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**THE IMPACT OF MOTIVATIONS, PERSONAL VALUES, MANAGEMENT
SKILLS OF MANAGERS ON THE PERFORMANCE OF SMEs IN
SELECTED TOWNS (PORT ELIZABETH AND PORT ALFRED) IN THE
EASTERN CAPE PROVINCE, SOUTH AFRICA**

BY

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**A DISSERTATION SUBMITTED IN FULFILMENT OF THE
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ABSTRACT

This study investigates the impact of motivations, personal values and managerial skills of managers on the performance of Small and medium enterprises (SMEs) in South Africa. The failure rate of SMEs in South Africa is very high and it is of great importance to investigate the factors that can impact on the performance of SMEs. Financial and non-financial methods were used to measure SMEs performance. Data was collected through self-administered questionnaires. Exploratory factor analysis was used to improve the research problems and enhance the validity of the research. Data analysis for this study includes descriptive statistics, Pearson correlation and regression analysis. Reliability was tested using the Cronbach's Alpha while validity was ensured by using a statistician and by pre-testing the research instrument in a pilot study.

The research findings for this study were:

- There is a significant positive relationship between the personal values of SME managers and firm performance;
- There is a significant positive relationship between the management skills of SME managers and firm performance;
- There is a significant positive relationship between the motivations of SME managers and firm performance;
- There is a significant positive relationship between personal values and motivations of SME managers and performance;
- There is a significant positive relationship between managerial skills and motivations of SME managers and performance; and
- There is a significant positive relationship between management skills and personal values of SME managers and performance.

The findings revealed that there is a significant relationship between motivations, personal values, managerial skills of SME managers and SME performance. The study suggested some recommendations to improve on the performance of SME managers. The recommendations include the need that both managers and employees should align their personal values to those of the organisation in order to achieve organisational and personal goals as both

personal values and organisational values provide the foundation for implementing an organisation's strategy, mission, and structure. In addition, the study further recommends that managers of SMEs should undertake professional degrees and post-degree programmes in order to boost their educational and professional careers. Nonetheless, another means by which managers of SME can acquire and improve on their managerial skills is through training.

DECLARATION

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

.....

Signature

.....

Date

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I would like to extend my sincere gratefulness to:

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- ✓ My statistician for assistance with analysis of data.

DEDICATION

I dedicate this study to my late mother, Mrs Bibiana Agi Asah, my father, Mr Fidelis Asah Awah, my elder sisters, Pricilia Anchi Asah, Scholastica Asah, Benedicta Anchi and her children, my younger sister, Ajoh Jackline Asah, and my younger brother, Luis Asah, for always supporting me in all ways possible but most importantly through their prayers. My cousin, Mpoh Aloysius and friend Ntapie Jude.

We can conquer all odds through God who strengthens us.

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CHAPTER ONE

INTRODUCTION TO THE RESEARCH PROBLEM

1.1 INTRODUCTION

In South Africa, the level of economic dependence (revenues and job creation) on small and medium enterprises (SMEs) has grown in recent years as a result of increased right-sizing and early retirements in small to medium-sized firms. The government of South Africa is doing its best to increase its emphasis on entrepreneurial opportunities for SMEs as a method to reduce pressure on the social security system. As such, the government is placing increased emphasis on enterprise assistance programmes and policies; particularly in the area of small and medium-sized businesses (Abor & Quartey, 2010:218). However, the effectiveness of these policies and programmes are dependent on a thorough understanding of owner/managers and how they operate. While vast research have been conducted on small businesses, very little has been done on management skills, motivations and personal values of owner/managers of SMEs.

This study investigates the impact of personal values, motivations and management skills of SME managers on the performance of Small and Medium Enterprises (SMEs) in the Eastern Cape Province of South Africa. In South Africa, a firm is considered small when the number of employees ranges from 1 to 49, turnover ranges to a maximum of 13 million and a balance sheet figures to a maximum of 5 million. Meanwhile, to qualify as a medium firm, the number of employees should range between 51 to 200, turnover from above 13 million to 51 million and a balance sheet figure from above 5 million to a maximum of 19 million (Government Gazette of the Republic of South Africa, 2003).

SMEs dominate both developed and developing economies and they (SMEs) are increasingly recognised as the prime vehicle for economic development in both developed and developing nations. They are a major source of employment, revenue generation, innovation and technological advancement. As a result, every government

of a country emphasises more on the importance of the SME sector and at the same time, this also leads the government to place emphasis on SMEs assistance programmes and policies to develop the sector. This is important so that economic objectives (economic growth and development, favourable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) could be realised (Fatoki & Garwe, 2010:729).

This chapter comprises different sections which include the introduction and background of the study, formulation of the research problem, research objectives and hypotheses and significance of the study. In addition, the chapter presents the research methodology, the limitations of the study and its layout. The background of the study is also discussed.

1.2 BACKGROUND OF THE STUDY

SMEs contribute radically to job creation, wealth, social stability and economic welfare across the world. For the fact that SMEs have become the dominant form of business in modern market economies, managing vast resources, their survival and performance have been constrained by a number of factors. As a result, governments throughout the world are paying much attention on the development of the SME sector to promote economic growth. For instance, in the United States of America (USA), SMEs are the source of about one-third of both domestic employment and sales value. Meanwhile, SMEs in Central and Eastern European economies in transition are found to be more active than state-owned enterprises (SOEs) as a source of output growth and employment generation. SMEs in the European Union account for about half of the total value added and two-thirds of the domestic workforce (European Union, 2009).

With the advent of the economic reform programmes in 1996, there has been a remarkable change in the South African government's attitude towards the SMEs sector. The SMEs sector has been identified by the government as a priority area in increasing jobs so as to resolve the high unemployment rate currently estimated at 25.7% of the economically active population being unemployed. SMEs contribute 56%

of private sector employment and 36% of the gross domestic product (Statistics South Africa, 2011).

According to Brink, Cant and Ligthelm (2003), it is estimated that the failure rate of SMEs in South Africa is between 70% and 80%. As a result, many SMEs do not reach their full potential and fail to grow, resulting in loss of jobs and wealth for their region in which they are based. Maas and Herrington (2006) remark that given this high failure rate, it becomes imperative to research the factors that are required to enable SMEs survive. Problems encountered by SMEs are numerous and can be described amongst others as being environmental, financial or managerial in nature.

Ahmad, Halim and Zainal (2010) point out that for SMEs, the critical resources are likely to be held by SME managers that are likely to be reflected in their skills, knowledge, values, experience, education and motivation. The values, skills and the level of motivation possessed by SME managers suggest that they are responsible for how good or bad their businesses perform. Therefore, the success or failure of SMEs is largely influenced by the skills, values and motivation abilities of the managers. Marshall and Oliver (2005) observe that the hardships encountered by entrepreneurs often stem from lack of knowledge or skill, lack of finances, lack of values, lack of motivations, or the lack of a supportive social network. Herrington, Kew and Kew (2009) find that lack of education and training (subset of skills) is the most important cause of failure for SMEs in South Africa. Gumede and Rasmussen (2002) revealed that most SMEs in South Africa do not engage in networking, implying a lack of management skills. While, Baron (2007:104) state that the field of entrepreneurship is about “the importance of recognising and acting upon, opportunities”.

Sambasivan, Abdul and Yusop (2009:798) affirm that personal values, motivations and management skills of a manager have an influence on the performance of a firm as they principally perform through competencies, motivation levels, and strategies of the manager. They define management skills as a set of knowledge, skills and/or abilities required to manage a business, whilst, personal values are enduring characteristics of

an individual manifested in a consistent way of behaving in a wide variety of situations. Personal values according to Khan, Farooq and Ullah (2010:28), are directly linked to owners' achievement, employees' involvement, motivation and retention through such matters as trust, respect and fair treatment as this can improve firm performance and overall competitive advantage.

