quartile and median where used in the data analysis of each question. Wegner (2007) argued that descriptive statistics are commonly used to quantify and describe the profile of random variables. These include:

- Measure of location (both central and non-central location) ie mean, median, quartile, minimum and maximum;
- Measure of dispersion (or spread) ie standard deviation.

There were a total of 43 questions for sections B and C of the questionnaire. A 5 point Likert scale was employed to measure the variables from the survey instrument. The Likert scale was used to assess the respondent’s agreement with the statements presented. The Likert scale was presented on the questionnaire in the following manner:

- 1 = Strongly agree
- 2 = Agree
- 3 = Neutral
- 4 = Disagree
- 5 = Strongly disagree.

The reliability of the questions presented for testing were statistically evaluated using the Cronbach alpha. Thanansegaran (2009) defined reliability as the degree to which measures are free from error and therefore yield consistent results (i.e. the consistency of a measurement procedure). According to Thanansegaran (2009) Cronbach’s alpha is a reliability coefficient that measures inter-item reliability or the degree of internal consistency/homogeneity between variables measuring one construct/concept i.e. the degree to which different items measuring the same variable attain consistent results. Therefore measuring internal consistency is useful in measuring a series of items intended in measuring the same variable.

This chapter goes on to analyse the data from Section B and Section C using descriptive statistics and correlation analysis.
4.4.1 Human Resource Management

The first question in Section B related to the independent variable human resources management. The questions in section B of the questionnaire have been sorted in ascending order in column one, which represents the mean of the individual questions. The results of the responses are as follows, 86 percent of the respondents strongly agree that they conduct structured face to face interviews when selecting prospective candidates. 10 percent of the respondents agree and 5 percent of the respondents are neutral.

67 percent of the respondents strongly agree that employee’s remuneration packages are benchmarked with similar businesses to ensure that they are competitive. 24 percent agree, 5 percent are neutral and 5 percent disagree.

38 percent of the respondents strongly agree that the organisation pays for employees to attend formal training programs. 62% of the respondents agree with the statement.

62% of the respondents strongly agree with that the organisation provides on the job training for its employees. 19% of the respondents agree and 14 % are neutral.

48% of the respondents strongly agree that all employees have signed employee contracts in place. 10% of the respondents agree, 38% are neutral and 5% strongly disagree.

19 percent of the respondents strongly agree that there are formal human resources policies in place in their businesses. 33% agree, 43 percent are neutral and 5% strongly disagree.

24 percent of the respondents strongly agree that each employee’s performance is reviewed at least on a yearly basis. 29 percent agree, 14 percent are neutral, 29 percent disagree and 5 percent strongly disagree.

24 percent of the respondents strongly agree that the organisation makes use of formal recruitment practices, such as newspaper advertisements, recruitment agencies and referrals. 29 percent agree, 5 percent are neutral, 5 percent disagree and 38% strongly disagree.
24 percent of the respondents strongly agree that employee packages include benefits such as provident and/or pension funds. 19 percent agree, 29 percent disagree and 29 percent disagree.

14 percent of the respondents strongly agree employee packages include benefits such as medical aid. 14 percent are neutral, 38 percent disagree and 33 percent strongly disagree.

5 percent of the respondents strongly agree that the organisation makes use of a psychometric test, to assess the competencies of the interview candidates. 5 percent agree, 10 percent are neutral, 43 percent disagree and 38 percent strongly disagree.

5 percent of the respondents agree the organisation makes use of a psychometric test, to assess the cultural fit of the interview candidates. 19 percent are neutral, 24 percent disagree and 52 percent strongly disagree.

Table 4.6 Responses to the human resources questions (n=21)

<table>
<thead>
<tr>
<th>Q3-2</th>
<th>Structured face to face interviews take place when selecting prospective candidates.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1.19</td>
<td>0.51</td>
<td>18</td>
<td>86%</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q3-7</td>
<td>Employees remuneration packages are benchmarked with similar businesses to ensure that they are competitive.</td>
<td>1.48</td>
<td>0.81</td>
<td>14</td>
<td>67%</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Q3-5</td>
<td>The organisation provides on the job training for its employees.</td>
<td>1.62</td>
<td>0.50</td>
<td>8</td>
<td>38%</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Q3-6</td>
<td>The organisation pays for employees to attend formal training programs.</td>
<td>1.67</td>
<td>1.06</td>
<td>13</td>
<td>62%</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Q3-12</td>
<td>All employees have signed employee contracts in place.</td>
<td>2.05</td>
<td>1.16</td>
<td>10</td>
<td>48%</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Q3-11</td>
<td>There are formal human resources policies in place.</td>
<td>2.38</td>
<td>0.97</td>
<td>4</td>
<td>19%</td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Q3-10</td>
<td>Each employee’s performance is reviewed at least on a yearly basis.</td>
<td>2.62</td>
<td>1.28</td>
<td>5</td>
<td>24%</td>
<td></td>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>
Q3-1 The organisation makes use of formal recruitment practices. Such as newspaper advertisements, recruitment agencies and referrals.

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.05</td>
<td>1.72</td>
<td>5</td>
<td>24%</td>
<td>6</td>
<td>29%</td>
<td>1</td>
<td>5%</td>
<td>1</td>
<td>5%</td>
</tr>
</tbody>
</table>

Q3-9 Employee packages include benefits such as provident and/or pension funds.

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.19</td>
<td>1.63</td>
<td>5</td>
<td>24%</td>
<td>4</td>
<td>19%</td>
<td>0</td>
<td>0%</td>
<td>6</td>
<td>29%</td>
</tr>
</tbody>
</table>

Q3-8 Employee packages include benefits such as medical aid.

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.76</td>
<td>1.34</td>
<td>3</td>
<td>14%</td>
<td>0</td>
<td>0%</td>
<td>3</td>
<td>14%</td>
<td>8</td>
<td>38%</td>
</tr>
</tbody>
</table>

Q3-3 The organisation makes use of a psychometric test, to assess the competencies of the interview candidates.

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.05</td>
<td>1.07</td>
<td>1</td>
<td>5%</td>
<td>1</td>
<td>5%</td>
<td>2</td>
<td>10%</td>
<td>9</td>
<td>43%</td>
</tr>
</tbody>
</table>

Q3-4 The organisation makes use of a psychometric test, to assess the cultural fit of the interview candidates.