According to Nieman and Nieuwenhuizen (2009: 86) individuals decide to engage in business activities because of different (combine) motivations. For the fact that entrepreneurship is not always seen as a desirable career choice in South Africa, many South Africans are either forced (push motivations) to become entrepreneurs due to retrenchment, job frustration or job losses. Others who take advantage of business opportunities due to the gap spotted in the market to start a business, are pulled (pull motivations) towards entrepreneurship. Nieman and Nieuwenhuizen referred to positive factors as "pull factors" and negative factors as "push factors". Examples of pull motivations include need for accomplishment, desire to be independent, locus of control and social development responsibilities.

Within the context of the Global Entrepreneurship Monitor, Botha (2006: 9) captures the difference between pull and push motivations by introducing the concept of opportunity and necessity entrepreneurship. However, there is consensus in the fact that necessity entrepreneurs are considered to be driven by mainly push motivations, while pull factors form the basis for opportunity entrepreneurs to start-up a new business. Baron (2007:106) attributes the great performance of "QUALCOMM", one of the most successful telecommunication companies in Malaysia, to the innovative capabilities and opportunity recognition abilities of its founders.

According to Baron (2007: 105), identifying and selecting the right opportunities are among the most important abilities of any successful business person. Opportunity recognition is described as an activity that happens before firm founding and after firm founding throughout the life of the business. Baron further states that opportunity

recognition is the most important step in the entrepreneurial process. One from which, in many cases, all else follows.

Zainol and Ayadurai (2011: 63) suggest that managers' personalities, in particular their values and goals, are indistinguishable from the goals of their businesses. The authors reiterate the fact that values are instrumental in advancing constructive understanding of human behaviour and consequent change. Thus, it would seem that personal values should have important implications not only for the decision to pursue entrepreneurship, but the way in which the entrepreneur/manager manages a business. In addition, it is also suggested that managers' personal values and motivations influence the management and business practices they adopt in operating their businesses and, ultimately, the performance of their business. However, these propositions lack empirical support in the South African context.

Empirical literature on the impact of personal values, motivations and management skills of managers on firm performance remains inconclusive ranging from a significant positive relationship to no significant relationship. Wu (2008) notes that the relationship between management skills, motivations and personal values on firm performance has attracted increasing scholarly attention in recent years such as Khan *et al.* (2010) and Sambasivan *et al.* (2009). However, the empirical results from the studies on the direct effects of personal values, motivations and management skills of managers on firm performance so far remain largely inconclusive, ranging from a significant positive relationship to an insignificant relationship. Baron (2007) and Lakoff (2008) find a significant positive relationship between personal values of managers and firm performance. Schwartz and Bardi (2001) and Roccas, Sagiv, Schwartz and Knafo (2002) did not find a significant relationship between personal values of managers and firm performance. Verheul, Thurik, Hessels and Van der Zwan (2010) find a significant positive relationship between entrepreneurs' motivations to entrepreneurship and firm performance while, Block and Wagner (2007) did not find a significant relationship between entrepreneurs' motivations and firm performance.

In addition, Dzansi (2004), Carmeli and Tishler (2006) and De Zoysa and Herath (2007) find a significant positive relationship between management skills of managers and firm performance. In contrast, Van Praag and Cramer (2001) and Bosma, Van Praag, Thurik and Wit (2004) did not find a significant relationship between management skills of managers and firm performance. Other empirical studies such as Shiu (2006), Appuhami (2007) and Chan (2009) find insignificant relationships between management skills of managers and firm performance. Clarke, Seng and Whiting (2010) acknowledge that the inconsistent empirical evidence does not lead to a compelling conclusion regarding the relationship between management skills of managers and firm performance.

Moreover, most of these studies cited above have focused on developed countries such as Malaysia, Japan and United States of America. Almossawi (2001) points out that although studies conducted in developed countries have contributed substantially to the literature on personal values and management skills, their findings may not be applicable to other countries, due to differences in cultural, economic and legal environments. A thorough review of the literature revealed no study has investigated the impact of personal values and management skills on the performance of SMEs in South Africa. Related South African studies such as Kunene (2008) focused on the entrepreneurial and business skills for SMEs in the clothing industry. Tustin (2003) examined small business skill audit and Coldwell (2010) investigated the relevance of learning in organisations in South Africa. Based on the inconclusive empirical evidence and the dearth of empirical studies in South Africa, the objective of the study is to investigate the impact of personal values, motivation and management skills of managers on the performance of SMEs in South Africa. Recommendations of this study could help reduce the high failure rates of SMEs in South Africa and improve the contribution of SMEs to South Africa's socio-economic development.

1.3 RESEARCH PROBLEM

Despite the significant contribution of SMEs to the economy of South Africa, their failure rate remains very high. The question most researchers are struggling to answer is:

“what is the cause of the high failure rate”? Many researchers have attempted to answer this question by studying the impact of various factors (such as entrepreneurial character, competencies of entrepreneurs, educational level of entrepreneurs and business environment) on SMEs performance. Baron (2007) suggested that managers’ personal values influence the management and business practices they adopt in operating their businesses and, ultimately, the performance of their business. However, these propositions lack empirical support in the South African context and all are limited to the western context. Therefore, understanding the values, motivations and skills of successful managers becomes critical. As a result, the research problem of this study is to investigate the impact of personal values, motivations and management skills of SME managers on SMEs performance.

1.3.1 Research objectives

The research objectives of this study were:

- To investigate the impact of SME managers’ personal values on firm performance;
- To investigate the impact of SME managers’ management skills on firm performance;
- To investigate the impact of SME managers motivations on firm performance;
- To determine the relationship between managerial skills and motivations of SME managers and firm performance;
- To determine the relationship between personal values and motivations of SME managers and firm performance; and
- To determine the relationship between managerial skills and personal values of SME managers and firm performance.

These objectives were achieved through the following means:

- Reviewing the literature to determine the failure rate and the causes of failure of SMEs in South Africa;
- Reviewing the literature to determine if SME managers’ personal values, motivations and management skills can impact on firm performance;

- Reviewing the literature to determine the personal values variable of SME managers that can impact on firm performance;
- Reviewing the literature to determine the management skills variable of SME managers that can impact on firm performance; and
- Reviewing the literature to determine the motivations variables of SME managers that can impact on firm performance.

1.3.2 Research hypotheses

H10: There is no significant relationship between the personal values of SME managers and firm performance.

H1: There is a significant positive relationship between the personal values of SME managers and firm performance.

H20: There is no significant relationship between the management skills of SME managers and firm performance.

H2: There is a significant positive relationship between the management skills of SME managers and firm performance.

H30: There is no significant relationship between the motivations of SME managers and firm performance.

H3: There is a significant positive relationship between the motivations of SME managers and firm performance.

H40: There is no significant relationship between personal values and motivations of SME managers and performance.

H4: There is a significant positive relationship between personal values and motivations of SME managers and performance.

H50: There is no significant relationship between managerial skills and motivations of SME managers and performance.

H5: There is a significant positive relationship between managerial skills and motivations of SME managers and performance.

H60: There is no significant relationship between management skills and personal values of SME managers and performance.

H6: There is a significant positive relationship between management skills and personal values of SME managers and performance.

1.4 SIGNIFICANCE OF THE STUDY

SMEs are very important to the South African economy in that they contribute significantly to economic growth through employment creation. Employment creation leads to more people having disposable income which results in an increase in the demand for goods and services. Disposable income also results in more purchases of goods and services which lead to economic growth. As a result of increased economic growth, the general standard of living of people could be improved.

For the fact that the South African economy is currently characterised by high unemployment rate and high failure rate of SMEs, it is of great importance to identify and understand the factors that affect the performance of SMEs. The establishment of these factors will result in tentative solutions and strategies being adopted to decrease the high failure rate of SMEs in South Africa which is necessary to increase the levels of employment and economic growth in the country.

However, policy makers and researchers in the field of business management, economics and finance have come to believe that the performance of SMEs is significantly influenced by the personal values, motivations, and management skills of SME managers. According to Park (2005:740), motivation and management skills in addition to technical skills and personal values such as risk taking, achievement, innovation and creativity will assist managers of SMEs to identify the right opportunities. On the other hand, Chong, Kuppusamy and Jusoh (2005) affirm that management skills such as strategic planning skills, financial management skills and marketing skills will improve the performance of the firm. However, the fact that management skills can be acquired, Aggarwal, Erel, Stulz and Williamson (2007) attribute the poor performance of most SMEs to poor management skills of the manager. This research is of value to the

owners/managers of SMEs in South Africa as different recommendations are made to assist SMEs in their long term development and growth.

1.5 PRELEMINARY LITERATURE

Ahmad *et al.* (2010) state that entrepreneurial capacity is available in almost every business person, but managerial competence which is essential for the continuity and sustainability of the small and medium enterprises is insufficient. The authors further re-iterate the fact that the success of any business is also highly dependent on the capabilities and ingenuity of its manager(s). Consequently, if the desired outcomes of a venture are to be achieved in SMEs, certain tasks need to be performed by the managers. However, the extent to which managers of SMEs perform these tasks is relatively different in comparison to big businesses because of a shortage of technical and managerial skills, motivations, and differences in the personal values of the managers.

Personal values can be defined as qualities that contribute to an individual's enduring and distinctive patterns of feeling, thinking, and behaviour. 'Enduring' means that personal values are qualities that are at least somewhat consistent across time and across different situations of a person's life. 'Distinctive' implies features that differentiate people from one another. Finally, by 'contribute to' we mean that values that causally influence, and thus at least partly explain, an individual's distinctive and enduring tendencies (Cervone & Pervin, 2007). The value theory of Schwartz (1992) is also consistent with this definition but further elucidate on the concept of value.

The value theory of Schwartz (1992) adopts a conception of values that focuses on six main features (i.e. Values are: beliefs, goals, go beyond specific actions and situations, standards, ordered by importance and guide action). The Expectancy-value theory of Rotter (1972) emphasises the construct of expectancy or an individual's belief in the probability that a specific value will lead to satisfactions or valued objectives. In addition, both Schwartz theory and the Expectancy-value theory incorporate a number of internal

mediating processes, such as attention, covert rehearsal of instructions, self-criticism, and self-motivation.

Gorgievski, Ascalon & Stephan (2011: 213) state that values provide a powerful explanation of human behaviour because they serve as standards for evaluating and assessing conduct and form the basis of individual perception. This has led researchers to postulate that business owners' success criteria reflect their value orientations. As such, personal values of SME managers might greatly determine management decisions and performance. Delmar and Wiklund (2008: 440) also affirm that the performance of SMEs is greatly influenced by managers' personal values such as honesty, hard work, equality and security.

Chong, Kuppusamy and Jusoh (2005) carried out a study on entrepreneurial careers among business graduates in Malaysia. They found that personal values such as hard work, work ethic, innovation, creativity and risk taking are necessary in the pursuit of entrepreneurial goals. Longenecker, Pitty, Moore and Palich (2006: 385) in their study, drew attention to the fact that, the high failure rate of SMEs in South Africa can also be attributed to the fact that SMEs are more vulnerable to managerial weakness as a result of a lack of entrepreneurial motivation and managerial skills. The managerial inadequacies in SMEs can be attributed to low levels of formal education, motivations and skills among the majority of managers.

Sullivan and Sheffrin (2003) define managerial skill as the stock of competences, knowledge and personality attributes embodied in the ability to perform manual labour so as to produce economic value. According to Schultz theory (1961), managerial skill represents the investment people make in themselves or by their organisations that enhance their economic productivity. Nehete, Narkhede and Mahajan (2011: 5518) affirm that SME managers lack the necessary human resources skills, marketing skills, financial management skills and general management skills to ensure the continued survival of the sector in the country. Insufficient management skills therefore have a negative effect on the development of the SME sector in South Africa.

Sullivan and Sheffrin (2003) in accordance with Schultz theory (1961), state that knowledge, education and training are all part of management skills. In addition, management skills of managers have a positive relationship to firm performance. According to Stone James, Freeman, Edward Gilbert and Daniel (2003), entrepreneurs with higher levels of management skills and motivations are expected to give higher levels of performance than those with lower levels of management skills and motivations. Martin and Staines (2008) find that lack of managerial experience, skills and motivations as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are the main reasons why SMEs fail.

Verheul *et al.* (2010: 4) define motivation as the process that accounts for an individual's intensity, direction, and persistence of effort towards attaining a goal. In that light, Block and Wagner (2007) state that opportunity recognition reflects start-up efforts "to take advantage of a business opportunity". Sambasivan *et al.* (2009: 799) define opportunity recognition as perceiving a possibility for new profit potential through founding and formation of a new business or the significant improvement of an existing business.

According to Hessels and Terjesen (2008), start-up motivation may have consequences for the way in which a business is managed and for business performance. They further state that entrepreneurs who start a business because they want to earn more money than in wage employment, can be expected to behave differently than persons who create a new business to be better able to combine both work and household responsibilities. In support of these facts, the goal setting theory by Locke and Latham (1990) proposed that, the motivations of entrepreneurs will greatly improve provided they set specific goals and objectives. The goal setting theory further acknowledges the fact that in every business, if some persons perform more than others despite being equal in terms of ability and knowledge, then the cause must be motivational.

1.6 RESEARCH METHODOLOGY AND RESEARCH DESIGN

The empirical study was approached from the viewpoint of a suitable research design through definition of the study population, the incorporation of a suitable measuring instrument and reliable techniques for data analysis as stipulated in Cooper and Schindler (2003: 64). The empirical research for the study was conducted in two ways; a pilot study and the main survey. The measuring instrument was designed to measure the personal values, motivations, management skills of SME managers and performance of the firm. The questionnaire was made up of 18 items. The questionnaire was administered to 20 respondents (SME managers) in a pilot study. For the main survey 300 questionnaires were administered to SME managers and 140 questionnaires were returned. The response rate for the study was 46.6%.

❖ Research design

The research design is the plan to be followed in order to realise the research objectives and hypotheses. It represents the master plan that specifies the methods and procedures for collecting and analysing the data (Tustin, Ligthelm, Martins & Van Wyk, 2005: 82). According to Zikmund (2003: 68), there are two basic types of research design: qualitative research and quantitative research and a hybrid of the two. The study used the quantitative research design which Ghauri and Gronhaug (2005: 204) describe as *“studies whose findings are mainly the product of statistical summary and analysis”*. The main feature of quantitative research is the heavy reliance of the researcher on data analysis to arrive at findings or conclusions.

❖ Data collection method

Gerber-Nel, Nel and Kotze (2005:88) point out three primary data collection methods namely; - observation, experiment and survey. Observation is a process through which primary data is obtained by observers (humans or machines) about the behavioural pattern of people, objects or occurrences. With the experiment method of collecting data, the researcher manipulates an independent variable and then measures the effect. The experimental setting can be in a laboratory or in the field. Meanwhile, in survey research, the researcher selects a sample of respondents from a population and

administers a standardised questionnaire to them. This study used survey research. Surveys can be further divided into four major types: personal interviews, telephone surveys, mail surveys and self-administered surveys as pointed out by Gerber-Nel *et al.* (2005: 94).