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.24</td>
<td>0.94</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>5%</td>
<td>4</td>
<td>19%</td>
<td>5</td>
<td>24%</td>
</tr>
</tbody>
</table>

4.4.2 Accounting and Financial Management

This section of the questionnaire seeks to establish the use of accounting and financial management in running the business. The results of the responses are as follows. 71 percent strongly agree that financial statements are prepared at the end of each financial year, 10 percent agree and 19 percent are neutral.

62 percent of the respondents strongly agree that there is active monitoring of working capital and cash flows in the organisation, 19 percent agree and 19 percent are neutral.

62 percent of the respondents strongly agree there is an accounting and record keeping system in place in the organisation, 14 percent agree, 5 percent are neutral and 19 percent disagree.

43 percent of the respondents strongly agree that the organisation regularly monitors business performance by reviewing the accounting records, 38 percent agree and 19 percent disagree.

52 percent of the respondents strongly agree that the organisation produces monthly management accounts, 14 percent agree, 14 percent are neutral and 19 percent disagree.
48 percent of the respondents strongly agree that the organisation outsources its accounting function, 19 percent agree, 5 percent are neutral, 10 percent disagree and 19 percent strongly disagree.

38 percent of the respondents strongly agree that the organisation has an in house accounting department, 10 percent agree 10 percent are neutral, 10 percent disagree and 33 percent strongly disagree.

Table 4.7: Responses accounting and financial management questions (n=21)

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4-1 The organisation has an in house accounting department.</td>
<td>2.90</td>
<td>1.79</td>
<td>8</td>
<td>38%</td>
<td>2</td>
<td>10%</td>
<td>7</td>
</tr>
<tr>
<td>Q4-2 The organisation outsources its accounting function.</td>
<td>2.33</td>
<td>1.62</td>
<td>10</td>
<td>48%</td>
<td>4</td>
<td>19%</td>
<td>1</td>
</tr>
<tr>
<td>Q4-4 The organisation produces monthly management accounts.</td>
<td>2.00</td>
<td>1.22</td>
<td>11</td>
<td>52%</td>
<td>3</td>
<td>14%</td>
<td>4</td>
</tr>
<tr>
<td>Q4-5 The organisation regularly monitors business performance by reviewing the accounting records.</td>
<td>1.95</td>
<td>1.12</td>
<td>9</td>
<td>43%</td>
<td>8</td>
<td>38%</td>
<td>0</td>
</tr>
<tr>
<td>Q4-3 There is an accounting and record keeping system in place in the organisation.</td>
<td>1.81</td>
<td>1.21</td>
<td>13</td>
<td>62%</td>
<td>3</td>
<td>14%</td>
<td>1</td>
</tr>
<tr>
<td>Q4-6 There is active monitoring of working capital and cash flows in the organisation.</td>
<td>1.76</td>
<td>1.18</td>
<td>13</td>
<td>62%</td>
<td>4</td>
<td>19%</td>
<td>0</td>
</tr>
<tr>
<td>Q4-7 Financial statements are prepared at the end of each financial year.</td>
<td>1.48</td>
<td>0.81</td>
<td>15</td>
<td>71%</td>
<td>2</td>
<td>10%</td>
<td>4</td>
</tr>
</tbody>
</table>

4.4.3 Internal Controls

Question 4 of the questionnaire seeks to establish if there are effective internal controls within business. 43 percent of the respondents strongly agree that there is effective communication at all levels to ensure personal understand their responsibilities and activities in terms of internal controls, 52 percent agree and 5 percent are neutral.
62 percent of the respondents strongly agree that Senior Management sets the tone regarding the importance of internal controls and expected conduct in the business, 14 percent agree, 19 percent are neutral.

14 percent of the respondents strongly agree that there are standard operating procedures or policies in place for key business functions to ensure that management’s directives to mitigate risks are achieved. 71 percent agree, 10 percent are neutral and 5 percent disagree.

38 percent of the respondents strongly agree that management considers changes in the environment and the business model that may impede its ability to achieve its objectives, 33 percent agree, 5 percent are neutral and 24 percent disagree.

29 percent of the respondents strongly agree that there is a process in place to regularly identify and analyse key risks that are facing the business, 38 percent agree, 14 percent are neutral and 19 percent disagree.

33 percent of the respondents strongly agree that management formulates responses to mitigate risks which are facing the business, 33 percent agree, 5 percent are neutral and 29 percent disagree.

19 percent of the respondents strongly agree that the organisation develops and performs on-going evaluations to ascertain whether the components of internal control are functioning, 43 percent agree, 19 percent are neutral, 19 percent disagree.

24 percent of the respondents strongly agree that the organisation evaluates and communicates internal control deficiencies in a timely manner to those responsible for corrective action. 33 percent agree, 24 percent are neutral and 19 percent disagree.

Table 4.8 Responses to questions on Internal Controls (n=21)

<table>
<thead>
<tr>
<th>Q5-6 There is effective communication at all levels to ensure personal understand their responsibilities and activities in terms of internal controls.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.62</td>
<td>0.59</td>
<td>9</td>
<td>43%</td>
<td>11</td>
<td>52%</td>
<td>1</td>
<td>5%</td>
</tr>
</tbody>
</table>
Q5-1 Senior Management set the tone at the top regarding the importance of internal controls and expected conduct in the business.

Q5-5 There are standard operating procedures or policy in place for key business functions to ensure that management's directives to mitigate risks are achieved.

Q5-4 Management considers changes in the environment and the business model that may impede its ability to achieve its objectives.

Q5-2 There is a process in place to regularly identify and analyse key risks that are facing the business.

Q5-3 Management formulates responses to mitigate risks which are facing the business.

Q5-7 The organisation develops and performs ongoing evaluations to ascertain whether the components of internal control are functioning.

Q5-8 The organisation evaluates and communicates internal control deficiencies in a timely manner to those responsible for corrective action.

4.4.4 Technology

Question six of the survey seeks to establish the use of technology within the business. All the respondents agreed that the organisation makes use of email to communicate with internal and external stakeholders.

14 percent of the respondents strongly agree that ICT is used to increase efficiency within the business. 57 percent agree and 29 percent are neutral.

38 percent of the respondents strongly agree that the organisation makes use of business software to streamline certain business functions e.g. accounting packages.
or human resources management software. 24 agree with the statement, 14 percent are neutral, 19 percent disagree and 5 percent strongly disagree.