❖ **Research instrument**

Data for the study was gathered through self-administered questionnaires in a survey. This method of data collection is consistent with previous empirical studies. Question items were developed from the review of the literature. The questionnaire was pre-tested in a pilot study. Reliability was ensured through the use of the Cronbach's alpha. To ensure validity, the researcher used a statistician and a panel of experts who evaluated the research instrument for conceptual clarity; used a big sample size with a margin of error of not more than 5% and a confidence level of 95%. Details on pre-testing, reliability and validity testing are provided in chapter four.

❖ **Measures**

Performance was measured under two separate categories; financial measures which included growth in profit, and growth in sales. Non-financial measures included managers' satisfaction with overall performance and managers' satisfaction with the way the business is progressing compared to competitors. Motivations were measured by past business experience, level of education, started business because of opportunity, started business out of necessity and the risk of business failure. Personal values were measured by hard work, honesty, equality, accomplishment, risk taking, optimism, growth, national security, loyalty, compassion, trust, responsibility, creativity, innovation, autonomy, social security, religion, affection, competence, security, ambition, prestige, energy and work ethics. Management skills were measured by financial management skills, strategic planning skills, administration skills, marketing skills, human resource management skills and networking.

❖ **Sample frame and sample size**

The study focused on SMEs found in the Telephone Directory and the Nelson Mandela Bay Chamber of Commerce list. Double counting was eliminated by checking the names of the firms. The towns selected for the study were Port Elizabeth and Port Alfred. A total of 913 SMEs were counted. Simple random probability sampling was used because each element in the population has a known and equal probability of being the sample actually selected and is also easy to understand. Raosoft (2011) Sample Size Calculator was used to determine the sample size for the study. The sample size for the study was 271. However, 300 questionnaires were distributed because of the limitations associated with self-administered data collection method such as non-response.

❖ **Statistical analysis**

The data collected was edited and coded before analysing. Parametric statistical techniques were used as the data analysis method. Specifically, exploratory factor analysis was used to improve the research problems and enhance the validity of the research. In addition, data analysis for this study included descriptive statistics, means, Pearson correlation and multiple regression analysis. Reliability was tested using the Cronbach's Alpha while validity was ensured by using a statistician and by pre-testing the research instrument in a pilot study.

➤ **Referencing style**

The referencing style used for the study is the Harvard method.

1.7 LIMITATIONS OF THE STUDY

One of the principal limitations to this study is the measure of values, management skills and performance. Values of an individual can also be measured in terms of security, vitality, energy and pleasure. On the other hand, performance can also be measured by Return on Asset (ROA), Return on Debt (ROD) and Debt to Equity ratio (D/E). For the purpose of this study, the measure of values, management skills and performance were

limited to the measures listed above. In addition, the study is limited to SMEs in the Eastern Cape Province precisely Port Elizabeth and Port Alfred. Because of the above limitations, care should be exercised in the interpretation and the application of the results of this study and the generalisation of the findings to the whole of South Africa.

1.8 ETHICAL CONSIDERATIONS

Ethics is a set of moral principles which is suggested by an individual or group, is subsequently widely accepted, and which offers rules and behavioural expectations about the most correct conduct towards experimental subjects and respondents, employers, sponsors, other researchers, assistants and students (De Vos, Strydom, & Fouche, 2005:57). Ethics provide a system that helps a person to determine what is right and good from what is wrong and bad. According to Cooper & Schindler (2006:72), there are five distinct entities that are affected by the research process, namely: The general public, the respondent, the client, the researcher and the research profession. However, taking all the above into consideration, further ethical consideration will be ensured by the researcher through the following means:

- By ensuring that the truth of the research is not compromised;
- By always being honest with the research participants; and
- By ensuring that participants are protected from any harm (Kolb, 2008:13).

1.9 LAYOUT OF THE STUDY

➤ Chapter one: Introduction

Chapter one presents the introduction, the background of the study, the research problem, the research objectives and the research hypotheses. In addition, the chapter discusses the significance of the study, the research methodology and the limitations of the study. The remaining chapters are organised as follows.

➤ Chapter two: Overview of SMEs

Chapter two provides a comprehensive literature review on entrepreneurship and SMEs in South Africa. This chapter also highlights the definition of entrepreneurship. In

addition, the definition of SMEs from a national and international perspective and an overview of the link between SMEs and sustainable development are highlighted. The contribution and the challenges faced by SMEs in South Africa are also discussed in this chapter.

➤ **Chapter three:** Values, motivations and skills of Managers

Chapter three focuses on the definition of personal values and management skills and provides a comprehensive review of the literature relating to personal values, management skills of managers. The chapter also looks at value theory and management theory and the generic elements of both theories.

➤ **Chapter four:** Research methodology

This chapter discusses the research methodology used in conducting the empirical research. This chapter further examines the scope of the study, the research design and techniques, survey instruments, data collection and data analysis. The validity and reliability of the research instrument are also discussed.

➤ **Chapter five:** Data analysis and results

This chapter provides the analysis and interpretation of the research results. The chapter tabulates the results from the analysis and exploration of data and discusses the findings.

➤ **Chapter six:** Conclusions and recommendations

This chapter revisits the research problem and the objectives of the research. It also discusses the conclusions and recommendations of the research. In addition, the limitations of the research are highlighted and areas for further research suggested as well.

1.10 SUMMARY

This chapter highlighted the importance of SMEs to sustained economic development, employment creation and poverty alleviation in South Africa. According to Brink *et al.*

(2003) the failure rate of SMEs in South Africa (between 70% and 80%) is one of the highest in the world. The country is also currently suffering from high unemployment rate which currently stands at 25.7% as revealed by Statistics South Africa (2011). Longenecker *et al.* (2006:385) attribute the high failure rate of SMEs in South Africa to managerial weakness as a result of lack of professional skills. Sambasivan, *et al.* (2009:798) confirm that personal values, motivations and management skills of a managers have an influence on the performance of a firm as they principally perform through competencies, motivation levels, and strategies of the managers. This chapter set out the research problem and formulated the research objectives and the research hypotheses. In addition, the chapter also discussed the significance of the research. Furthermore, the chapter highlighted the limitations of the study, the research methodology, ethical considerations and the layout of the entire research.

The next chapter will focus on an overview of SMEs in South Africa. SMEs are examined in terms of their contributions and challenges.

CHAPTER TWO

OVERVIEW OF SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

The experiences of developed economies in relation to the roles played by SMEs buttresses the fact that the relevance of SMEs cannot be overemphasized especially among the less developed countries or rather developing countries. In order to highlight the importance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the “engine of growth” (Nguyen, Alam, Perry and Prajogo, 2009:62).

2.1 INTRODUCTION

Private sector development is said to be of great importance for employment creation, growth and development of Africa. The development of SMEs is acknowledged as a key condition in promoting equitable and sustainable economic development in Africa. This sector, in terms of economic development, has the potential to provide for growth in employment and contribute towards reducing poverty among urban cities in most developing countries such as South Africa (Kurokawa, Tombo & Willem Te Velde, 2008). However, Ayyagari, Beck and demirguc-Kunt (2003: 265) hold a contrary view with respect to the contributions of SMEs to poverty alleviation and economic development. This chapter examines the definition of entrepreneurship and the differences between entrepreneurship and SMEs. The chapter also provides the definition of SMEs from both national and international perspectives. An overview of the link between SMEs development and sustainability will be discussed. Furthermore, the contribution of SMEs to poverty reduction, employment and GDP to the economy of South Africa will also be discussed. The developmental challenges faced by SMEs will conclude this chapter.

2.2 ENTREPRENEURSHIP

According to Herrington *et al.* (2009), the debate over entrepreneurship is universal as literature has failed to provide a unique definition which totally defines entrepreneurship. According to Pretorius and Shaw (2004: 222) and Frederick, Kuratko and Hodgetts (2006: 14), the definition of entrepreneurship is both complex and controversial, as there are variable definitions to the concept of entrepreneurship. Thus, no definition has entirely and accurately defined entrepreneurship as it encompasses so many facets. In South Africa, however, Mutezo (2005) reiterates the fact that the term entrepreneurship is often used interchangeably with small and medium enterprises. However, this study acknowledges the fact that there are various definitions of entrepreneurship as shown with the few samples below. Section 2.2.1 below highlights the different definitions of entrepreneurship.

2.2.1 Definitions of entrepreneurship

Kuratiko and Hodgetts (2004: 30) define entrepreneurship as a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Le Roux (2005:353) falling out of line with the definition of entrepreneurship by Kuratiko and Hodgetts (2004:30), define entrepreneurship as the process of seizing opportunities and taking risks beyond safety measures to create economic values. Le Roux state that the definition of Kuratiko and Hodgetts fails to take into account the fact that creating a new business involves a lot of risks. In addition, Le Roux states that entrepreneurship definition should include essential ingredients such as the willingness to take calculated risks in terms of time, equity or career, the ability to formulate an effective venture team, the creative skill to marshal needed resources, the fundamental skill of building a solid business plan and finally, the vision to recognise an opportunity where others see chaos, contradiction and confusion.

Cronje, Du Toit, and Motlatla (2005:40) defined entrepreneurship as the process of mobilising and risking economic resources (land, capital, human resources) to utilise a

business opportunity or introduce an innovation in such a way that the needs of society for products and services are satisfied, jobs are created, and the owner of the venture makes profits from it. This process includes new as well as existing businesses, but the emphasis is usually on new products or services, and new businesses.

Linan, Rodriguez-Cohard and Rueda-Cantuche (2006) define entrepreneurship as an attitude that reflects an individual's motivations and capacity to identify an opportunity and to pursue it, in order to produce new value or economic success. In consistent with this definition, Shariff and Peou (2008) define entrepreneurship as a force that mobilises other resources in order to meet unmet market demand, creating and building something substantial from practically nothing and creating values by pulling together a unique package of resources to exploit an opportunity.

Nieman and Nieuwenhuizen (2009:9) in the same light as Shariff and Peou (2008) and Linan *et al.* (2006) define entrepreneurship as the process of seizing opportunities in the market, gathering resources, creating and growing a business venture in order to meet these needs. These resources are not limited to economic resources such as land, labour and capital but also include the intellectual capacity of the entrepreneur.

Nonetheless, none of these definitions according to Perks (2010) completely and accurately define entrepreneurship as entrepreneurship is more than the mere creation of business. The characteristics of seeking opportunities, taking risks beyond safety measures and having the determination to push an idea through a reality combine into a perspective that permeates entrepreneurs. This perspective can be exhibited inside or outside an organisation, in profit or not-for-profit enterprises, and in business or non-business activities for the purpose of bringing forth creative ideas. Consequently, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner. It is this perspective that has revolutionised the way business is conducted at every level and in every country. Having defined entrepreneurship, it will be of great importance to tell the difference between entrepreneurial ventures and small businesses. Although both entrepreneurial ventures and small businesses are of basic

importance to the performance of the economy, both may serve different economic functions.

According to Rwigema and Venter (2005:6), entrepreneurial ventures and small businesses pursue and create new business opportunities differently, they both fulfil the ambitions of their founders and managers differently, and they present different challenges to economic policy makers. One fact that is common to both entrepreneurial ventures and small businesses is that they both need entrepreneurial action for start-up. According to Perks (2010:449), the majority of small business owners establish and manage their businesses for the principal purpose of furthering their personal goals and ensuring security. Small business owners view themselves as successful so far as their businesses are making profit. They do not care much if they earn a smaller income than they would have as employees in another business. Entrepreneurial ventures are the ones that create more employment. Entrepreneurial ventures aim at making the greatest amount of profit and become dominant in its market of operation within the shortest possible time. Other characteristics that differentiate entrepreneurial ventures from small businesses include:

Innovation: Entrepreneurial ventures thrive on innovation, be it a technological innovation, a new product or a new way of producing, offering a service, marketing or distributing, or better still, the way the business is structured or managed. Small businesses are usually only involved in delivering an established product or service. Goedhuys, Janz, Mohnen and Mairesse (2008) support the fact that entrepreneurial ventures are more innovative than small businesses by looking at innovation within business and organisational contexts. Within the business context and according to Goedhuys, *et al.* (2008:169), a new product or service must be substantially different, not only an insignificant change. The change must increase customer value or producer value. Innovations are anticipated to make entrepreneurs more financially secure as they are able to meet customer needs through being innovative and offer products that satisfy customer needs. The progression of many innovations grows the entire economy. Whereas, in the organisational context, innovation may be linked to

performance and growth through improvements in efficiency, productivity, product quality, competitive positioning, and market share. Goedhuys, *et al.* (2008) suggests that this is obvious in entrepreneurial ventures than small businesses.

Potential for growth: Due to their innovative approach, an entrepreneurial business has a great deal more potential for growth than a small business. Small businesses at a certain stage, tends to stabilise and only grow with inflation. Entrepreneurial business is in a position to create its own market. The small business operates in an already established market and is unique only in terms of its locality. It operates within a given market. Delmar, Davidson and Gartner (2003:190) assert the fact that growth is not an objective for many business managers who are not entrepreneurial. Thus, entrepreneurial business is one that proactively seeks to grow and is not limited by the resources currently under its control. Nieman and Nieuwenhuizen (2009:10) also assert the fact that entrepreneurial ventures are ventures whose principal objectives are profitability and growth.

Strategic objectives: Entrepreneurial venture will normally set itself strategic objectives in relation to market targets, market development, market share and market position. Small businesses hardly care about all these aspects. Their objectives seldom go beyond survival, sales and profit targets. (Nieman & Nieuwenhuizen, 2009:11). According to Morgan, Vorhies and Mason (2009:909), strategic objectives of a firm with respect to the market, act as a source of competitive advantage. The authors state that entrepreneurial firms because of their strategic objective make every effort to operate in unfulfilled market niches, i.e. markets where there are not very many sellers present and differentiated products and services are prevalent. In addition, entrepreneurial firms strive to become market leaders and capture a substantial portion of the overall market.

Despite all these differences, however, small businesses and entrepreneurship according to Mutezo (2005) are closely related and are used interchangeably. The author states that in South Africa and the world at large, the term entrepreneurship is often used interchangeably with SMEs. The European Council for Small Business and

Entrepreneurship (ECSB) (2005) assert the fact that small businesses and entrepreneurial ventures are synonymous by stating that 'small businesses are the vehicle in which entrepreneurship thrives'. In addition, the Council made clear the fact that literature has alluded failed ventures to small businesses as most entrepreneurs have reluctantly shied away from accepting the fact that they have failed in achieving their goals. Chan (2009) and Nieman and Nieuwenhuizen (2009) in support of this fact, state that "not all managers are good leaders and not all entrepreneurs are good managers". Therefore, this study also acknowledges the fact that entrepreneurial ventures and small businesses are closely related and are used interchangeably.

Having examined the different definitions of entrepreneurship and the difference between small businesses and entrepreneurial ventures, the next section presents definitions of SMEs from both national and international perspectives.

2.3 DEFINITION OF SMEs

According to Nieman and Nieuwenhuizen (2009:8) and Beck, Levine and Demirguc-Kunt (2005), confusion reigns in the field of small business because there is no clear consensus on the definition of SMEs and the boundaries of the paradigm. Numerous factors correlated to a country's socio-economic surroundings, influence the definition of an SME. Most definitions currently follow quantitative and qualitative lines. Quantitative factors are primarily the number of employees, the annual earnings (sales) and the balance sheet total. The qualitative factors require that an SME have a relatively small share of its market, be run by its owners and not be a subsidiary of a large firm. Moreover, the definition of SMEs on the basis of an unambiguous criterion is not uniform across countries (Katerndahl, 2006:17).