14 percent of the respondents strongly agree that the organisation makes use of the intranet for internal communication, 19 percent agree, 24 percent are neutral, 10 percent disagree, 33 percent strongly disagree.

Table 4.9 Response to technology (n=21)

<table>
<thead>
<tr>
<th>Q6-1 The organisation makes use of email to communicate with internal and external stakeholders.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>0.00</td>
<td>21</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q6-4 ICT is used to increase efficiency within the business.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.14</td>
<td>0.65</td>
<td>3</td>
<td>14%</td>
<td>12</td>
<td>57%</td>
<td>6</td>
<td>29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q6-2 The organisation makes use of business software to streamline certain business functions e.g. accounting packages or human resources management software etc.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.29</td>
<td>1.31</td>
<td>8</td>
<td>38%</td>
<td>5</td>
<td>24%</td>
<td>3</td>
<td>14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q6-3 The organisation makes use of the intranet for internal communication.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.29</td>
<td>1.49</td>
<td>3</td>
<td>14%</td>
<td>4</td>
<td>19%</td>
<td>5</td>
<td>24%</td>
</tr>
</tbody>
</table>

4.4.5 Entrepreneurial Traits

Question seven of the survey seeks to establish if the owner of the business possess certain entrepreneurial traits. 71 percent of the respondents strongly agree that the business owner has high levels of self-confidence and 29 percent agree.

76 percent of the respondents strongly agree that the business owner enjoys seeking new business opportunities, 14 percent agree, 5 percent disagree and 5 percent strongly disagree.

71 percent of the respondents strongly agree that the business owner has a high desire for achievement and 19 percent agree.

57 percent of the respondents strongly agree that the business owner is proactive, 24 agree and 19 percent are neutral.
57 percent of the respondents strongly agree that the business owner perceives himself/herself as risk taker, 24 agree and 19 percent are neutral.

57 percent of the respondents strongly agree that the business owner perceives himself as being innovative, 29 percent agree, 5 percent are neutral and 10 strongly disagree.

43 percent of the respondents strongly agree that the business owner enjoys autonomy to pursue his ideas and vision, 33 percent agree, 10 percent are neutral, 10 percent disagree and 5 percent strongly disagree.

**Table 4.10 Response to Entrepreneurial traits (n=21)**

<table>
<thead>
<tr>
<th>Question</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q7-3 The business owner has high levels of self confidence.</td>
<td>1.29</td>
<td>0.46</td>
<td>15</td>
<td>6</td>
<td>29%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Q7-7 The business owner enjoys seeking new business opportunities.</td>
<td>1.48</td>
<td>1.08</td>
<td>16</td>
<td>3</td>
<td>14%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Q7-6 The business owner has a high desire for achievement.</td>
<td>1.57</td>
<td>1.21</td>
<td>15</td>
<td>4</td>
<td>19%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Q7-1 The business owner is proactive.</td>
<td>1.62</td>
<td>0.80</td>
<td>12</td>
<td>5</td>
<td>24%</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Q7-2 The business owner perceives himself/herself as risk taker.</td>
<td>1.62</td>
<td>0.80</td>
<td>12</td>
<td>5</td>
<td>24%</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Q7-4 The business owner perceives himself as being innovative.</td>
<td>1.76</td>
<td>1.22</td>
<td>12</td>
<td>6</td>
<td>29%</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Q7-5 The business owner enjoys autonomy to pursue his ideas and vision.</td>
<td>2.00</td>
<td>1.18</td>
<td>9</td>
<td>7</td>
<td>33%</td>
<td>2</td>
<td>10%</td>
</tr>
</tbody>
</table>

4.4.6 Business Performance

Question nine of the survey seeks to establish the level of business performance, 38 percent of the respondents indicated that they strongly agree that the organisation has seen an increase in net profit over the last three years. 43 percent agree, 5 percent are neutral, 14 percent disagree.
57 percent of the respondents strongly agree that the organisation is able to settle its creditors on time, 14 percent agree, 5 percent are neutral, 5 percent disagree and 19 percent strongly disagree.

19 percent of the respondents strongly agree that there has been an increase in the number of customers in the last three years. 43 percent agree, 33 are neutral, 5 percent strongly disagree.

33 percent of the respondents strongly agree that the number of employees, employed by the organisation has increased over the last three years. 14 percent agree, 33 percent are neutral, 14 percent disagree, 5 percent strongly disagree.

19 percent of the respondents strongly agree that the organisation has seen an above inflation increase in revenue over the last three years. 33 percent agree, 19 percent are neutral, 29 percent disagree.

Table 4.11 Responses regarding business performance (n=21)

<table>
<thead>
<tr>
<th>Q9-1 The organisation has seen an increase in net profit over the last three years.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.95</td>
<td>1.02</td>
<td>8</td>
<td>38%</td>
<td>9</td>
<td>43%</td>
<td>1</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q9-5 The organisation is able to settle its creditors on time.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.14</td>
<td>1.62</td>
<td>12</td>
<td>57%</td>
<td>3</td>
<td>14%</td>
<td>1</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q9-4 There has been an increase in the number of customers in the last three years.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.29</td>
<td>0.96</td>
<td>4</td>
<td>19%</td>
<td>9</td>
<td>43%</td>
<td>7</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q9-3 The number of employees, employed by the organisation has increased over the last three years.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.43</td>
<td>1.25</td>
<td>7</td>
<td>33%</td>
<td>3</td>
<td>14%</td>
<td>7</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q9-2 The organisation has seen an above inflation increase in revenue over the last three years.</th>
<th>Mean</th>
<th>S.D.</th>
<th>Strongly Agree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.57</td>
<td>1.12</td>
<td>4</td>
<td>19%</td>
<td>7</td>
<td>33%</td>
<td>4</td>
<td>19%</td>
</tr>
</tbody>
</table>
4.4.7 Other descriptive statistics

Table 4.12 below summarises the following descriptive statistics mean, medium, standard deviations, minimum, maximum, quartile1 and quartile 3 for the independent and dependent variables. The keys/legends as represented in the table are as follows IF3 = human resources management, IF=4 accounting and financial management, IF=5 internal controls, IF=6 technology, IF=7 entrepreneurial traits and DF=9 business performance.