Section 2.3.1 below examines the definition of SMEs from an international and a local perspective. The international perspective focuses on how an SME is defined in other countries such as the United States of America, Great Britain and the European Union. The local perspective provides the definition of SMEs in South Africa.

2.3.1 The International perspective

There are various legal and policy definitions of SMEs. For instance, according to the United States International Trade Commission (2010), the United States of America Small Business Administration, founded by the United States government in 1953 for the purpose of providing intermediary to long-term financing for SMEs that could not obtain finance on reasonable terms elsewhere, has a definition of a SME which embraces almost 90% of full-time businesses as shown in table 2.1:

Table 2.1 United States of America Small Business Administration standard for SMEs

Size of enterprise	Number of employees	Annual turnover	Balance sheet total
Medium	Less than 500 depending on industry	\$10m - \$50m depending on industry	Less than \$25m depending on industry
Small	Less than 250 depending on industry	Less than \$10m depending on industry	Less than \$7m depending on industry

Source: Adapted from the United States International Trade Commission 2010.

According to the Department of Trade and Industry of the United Kingdom (2004), the Bolton Report of 1971 made heavy weather of providing a statistical definition for SMEs. The department of trade and industry further states that the UK Companies Act of 1985 which has special less stringent reporting requirements for SMEs, uses the following definitions as shown in Table 2.2:

Table 2.2 Requirements of UK Companies Act for SMEs

Criterion	Small business	Medium business
Maximum number of employees	50	250
Maximum annual turnover	2.8 million	11.2 million
Maximum annual balance sheet total	1.4 million	5.6 million

Source: Department of Trade and Industries of the United Kingdom (2004)

According to The European Commission (2010), SMEs can be defined as any organisation employing fewer than 250 individuals. This is disaggregated into three parts and, to qualify as a SME, both the employee and the independence criteria must be satisfied, plus either the turnover or balance sheet criteria as reflected in Table 2.3:

Table 2.3 European Commission criteria for SMEs

Criterion	Small business	Medium business
Maximum number of employees	49	249
Maximum annual turnover	7 million Euros	40 million Euros
Maximum annual balance sheet total	5 million Euros	27 million Euros
Maximum % owned by one, or more	25%	25%

Source: The European Commission (2010)

2.3.2 South African perspective

According to Abor and Quartey (2010:219), the most widely used framework in South Africa is the definition of the National Small Business Act 102 of 1996 as amended in 2003. The act defined SMEs as a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards, and can be classified as small by satisfying the criteria mentioned in the schedule of size standards. The following criteria are also important for defining SMEs in South Africa. These

criteria are as follows: SMEs should operate in a formal market, the SMEs is tax registered and meet other formal registration requirements.

As pointed out in the definition above, the National Small Business Act provides a schedule of size standards for the definition of SMEs in all the sectors of the South African economy as highlighted in table 2.4:

Table 2.4 Schedule of size standards for the definition of SMEs in South Africa

Size of enterprise	Number of employees	Annual turnover	Gross assets
Medium	Fewer than 200, depending on industry	R4m to R50m, Depending on industry	R4.5m to R18m, depending on industry
Small	Fewer than 50	R2m to R25m, depending on industry	R2m to R4.5m depending on industry
Very Small	Fewer than 20 depending on industry	R 200.000 to R500,000, depending on Industry	R150, 000 to R500,000, depending on Industry
Micro	Fewer than 5	Less than R150,000	Less than R150,00

Source: Adapted from the Parliament of the Republic of South Africa (2005)

However, looking at the different definitions from different countries, it is without doubt that adopting the American definition for SMEs in Europe and South Africa, there will be no medium enterprises as all the medium enterprises will become small enterprises. As a result, research suggests that a globally uniform definition of SMEs is crucial to the successful development of the SME sector. According to Senderovitz and Philipsen (2008), without a uniform definition for SMEs, it will be difficult to have a cross country comparison of the performance of SMEs. It will also be difficult for international

organisations such as the World Bank and the International Monetary Fund to put in place uniform support systems for SMEs. Nonetheless, this study used the definition of SMEs as defined by the South Africa National Small Business Act 102 of 1996 as amended in 2003.

2.4 SMEs DEVELOPMENT

Scholars have written about the problems of developing countries, outlining their characteristics as if it were one homogenous mass, despite the differences in income, values and culture from one nation to the other. As a common characteristic, life in developing countries and Africa in particular, is described in the most undignified conditions, portraying living conditions as insufferable. According to Todaro & Smith (2009:17), Development is a “multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty”. Economic growth is in turn measured by the Gross Domestic Product (GDP) as well as the per capita income of a nation.

California Association for Local Economic Development (CALED) (2011) states that economic development involves the allocation of limited resources - land, labour, capital and entrepreneurship in a way that has a positive effect on the level of business activity, employment, income distribution patterns, and fiscal solvency. Thus, the proper allocation of these resources will lead to a condition of life widely perceived to be unsatisfactory to a condition of life widely regarded as materially and spiritually better. CALED (2011) further state that economic development is a concerted effort on the part of the responsible governing body in a country to influence the direction of private sector investment toward opportunities that can lead to sustained economic growth. Sustained economic growth can provide sufficient incomes for the labour force, profitable business opportunities for employers and tax revenues for maintaining an infrastructure to support this continued growth.

However, South Africa faces some developmental challenges regarding development. These challenges manifest themselves via poverty and inequality, HIV and Aids, crime and corruption in both the private and public sector with Eastern Cape being the most corrupt province. According to the Organisation for Economic Co-operation and Development (OECD) (2010), South Africa is one of the most unequal societies in the world with national policies discriminating vigorously against the majority of the country's population. Among other inequalities, people are denied access to decent education, the right to own property and accumulate assets and the right to equal access to the labour market. Entrepreneurial activity in South Africa is presently hindered by poor skill base and severe economic and social limitations such as poverty, lack of professional experts such as medical doctors and university professors, lack of active markets and poor access to resources (Herrington *et al.*, 2009). In addition, Kongolo (2010:2290) states that self-employment is a risky venture and the poor and unemployed, who are already financially extremely vulnerable and living in shacks, often find it impossible to contemplate taking on the additional risk associated with unemployment. It is based on this fact that FinMark Trust (2006) conclude that South Africans do not regard entrepreneurship as a positive and viable career choice.

On the contrary, Todaro and Smith (2009:10) state that development does not only involve economic growth but also reduces deprivation and broadens choice. Deprivation represents a multi-dimensional view of poverty that includes hunger, illiteracy, illness and poor health, powerlessness, voicelessness, insecurity, humiliation, and a lack of access to basic infrastructure. Development embodies elements such as political freedoms, economic facilities and social opportunities. According to Todaro and Smith (2009:18), development should address the following problems:

- Health and wellbeing of all;
- Education for all;
- Fair rewards for labour; and
- Improvement not only of the standard of living but the quality of life.

Economic development, therefore, is the development of the economic wealth of countries or regions for the well-being of their inhabitants. It is the process by which a nation improves the economic, political, and social well-being of its people. Therefore, the term economic growth differs from economic development in the sense that, economic growth refers to the increase (or growth) in a specific measure such as real national income, gross domestic product, or per capita income. Meanwhile, the term economic development on the other hand, implies much more. It classically refers to improvements in a variety of indicators such as literacy rates, life expectancy, poverty rates and unemployment rates.

Section 2.4.1 below examines sustainable development. This section provides the definition of sustainable development and government tools that can be used to promote sustainable development.

2.4.1 Sustainable development

Kufuor (2008) states that the development of SMEs sector is acknowledged as a key condition in promoting equitable and sustainable economic development in Africa. This sector, in terms of economic development has the potential to provide for growth in employment and contribute towards reducing poverty among urban cities in most developing countries. As a result, sustainable development is gaining ground worldwide and is found on the agenda of most countries; especially developing and least developed, such as most countries in Africa.

South Africa is on the road to recovery especially as the government has recognised constraints, such as debt crises, underdevelopment in the country rural areas and unsustainable political relations. For the fact that the country is still a developing nation, the country is currently facing severe unemployment and poverty. 25.7% of the population are unemployed and 50% of the population is below the poverty line (Statistics South Africa, 2011). This has led to the proposition of principles by the government such as good governance, eradication of poverty, economic recovery, accountability, transparency and adequate attention to social services, with education

the highest on the agenda, followed by health services, shelter, water and the provision of electricity.

According to Winkler (2006), the concept “Sustainable development” emerged from concerns about a sustainable society and the management of renewable and non-renewable resources. The concept of sustainable development emerged in attempts to link concerns about environmental limits with those about poverty and development. This concept was popularised by the Brundtland Report as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Robinson (2004:370) points out that this definition is more attractive to government and business than a more radical one. However, a more fundamental reason for this tendency to divide on terminological grounds is due to a concern, on the part of NGOs and academic environmentalists, that development is seen as synonymous with growth, and therefore, that, sustainable development means ameliorating, but not challenging, continued economic growth. In this view, the preferred term ‘*sustainability*’ focuses attention where it should be placed, on the ability of humans to continue to live within environmental constraints.

According to Dale and Newman (2010:6) sustainable development can be regarded as a process of reconciliation of three imperatives:

- The ecological imperative to live within global biophysical carrying capacity and maintain biodiversity;
- The social imperative to ensure the development of democratic systems of governance that can effectively propagate and sustain the values that people wish to live by; and
- The economic imperative to ensure that basic needs are met worldwide. And equitable access to resources – ecological, social, and economic – is fundamental to its implementation.

However, Robinson (2004:371) further state that ecological and economic sustainability cannot be achieved if poverty is not addressed, requiring action on both environment

and development. While the Brundtland definition is commonly cited, there is no consensus in academic or policy circles on the concept or how to apply it in practice. Perhaps it is in implementing (the process of making development more sustainable) that the concept becomes more clearly defined for a particular context, rather than in abstract definition.

On the contrary, the concept of sustainability has been further defined in relation to non-declining stock of capital, or wealth. Dale and Newman (2008) affirm that “Any growth path characterised by non-decreasing stocks of assets (or capital) is sustainable. According to this definition, development may be considered sustainable if capital is non-decreasing. Therefore, accumulating the various kinds of capital increases the resilience of an economy, society and its environment to external shocks. The different kinds of capital are natural capital, human-made capital and social capital. Natural capital refers to natural resource assets, durable structures or equipment manufactured by human beings. Human capital is the productive potential of human beings. While social capital captures the norms and institutions that influence human interactions (Dale & Newman, 2008).

According to Kufuor (2008) and Kongolo (2010), the development of a sustainable SMEs sector in South Africa is like a man chasing a springbok in the savannah (dream). Both researchers allude this to the fact that the country is currently characterised by high unemployment rate which is as a result of shortage of professional skills, lack of entrepreneurial mind-set of the citizens, poor education, high crime and corruption rates and the poor efficiency of the legal system. The World Business Council for Sustainable Development (WBCSD) (2010) states that government tools that can be used to promote sustainable development in the private sector include:

- **Taxes:** The government can levy taxes on industries that are unsustainable;
- **Tax breaks:** The government can cut the taxes of industries or individuals that act sustainably;

- **Subsidies:** The government can create an incentive for sustainable behaviour by providing the funds to start up sustainable projects, create or update infrastructure to make industries more sustainable;
- **Laws and regulations that control environmental pollution and regulate development:** These would include laws and regulations that limit the amount of water or air pollution caused by factories; those that prevent development on environmentally sensitive land; those that protect the constitutional right to a healthy environment; those that encourage communities to become involved in decisions that affect them, such as what type of development should take place;
- **Providing good environmental services to the people:** The government currently does not do enough to deliver quality environmental services (such as water and sanitation, effective waste collection and disposal systems, good drainage to prevent flooding, safe and convenient transport, parks and other recreation facilities, and effective planning for urban communities) to all people; and
- **Environmental education and awareness:** Government can do much to educate the public about environmental issues that affect the country as a whole and their communities in particular (The World Business Council for Sustainable Development, 2010).

In section 2.4 the concept of development and the link between development, sustainable development and SMEs were discussed. Section 2.5 examines the contributions of SME as well as the challenges faced by SMEs in South Africa.

2.5 CONTRIBUTIONS OF SMEs

SMEs contribute extensively to the economic development of countries and to advancing national as well as individual prosperity. The changeover from poverty to wealth in most nations has mostly been through private actors such as farmers, investors, and SMEs. If countries, particularly those in Africa, are to grow out of poverty and unemployment, and create a more prosperous future, SMEs must be encouraged.

As a result, the South African government has placed particular interest in the development of SMEs policy because SMEs are widely recognised for bringing immense contribution to economic growth, poverty alleviation and employment creation. SMEs are also an important source of innovation in the development of new products, services and technologies (Mahadea, 2008).

❖ Employment

Successful SMEs attract the attention of policy makers worldwide as they are seen as important contributors to employment, innovation, and competitiveness. According to Statistics South Africa (2011) unemployment is extremely high in South Africa and it is seen as one of the most pressing socio-economic and political problem. Table 2.5 below compares the unemployment rates in selected African countries (South Africa included) and selected developed countries.

Table 2.5 Unemployment rates in selected African and developed countries

African countries	Unemployment rate (%)	Developed countries	Unemployment rate (%)
South Africa	25.4	France	8.6
Cameroon	30	UK	5.1
Senegal	48	USA	6.4
Zambia	50	Australia	5.1

Source: World Bank (2010)

Based on the data presented in table 2.5 above, the unemployment rates in African countries are higher than those of developed countries. According to the European Union (2009) SMEs account for a large proportion of Europe's economic and professional activities. Approximately 90% of firms in the European Union are SMEs and they provide about two-thirds of all private sector employment. As a result, the low unemployment rate in developed countries can be attributed to the strong and

successful SMEs sector. Recently, while large firms have been shedding jobs in Europe and the US, employment in the SMEs sector has simultaneously increased.

According to the Parliament of the Republic of South Africa (2005), the SMEs sector is not just a desirable compliment to growth in the higher productivity sector and a multiplier of productivity increase in the micro sector, but holds in itself the main key to whether the country will accomplish or fall short in confronting its employment challenges. It is for such reasons that the government of South Africa considers SMEs as the key to employment, poverty alleviation, income inequality and sustainable economic growth. Statistics South Africa (2011) indicates that SMEs contribute 65% of private sector employment. This figure indicates a high labour absorption capacity and therefore highlights its importance to the reduction of the unemployment rate in South Africa currently estimated at 25.7% of the economically active population unemployed.

Beck (2007:407) points out that, the contribution of SMEs in Pakistan is about 80%, China 70%, Brazil 73%. However, comparing the contribution of SMEs to employment in South Africa to other countries such as Pakistan, China and Brazil, shows that the contribution is lower. This could be attributed to the fact that SMEs in South Africa lack adequate professional skills and financial resources for growth and sustainability. Furthermore, the contribution of SMEs to employment is expected to remain low because the majority of SMEs lack good professional skills and governance structure, motivations, personal values and the dynamism to grow beyond one-person operation during their existence. As a result, most of them fail at their early stages (Beck, 2007).

In addition, FinMark Trust (2006) states that the government of South Africa expects the SMEs sector to be the main driver of employment creation. But this is not the case as expected as unemployment remains the major challenge in South Africa. One of the best ways according to FinMark Trust (2006) to address high unemployment is to leverage the employment creation potential of SMEs and to promote SMEs development.