<table>
<thead>
<tr>
<th></th>
<th>IF3</th>
<th>IF4</th>
<th>IF5</th>
<th>IF6</th>
<th>IF7</th>
<th>DF9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>2.80</td>
<td>2.03</td>
<td>2.11</td>
<td>2.21</td>
<td>1.62</td>
<td>2.28</td>
</tr>
<tr>
<td>S.D.</td>
<td>0.68</td>
<td>0.83</td>
<td>0.84</td>
<td>0.90</td>
<td>0.68</td>
<td>0.86</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.14</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Quartile 1</td>
<td>2.29</td>
<td>1.57</td>
<td>1.50</td>
<td>1.50</td>
<td>1.14</td>
<td>1.60</td>
</tr>
<tr>
<td>Median</td>
<td>2.71</td>
<td>1.71</td>
<td>1.75</td>
<td>2.00</td>
<td>1.29</td>
<td>2.40</td>
</tr>
<tr>
<td>Quartile 3</td>
<td>3.29</td>
<td>2.43</td>
<td>2.63</td>
<td>2.50</td>
<td>2.00</td>
<td>2.80</td>
</tr>
<tr>
<td>Maximum</td>
<td>4.00</td>
<td>3.57</td>
<td>3.50</td>
<td>4.00</td>
<td>3.29</td>
<td>3.80</td>
</tr>
</tbody>
</table>

4.4.8 Reliability

The reliability of the research instrument is of vital importance. Thanansegaran (2009) defined reliability as the degree to which measures are free from error and therefore yield consistent results (i.e. the consistency of a measurement procedure). Collis and Hussey (2009) maintained that reliability is the absence of differences.

A commonly accepted threshold for reliability is 0.7 (Nunnally, 1978 as cited by Hess, Mcnab and Basoglu, 2014). Table 4.13 below summaries the Cronbach alpha coefficient for all the variables tested. As per the table below there is the initial and the final Cronbach alpha reported. In order to improve the alpha for IF3 = human resources management, four out of twelve questions had to be removed and for IF=6 technology one question was removed to improve the alpha. After accounting for the aforementioned adjustments all the alpha’s met the requirement for acceptably reliability. IF=6 was slightly below this threshold at 0.68.
Table 4.13 Cronbach’s alpha coefficient (n=21)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Initial</th>
<th>Final</th>
<th>Items deleted for final score</th>
</tr>
</thead>
<tbody>
<tr>
<td>IF3</td>
<td>0.43</td>
<td>0.72</td>
<td>Q3-1; Q3-10; Q3-5; Q3-12</td>
</tr>
<tr>
<td>IF4</td>
<td>0.75</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>IF5</td>
<td>0.93</td>
<td>0.93</td>
<td></td>
</tr>
<tr>
<td>IF6</td>
<td>0.40</td>
<td>0.68</td>
<td>Q6-1 (constant 1 for all records); Q6-3</td>
</tr>
<tr>
<td>IF7</td>
<td>0.81</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>DF9</td>
<td>0.75</td>
<td>0.75</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey questionnaire

4.4.9 Pearson’s Product Moment Correlations

According to Wegner (2007) the reliability of the estimate of y is determined by the strength of the relationship between x and y. Where x is the independent variable and y being the dependent variable. Wegner (2007) went on to define correlation analysis as the measure of the strength of linear association between x and y, this measure is called Pearson’s correlation coefficient. A correlation coefficient is a proportion that takes on the values between -1 and + 1, where -1 indicates perfect negative correlation and +1 implies strong positive correlation.

The researcher used the Pearson’s product correlation to measure the strength of the relationship between the independent variables being IF3 = human resources management, IF4 = accounting and financial management, IF5 = internal controls, IF6 = Technology, IF7 = Entrepreneurial traits and the dependent variable DF9 = business performance. The table below summaries the results of the correlation analysis.

Table 4.14 Pearson Product Moment Correlations

<table>
<thead>
<tr>
<th></th>
<th>IF3</th>
<th>IF4</th>
<th>IF5</th>
<th>IF6</th>
<th>IF7</th>
<th>DF9</th>
</tr>
</thead>
<tbody>
<tr>
<td>IF3</td>
<td>-</td>
<td>-.227</td>
<td>-.223</td>
<td>.017</td>
<td>-.300</td>
<td>-.546</td>
</tr>
<tr>
<td>IF4</td>
<td>-.227</td>
<td>-</td>
<td>.814</td>
<td>.670</td>
<td>-.188</td>
<td>.616</td>
</tr>
<tr>
<td>IF5</td>
<td>-.223</td>
<td>.814</td>
<td>-</td>
<td>.588</td>
<td>-.207</td>
<td>.614</td>
</tr>
<tr>
<td>IF6</td>
<td>.017</td>
<td>.670</td>
<td>.588</td>
<td>-</td>
<td>-.197</td>
<td>.371</td>
</tr>
<tr>
<td>IF7</td>
<td>-.300</td>
<td>-.188</td>
<td>-.207</td>
<td>-.197</td>
<td>-</td>
<td>-.048</td>
</tr>
<tr>
<td>DF9</td>
<td>-.546</td>
<td>.616</td>
<td>.614</td>
<td>.371</td>
<td>-.048</td>
<td>-</td>
</tr>
</tbody>
</table>

n=21, at 0.05 level [r] >=.433

As per the table above at 95% confidence level three of the independent variables are significantly related to dependent variable. Independent variable IF3 = human resources management (negative), IF4 = accounting and financial management, and IF7 = Entrepreneurial traits.
financial management, IF=5 internal controls, IF= 6 technology and DF=9 business performance.

4.4.10 Hypothesis testing

The following hypothesis were developed to test the relationship between the independent and dependent variables.

- H1 The implementation of Human Resources Management in a SME enhances the business performance of the SME.
- H0 The implementation of the Human Resources Management in a SME does not enhance the business performance of the SME
- H2 The implementation of Financial Management in a SME enhances the business performance of the SME.
- H0 The implementation of Financial Management in a SME does not enhance the business performance of the SME.
- H3 The implementation of Internal Controls in SME enhances the business performance of the SME.
- H0 The implementation of Internal Controls in SME does not enhance the business performance of the SME.
- H4 The use of technology by an SME enhances the business performance of an SME.
- H0 The use of technology by an SME does not enhance the business performance of an SME.
- H5 The possession of certain entrepreneurial traits by the business owner enhances the business performance of that SME.
- H0 The possession of certain entrepreneurial traits by the business owner enhances the business performance of that SME.

The researcher endeavoured to perform a chi squared hypothesis testing using two by two tables. The empirical results of all the hypothesis test show that the null hypothesis can neither be accepted nor rejected. However based on the correlations testing it appears that there is a relationship between the independent and dependent variables.
Summary

In this chapter the results of the empirical study were analysed and presented using descriptive statistics, Cronbach alpha’s and correlation analysis. The final chapter will present a conclusion and recommendations based on the study.
CHAPTER 5: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION
In Chapter 5, the empirical results were presented. Chapter 6 will provide a summary of the treatise, summarise and interpret the empirical results and finally provide recommendations for SMEs.

5.2 Summary of the Treatise
The important contribution that Small and Medium - Size Enterprises (hereafter referred to as SMEs) can make to employment and income generation has increasingly been recognised all over the world (Cant and Ligthelm, 2005). However, despite the contribution made by SMEs to economic development, these entities face numerous challenges that have resulted in a high failure rate among business within this sector.

In South Africa, with the high levels of unemployment, the contribution made by SMEs is of particular importance, considering that SMEs account for approximately 91% of formal business entities in the country (Abor and Quartey, 2010). Therefore it was from this premise that the study was undertaken to evaluate the entrepreneurial traits and business practices of SMEs in the Eastern Cape. The reason for selecting the Eastern Cape was that the researcher was based in this province therefore logistically this made sense. The view was to infer the results of this research to the entire population of SMEs in the country.

Chapter 1 provided the background to the topic, presented the problem statement and the research objectives. The background and purpose of the study are presented in the preceding paragraph. The primary objective of the study was to investigate the business practices and entrepreneurial traits that enhance business performance of SME. In order to achieve the primary research objective the following secondary research objectives were formulated;

- Review the literature available in order to define what are SMEs and their importance within the South African context.
- Investigate the rate of failure among SMEs in South Africa.
• Based on the secondary sources define entrepreneurial traits, business practices and business performance.
• To investigate and explain which research methodology and data collection method will be used for this treatise.
• To conduct an empirical evaluation of the presence of the proposed entrepreneurial traits and business practices among SMEs in the Eastern Cape.
• To conduct an empirical evaluation on the level of business performance of SMEs in the Eastern Cape.
• To empirically test if there is a relationship between the business practices and business performance.
• To propose recommendations for the improvement of business performance of SMEs.

In Chapter 2 a literature review was conducted in order to define what SMEs are and their importance within the South African context. The purpose of investigating this definition was to develop an understanding of what SMEs are. In South Africa the principal framework that is used to define Small and Medium Size Enterprises is the National Small Business Development Act of 1996. This act applies different criteria for different business sectors. Table 5.1 indicates the categories of SMEs as defined by the National Small Business Act.

Table 5.1 Categories of SMEs as per the National Small Business Act of South Africa

<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification</th>
<th>Size or class</th>
<th>Total full-time equivalent of paid employees</th>
<th>Total annual turnover Less Than</th>
<th>Total gross asset value (fixed property excluded) Less Than</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>R 4.00 m</td>
<td>R 4.00 m</td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>R 2.00 m</td>
<td>R 2.00 m</td>
<td></td>
</tr>
<tr>
<td>Very small</td>
<td>10</td>
<td>R 0.40 m</td>
<td>R 0.40 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
<td>R 0.10 m</td>
<td></td>
</tr>
</tbody>
</table>
Using secondary sources the chapter went on to investigate the rate and reason of failure amongst SMEs in South Africa. A number of factors, where identified as
potential causes of the high failure rates within this sector of the economy. These range from macro-economic factors, lack of business management skills and administration problems. In addition based on the formulated hypothesis, chapter 2 defined the independent variables as being, human resources management, accounting, internal controls, technology and entrepreneurial traits. The dependent variable business performance was also defined in this chapter.

Hargis and Bradley (2011) defined human resources management as the design, development and implementation interrelated people management practices that influence how well an organisation can attract job applicants, retain motivated and successful employees and ultimately impact job performance and organisational effectiveness.

Akande (2011) described accounting skills as the totality of skills ranging from record keeping, attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise.

According to Kapić (2013:63) “Internal control consists of methods and procedures embedded in the organisation of the company and adopted by management to ensure the smooth functioning of all business functions of the company”.

According to Sharma and Dave (2011) entrepreneurship has been characterised by a number of researchers as a combination of innovativeness, risk taking ability and pro-activeness.

Chapter 3 outlined the research methodology which was used in this study. The key points which were discussed under the research methodology were sampling, research instrument, data collection and analysis procedures. A review and analysis of the existing literature assisted in developing the theoretical framework that will be used in this empirical study. The following hypotheses were developed to test the significance of the relationship.

- H1 The implementation of Human Resources Management in a SME enhances the business performance of the SME;
• H2 The implementation of Financial Management in a SME enhances the business performance of the SME;
• H3 The implementation of Internal Controls in SME enhances the business performance of the SME;
• H4 The use of technology by an SME enhances the business performance of an SME;
• H5 The possession of certain entrepreneurial traits by the business owner enhance the business performance of that SME.

Chapter 4 analysed and presented the results of the empirical study. The Nelson Mandela Metropolitan University Statistics Department assisted with the analysis of all the data received from the completed questionnaires. The questionnaire was distributed to 40 potential respondents and 21 participants responded. This equates to 51 percent response rate.

5.3 Analysis of the research findings and recommendations

Collis and Hussey (2009) maintained that reliability is the absence of differences. The reliability of each question was tested using the Cronbach Alpha, 4 out of the 12 questions relating human resources management where removed and one question was removed from the technology. After these adjustments, the Cronbach alpha for all the variables was 0.7 except for technology which was slightly lower at 0.68. The strength of the relationship between the independent and dependent variable was tested using Pearson coefficient of correlations. Below is an interpretation of these results for each variable.

5.3.1 Human Resources Management

According to Elena (2012:1) it is well known that the people of a company are a strong resource for business and that the human resources function is valuable in assisting the workforce in order to accomplish the objectives of the company. The productivity of a company is strongly related to its people and its strategies.

According to the empirical results at 95 percent confidence level, correlation between human resources and business performance is -0.546 this implies that there is a
negative relationship between the two variables. The p value from the chi squared test was 0.757. Due to the sample size there is insufficient evidence to either accept or reject the null hypothesis related to this variable. The following recommendations can be suggested for SMEs.

- Recruiting the correct candidate to fill a vacancy is one of the most important processes in the Human Resources function. As this will ensure that the business has the correct skills sets, in order to achieve its objectives. It is thus important that SMEs formalise the recruit process. This can be achieved by using recruitment agencies, newspaper advertisements and ensuring that structured face to face interviews take place with a minimum of three candidates interviewed for each post.
- In order for employees to be effective in executing their responsibilities it is important that they are properly trained to perform the duties. It is thus recommended the SMEs use an appropriate mix of informal and formal training to up skill employees. This training can consist of on the job training and formal training programs. SMEs should be aware that formal training is tax deductible expense and that some training is offered by government Skills Education Training Authorities (SETA).
- In order to attract and retain employees, SMEs should ensure that their employee compensation levels are in line with those of similar enterprises in their sectors.
- SMEs should adopt some level of formalised policies and procedures in their HR function. This policies and procedures should include but limited to, performance evaluation, employment contracts and disciplinary contracts.

5.3.2 Accounting and Financial Management
In order to survive, flourish and take informed decisions a business needs to have some sort of mechanism in place to record transactions and assess if it making a profit or loss. Miculescu and Miculescu (2012) argued that managing a business enterprise has become an increasingly complex exercise nowadays. The economic organisations can no longer be led through traditional methods based on intuition, experience and talent, manifested by a manager. Stakeholders require up to date and
relevant information for the purpose of decision making and reporting. Only with the help of information can the deciding party observe the economic processes for the entity as a whole. Therefore, it is paramount that a business make use of accounting and financial management to actively monitor business performance.

According to the empirical results at 95 percent confidence level the correlation between accounting and financial management and business performance is .0646 this implies that there is a positive relationship between the two variables. The p value from the chi squared test was 0.279. Due to the sample size there is insufficient evidence to either accept or reject the null hypothesis related to this variable. Based on the findings of the empirical results the following is recommended.

- SMEs should ensure that they have access to accounting and financial management skills. This skills could either be in-house or provided by an outsourced service provider.
- SMEs should as a minimum, produce monthly management accounts and annual financial statements in order to adequately monitor business performance.
- To ensure that the business has sufficient cash flow to meet its obligations, SME must actively monitor working capital and cash flow.

5.3.3 Internal Controls
In recent years there have been major corporate failures and scandals around the world. This has resulted in greater emphasis being placed on corporate governance and internal control. Internal controls are the overarching attachment that ensures the effective functioning of the individual processes and the business as a whole.

According to the empirical results at 95 percent confidence level the correlation between internal controls and business performance is 0.614 this implies that there is a positive relationship between the two variables. The p value from the chi squared test was 0.122. Due to the sample size there is insufficient evidence to either accept or reject the null hypothesis related to this variable. Based on the empirical results the following recommendations are put forward.
• Senior Management should set the tone at the top regarding importance of internal controls.

• SMEs should ensure that there is a regular process to identify and analyse key risk facing the business. In addition management should formulate responses to mitigate the identified risks.

• SMEs should ensure that there are standard operating procedures in place for key business functions and that all employees understand their responsibilities and activities in terms of internal controls.

• SMEs should ensure that they develop and perform on-going evaluations to ascertain whether the components of internal controls are functioning. Where the control is not functioning, the control deficiencies must be communicated to the responsible person in timely manner.

5.3.4 Technology
Technology is evolving and has a positive effect on business. From accounting packages, human resource management systems to the way people communicate within the firms. Technology plays a pivotal role in the way business is conducted these days.

According to the empirical results at 95 percent confidence level the correlation between internal controls and business performance is 0.371 this implies that there is a positive relationship between the two variables. The p value from the chi squared test was 0.284. Due to the sample size there is insufficient evidence to either accept or reject the null hypothesis related to this variable. Based on the empirical results the following recommendations are suggested.

• Where possible SMEs should make use of business software to streamline certain business functions. eg Accounting packages or human resources management etc.

• Where possible SMEs should use ICT to increase efficiency within the business.
5.3.5 Entrepreneurial Traits

According to the Turton and Herrington (2012:12) “Many policy makers agree that entrepreneurs and the new businesses they establish, play a critical role in the development and well-being of their societies”. Based on the literature review the researcher established that the term Entrepreneurial Orientation was used describe some of the entrepreneurial traits and behaviours that entrepreneurs exhibit. Rauch, Wiklund, Lumpkin and Frese (2009:763) concluded that consistently in the literature, EO consists of a three dimensional construct which is pro-activeness, innovativeness and risk taking.

According to the empirical results at 95 percent confidence level entrepreneurial traits and business performance are negatively correlated at -0.48 this implies that there is a negative relationship between the two variables. The p value from the chi squared test was 0.890. Due to the sample size there is insufficient evidence to either accept or reject the null hypothesis related to this variable. Based on the results of the empirical the following has been recommended.

- The business owner has to be proactive in seeking new business opportunities and/or keeping abreast with new developments in his/her sector.
- The business owner should not be afraid of taking risks. Macko and Tyszka (2009) maintained that the entrepreneurs’ propensity to take risk may lie in the distinction between two kinds of risky situations, namely, between purely chance-related and skill-related risk. The difference between the two kinds of risk is the extent to which the decision-maker has control over the outcome. Undoubtedly, the risk associated with running a business venture is related to the skills of the decision-maker.
- Another entrepreneurial trait that is closely aligned to risk taking is self-confidence. The entrepreneur should thus practice self confidence in his business dealings.
- The entrepreneur should practice some level of innovation to ensure that the business evolves.
5.4 Limitations of the Treatise

As with any research project there are a number of limitations related to this study. The following are the key limitations that have been identified, location of the study, measuring instrument and the sample.

The study focussed on SME in the Eastern Cape, however the province spans over a vast geographical landscape. The respondents where predominately located in the cities of Port Elizabeth, East London and Umtata. However the researcher attempted to generalise the results over the entire population of SMEs in the Eastern Cape.

The measuring instrument employed in this study is in itself limiting factor. As a survey is prone to none response by potential respondents. In addition participants of the survey may have responded based on how they would like to perceive their business and themselves. Rather than base their responses on what is actually happening on the ground.

The third limiting factor was the sample and sampling methodology. The sample size consisted of 21 respondents and was made up of mix of white and black, males and females. There were no people of Coloured or Asian descent.

5.5 Concluding remarks

The growth and sustainability of the SME sector is of paramount importance to any economy. It thus important that individual SMEs continually strive to achieve good business performance in order to realise the above mentioned objective for the economy.

However this sector is plagued by high rates of business failure. According to this research the solution lies partly in ensuring that there are certain key business practices that are prevalent within the enterprise. In addition the entrepreneur should exhibit certain entrepreneurial traits. Cost is always a big consideration when it comes to SMEs, however the entrepreneur should consider that the benefits of implementing these business practices as they far outweigh the costs thereof.
Reference List


Dragnić, D. 2013. Organizational performance; economic impact; economic development; Small business; Expansion (Business); Innovation in business Management: Journal of Contemporary Management Issues., Vol. 19 Issue 1, pp.119-159.


21 May 2014

Dear Respondent

I am a post graduate student studying towards an MBA (Masters in Business Administration) at the Nelson Mandela Metropolitan University Business School. I am currently busy with a research project on SMEs. The topic of my treatise is “Evaluating the effects of entrepreneurial traits and business practices on overall business performance for SMEs in the Eastern Cape.” We believe that the results of this research would assist SMEs in and around South Africa. The empirical results of this study will made available to participants on request.

You as a business person have been selected as part of sample of respondents whose view we seek on the abovementioned matter. We would therefore appreciate it if you could answer a few questions in this regard. This should not take more than ten to fifteen minutes of your time to complete. Your responses and identify will remain strictly confidential. Please return the completed questionnaire on or before the 1 July 2014.

We thank you in advance for your contribution

Please contact me should you have any queries

Matthew Klaas

Mobile - 0832538818

Email – klaasmatthew@gmail.com
Please click on the link which is shown in this email to access the questionnaire. Please answer all the questions as accurately as possible. The questionnaire consists of three sections A, B and C. In section A please complete the biographical and general background information. In section B and C please mark the number which best describes your agreement with the statement.
ANNEXURE 2: QUESTIONNAIRE
THE ENTREPRENEURIAL TRAITS AND BUSINESS PRACTICES THAT ENHANCE BUSINESS PERFORMANCE.

Small and Medium - Size Enterprises (SMEs) Survey

Page: 1

Questionnaire Topic - Evaluating the effects of Entrepreneurial Traits and Business practices on overall business performance for SMEs in the Eastern Cape.

1. Section A
The following section consists of biographic and general questions. Kindly complete the questions below by ticking the appropriate answer.

1.1 * Please indicate your gender.  
- Male
- Female

1.2 * Please indicate the number of years the business has been in operation.

1.3 * Please indicate the number of employees in the business.  
- 50 <
- 50 > 100
- 101 > 150
- 151 > 200

1.4 * Please indicate the population group that you belong to.
- African
- Asian
- Coloured
- Other
- White

1.5 * Please indicate the highest qualification level that you have achieved.  
- Less than Matric
- Matric
- Degree/Diploma
- Degree
- Masters
- PHD

2. Section B
This section consists of questions aimed at understanding the prevalence of certain business functions in your organisation and the entrepreneurial traits that you possess. Kindly indicate your agreement with these statements by ticking the appropriate column. (1) strongly agree, (2) agree (3) neutral (4) disagree (5) strongly disagree

3. HUMAN RESOURCES MANAGEMENT

3.1 * The organisation makes use of formal recruitment practices. Such as newspaper

strongly agree
1 2 3 4 5 strongly disagree
3.2 * Structured face to face interviews take place when selecting prospective candidates.

3.3 * The organisation makes use of a psychometric test, to assess the competencies of the interview candidates.

3.4 * The organisation makes use of a psychometric test, to assess the cultural fit of the interview candidates.

3.5 * The organisation provides on the job training for its employees.

3.6 * The organisation pays for employees to attend formal training programs.

3.7 * Employees remuneration packages are benchmarked with similar businesses to ensure that they are competitive.

3.8 * Employee packages include benefits such as medical aid.

3.9 * Employee packages include benefits such as provident and/or pension funds.

3.10 * Each employee’s performance is reviewed at least on a yearly basis.

3.11 * There are formal human resources policies in place.

3.12 * All employees have signed employee contracts in place.

4. ACCOUNTING AND FINANCIAL MANAGEMENT

4.1 * The organisation has an in house accounting department.

4.2 * The organisation outsources its accounting function.

4.3 * There is an accounting and record keeping system in place in the organisation.
| 4.4 * | The organisation produces monthly management accounts. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 4.5 * | The organisation regularly monitors business performance by reviewing the accounting records. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 4.6 * | There is active monitoring of working capital and cash flows in the organisation. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 4.7 * | Financial statements are prepared at the end of each financial year. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |

### 5. INTERNAL CONTROLS

| 5.1 * | Senior Management set the tone at the top regarding the importance of internal controls and expected conduct in the business. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.2 * | There is a process in place to regularly identify and analyse key risks that are facing the business. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.3 * | Management formulates responses to mitigate risks which are facing the business. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.4 * | Management considers changes in the environment and the business model that may impede its ability to achieve its objectives. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.5 * | There are standard operating procedures or policy in place for key business functions to ensure that management directives to mitigate risks are achieved. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.6 * | There is effective communication at all levels to ensure personal understand their responsibilities and activities in terms of internal controls. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
| 5.7 * | The organisation develops and performs on-going evaluations to ascertain whether the components of internal control are functioning. | strongly agree | 1 | 2 | 3 | 4 | 5 | strongly disagree |
5.8 * The organisation evaluates and communicates internal control deficiencies in a timely manner to those responsible for corrective action.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

6. TECHNOLOGY

6.1 * The organisation makes use of email to communicate with internal and external stakeholders.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
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<td>2</td>
<td>Agree</td>
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<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
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</tbody>
</table>

6.2 * The organisation makes use of business software to streamline certain business functions eg accounting packages or human resources management software etc.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
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<td>2</td>
<td>Agree</td>
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<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

6.3 * The organisation makes use of the intranet for internal communication.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
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<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
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</tbody>
</table>

6.4 * ICT is used to increase efficiency within the business.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7. Entrepreneurial Traits

7.1 * The business owner is proactive.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.2 * The business owner perceives himself/herself as a risk taker.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
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</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.3 * The business owner has high levels of self confidence.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
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<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.4 * The business owner perceives himself as being innovative.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.5 * The business owner enjoys autonomy to pursue his ideas and vision.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.6 * The business owner has a high desire for achievement.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

7.7 * The business owner enjoys seeking new business opportunities.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>2</td>
<td>Agree</td>
</tr>
<tr>
<td>3</td>
<td>Neutral</td>
</tr>
<tr>
<td>4</td>
<td>Disagree</td>
</tr>
<tr>
<td>5</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

8. Section C
This section attempts to assess the business performance of the organisation. Kindly indicate your agreement with these statements by ticking the appropriate column. (1) strongly agree, (2) agree (3) neutral (4) disagree (5) strongly disagree.

### 9. Business performance

9.1 * The organisation has seen an increase in net profit over the last three years.  

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>strongly disagree</th>
</tr>
</thead>
</table>

9.2 * The organisation has seen an above inflation increase in revenue over the last three years.  

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>strongly disagree</th>
</tr>
</thead>
</table>

9.3 * The number of employees, employed by the organisation has increased over the last three years.  

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>strongly disagree</th>
</tr>
</thead>
</table>

9.4 * There has been an increase in the number of customers in the last three years.  

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>strongly disagree</th>
</tr>
</thead>
</table>

9.5 * The organisation is able to settle its creditors on time.  

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>strongly disagree</th>
</tr>
</thead>
</table>
ANNEXURE 3: CRONBACH’S ALPHA COEFFICIENTS FOR THE FACTORS

Table x: Cronbach’s alpha coefficients for the factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Initial</th>
<th>Final</th>
<th>Items deleted for final score</th>
</tr>
</thead>
<tbody>
<tr>
<td>IF3 = Human Resources Management</td>
<td>0.43</td>
<td>0.72</td>
<td>Items deleted for the final score</td>
</tr>
<tr>
<td>IF4 = Accounting Skills</td>
<td>0.75</td>
<td>0.75</td>
<td>Q3-1; Q3-10; Q3-5; Q3-12</td>
</tr>
<tr>
<td>IF5 = Internal Controls</td>
<td>0.93</td>
<td>0.93</td>
<td></td>
</tr>
<tr>
<td>IF6 = Technology</td>
<td>0.40</td>
<td>0.93</td>
<td>Q6.1 (Constant 1 for all records); Q6.3</td>
</tr>
<tr>
<td>IF7 = Entrepreneurial Traits</td>
<td>0.81</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>DF6 = Business Performance</td>
<td>0.75</td>
<td>0.75</td>
<td></td>
</tr>
</tbody>
</table>
ANNEXURE 4: PEARSONS PRODUCT MOMENT CORRELATIONS

Table x: Pearson Product Moment Correlations - IF3 to DF9 (n = 21)

<table>
<thead>
<tr>
<th></th>
<th>IF3</th>
<th>IF4</th>
<th>IF5</th>
<th>IF6</th>
<th>IF7</th>
<th>DF9</th>
</tr>
</thead>
<tbody>
<tr>
<td>IF3</td>
<td>-</td>
<td>-.227</td>
<td>-.223</td>
<td>.017</td>
<td>-.300</td>
<td>-.546</td>
</tr>
<tr>
<td>IF4</td>
<td>-.227</td>
<td>-</td>
<td>.814</td>
<td>.670</td>
<td>-.188</td>
<td>.616</td>
</tr>
<tr>
<td>IF5</td>
<td>-.223</td>
<td>.814</td>
<td>-</td>
<td>.588</td>
<td>-.207</td>
<td>.614</td>
</tr>
<tr>
<td>IF6</td>
<td>.017</td>
<td>.670</td>
<td>.588</td>
<td>-</td>
<td>-.197</td>
<td>.371</td>
</tr>
<tr>
<td>IF7</td>
<td>-.300</td>
<td>-.188</td>
<td>-.207</td>
<td>-.197</td>
<td>-</td>
<td>-.048</td>
</tr>
<tr>
<td>DF9</td>
<td>-.546</td>
<td>.616</td>
<td>.614</td>
<td>.371</td>
<td>-.048</td>
<td>-</td>
</tr>
</tbody>
</table>

Correlations are:
Statistically significant at 0.05 level for n = 21 if |r| >= .433
Practically significant if |r| >= .300

This implies that correlations are if |r| >= .433
ANNEXURE 5: ETHICS FORM E

ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESSES

Please type or complete in black ink

FACULTY:  Business and Economic Science

SCHOOL/DEPARTMENT:  Business School

I, (surname and initials of supervisor)  Cullen, M.M.M.

the supervisor for (surname and initials of candidate)  Kluss, M.T.

(student number)  9912489

a candidate for the degree of  Master in Business Administration


Entrepreneurial Traits and Business Practices of
SMES in the Eastern Cape

considered the following ethics criteria (please tick the appropriate block):

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
| 2.1 Are subjects/participants/respondents of your study:  
(a) Children under the age of 18? | ✓ |   |
| (b) NMMU staff? | ✓ |   |
| (c) NMMU students? | ✓ |   |
| (d) The elderly/persons over the age of 60? | ✓ |   |
| (e) A sample from an institution (e.g. hospital/school)? | ✓ |   |
| (f) Handicapped (e.g. mentally or physically)? | ✓ |   |
3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)  

3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?

4. Will the participant's privacy, anonymity or confidentiality be compromised?

4.1 Are you administering a questionnaire/survey that:
   (a) Collects sensitive/identifiable data from participants?
   (b) Does not guarantee the anonymity of the participant?
   (c) Does not guarantee the confidentiality of the participant and the data?
   (d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?
   (e) Will create doubt whether sample control measures are in place?
   (f) Will be distributed electronically via email (and requesting an email response)?

Note:
- If your questionnaire DOES NOT request respondents' identification, is distributed electronically and you request respondents to return it manually (print out and deliver/mail): AND respondent anonymity can be guaranteed, your answer will be NO.
- If your questionnaire DOES NOT request respondents' identification, is distributed via an email link and works through a web response system (e.g. the university survey system): AND respondent anonymity can be guaranteed, your answer will be NO.

Please note that if ANY of the questions above have been answered in the affirmative (YES) the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.

and hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.

SUPERVISOR(S)  

DATE  

30/9/14

HEAD OF DEPARTMENT  

DATE  

30/9/2014

STUDENT(S)  

DATE  

27/05/2014

Please ensure that the research methodology section from the proposal is attached to this form.