The World Bank (2010) agrees that SMEs development is important to reducing the high levels of unemployment in most developing countries including South Africa. The World Bank views SMEs as a nursery and proving ground for entrepreneurship and innovation as the products of SMEs tend to reflect local technology and tend to be more appropriate for the needs of poorer people and market changes.

On the contrary, Kongolo (2010) accepts the fact that SMEs are seen as a vehicle to address the high unemployment problem in South Africa as they have a high labour-absorptive capacity but argues that there is a mismatch between the reality and the model of the SMEs sector used by South African policy makers. Kongolo argues that academic research has not settled the question of the extent to which SMEs are a source of Job creation, poverty reduction and income inequality. Kongolo in his study entitled “Job creation versus job shedding and the role of SMEs in economic development”, finds an insignificant relationship between SMEs and job creation. This finding is also supported by Abraham (2003) and Finlayson (2003). Finlayson (2003) in his article noted that ‘despite a few studies challenging the notion that SMEs create more than a disproportionate share of new jobs, Birch’s original study has had considerable staying power as Birch’s study is in sharp contrast to the traditional belief that large firms were the backbone of the American economy. Finlayson concluded that even if SMEs do not create the most new jobs, researchers should not minimise the economic benefits that flow from them. However, literature tends to support the fact that SMEs are a critical part of the economy and create millions of jobs, are more flexible than large firms and are sources of innovative products, processes and business methods.

❖ **Gross Domestic Product (GDP)**

SMEs stimulate private ownership and entrepreneurial skills; provide broad-based sources of growth whilst also acting as incubators for developing domestic enterprises into large corporations. Though the SMEs sector is one of the major contributors of a major portion of the gross domestic product across the globe, the contribution of SMEs

to the GDP of South Africa is still relatively small. SMEs contribute only 36% of the gross domestic product (Fatoki & Van Aardt Smith, 2011:1414).

Consistent with Fatoki and Van Aardt Smith (2011), Abraham (2003) argues the fact that SMEs in South Africa are the major contributor to the country's GDP. Abraham states that the 36% contribution of SMEs to South Africa's GDP is small when compared to other developing countries such as Brazil and Chile. According to Abraham (2003) the fact that the SMEs sector in South Africa has achieved very limited growth over the past years, accounts for the low contribution of the sector to the country's GDP. This figure (36%) is very low when compared to the contribution of SMEs in other developing countries such as Brazil with 59%, Chile with 57% and developed countries such as Japan with 55%, China with 60% and Germany with 87%.

In addition to that, the Organisation for Economic Cooperation and Development (OECD) (2010) also assert that large firms in South Africa contribute more than SMEs to the country's GDP. According to OECD, the main reason behind the low contribution of SMEs to GDP could be attributed to the low growth rate and high failure rate of SMEs in South Africa as the majority of the SME owners/managers lack sufficient professional skills and are poorly motivated. Tables 2.6 below shows the contribution of SMEs to GDP in some African and developed countries in the world.

Table 2.6: The contribution of SMEs to GDP in some African and developed countries

African countries	GDP contribution (%)	Developed countries	GDP contribution (%)
Cameroon	20	Poland	63
South Africa	36	Canada	57
Tanzania	33	USA	60
Ivory Coast	19	Australia	51

Source: Beck, Levine and Demirguc-Kunt (2005)

According to the Organisation for Economic Co-operation and Development (2010) SMEs can contribute to productivity and growth of GDP through their role of restructuring existing markets and creating new markets. In this light, they act as agents of change, by helping to create and diffuse innovation and develop additional markets. Whilst other SMEs contribute to productivity and growth of GDP through the role of testing new business ideas and by this means challenges established ways of doing business. However, the contributions of SMEs to GDP can only be improved provided they operate to their full capacity and this can only come about if they have sufficient resources.

❖ **Poverty Reduction**

Although poverty is a worldwide problem, it is undoubtedly more predominant in developing countries. The South African economy as a whole recognises the critical importance of the domestic private sector development as a key to driving growth and achieving the millennium development goal of poverty reduction. A central theme in poverty research acknowledges unemployment as the key cause of poverty among those of working age (Kufuor, 2008). However, Aguero, Carter and May (2007:785) find that approximately 57% of individuals in South Africa live below the poverty income line of two United States Dollars (\$2) per day. Despite economic growth in South Africa in the past years, the rate of poverty has not declined. Table 2.7 depicts the poverty levels in South Africa and some selected countries in Africa, Europe and America.

Table 2.7 Poverty levels in selected African countries and developed countries

African countries	Poverty level (%)	Developed countries	Poverty level (%)
Cameroon	48	France	6
South Africa	57	UK	14
Senegal	54	USA	12
Zambia	86	Australia	8

Source: World Bank (2010)

According to the Parliament of the Republic of South Africa (2005), the government of South Africa identifies SMEs as a key to poverty alleviation, income equality, employment and sustainable economic growth.

“The stimulation of SMEs must be seen as part of an integrated strategy to take this economy onto a higher road - one in which our economy is diversified, poverty is reduced, productivity is enhanced, investment is stimulated and entrepreneurship flourishes”.

However, in line with global commitment to eradicate extreme poverty by 2015 in terms of the first United Nations Millennium Development Goal (UNMDG) the government of South Africa has made specific achievements in reducing income poverty and poverty amongst those living under the international rate of less than \$2 (US) a day. This has been done by the provision of social grants, electricity (with more than 500,000 homes with electricity), sanitation and safe drinking water (Consultancy Africa Intelligence, 2010). Consultancy Africa Intelligence further states that despite all these achievements, the extent of inequality between rich and poor is still great and it might be impossible to bridge the gap by 2015 with current efforts. Such inequalities are defined by factors such as race, gender and class. This is why poverty is mostly noted among the rural, poor and black communities. Rogerson (2008:68) points out that despite the constraints faced by SMEs in South Africa, growing and successful SMEs are viewed as offering a critical contribution to the policy goals of poverty alleviation, employment creation and promotion of economic growth.

The World Bank (2010) also proclaims the fact that a vibrant SMEs sector improves productivity, promotes economic growth and increases opportunities for the poor. SMEs are also viewed as important drivers of local economic development. This is one of the reasons why governments all over the world are stimulating and supporting the SMEs sector. The pro-SMEs policy of the World Bank is based on three fundamental arguments. Firstly, SMEs enhance competition and entrepreneurship and therefore

have external benefits on economy world efficiency, innovation and aggregate productivity growth. Secondly, SMEs are more productive than large firms, but the financial market and other institutional failures impede SMEs development. Lastly, SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive. Therefore, SMEs can be used to alleviate poverty and unemployment.

Despite the fact that most researchers are of the opinion that SMEs are key drivers to the reduction of the high level of poverty in South Africa, Ayyagari *et al.* (2003) share a contrary view. Ayyagari *et al.* (2003) examined the impact of SMEs on poverty reduction and economic growth in their study entitled “Small and medium enterprises across the globe”. The study finds an insignificant relationship between the development of SMEs and poverty reduction but a significant relationship between the development of SMEs and economic growth. Kongolo (2010) in his study also finds an insignificant relationship between SMEs and poverty reduction.

In the same light, Abraham (2003) in his research article titled ‘Local Economic Development (LED) in South Africa: A useful tool for sustainable development’, argues that the SMEs sector in South Africa has achieved very limited growth. As a result, SMEs are unlikely to be the solution for South Africa’s economic and social problems as many SMEs do not report a profit or an increase in turnover. Their constraints include lack of managerial skills, high levels of competition, high wages, high input costs (most especially transport costs), low sales, low motivations and lack of finance.

Despite a few dissenting views such as Ayyagari *et al.* (2003), Abraham (2003) and Kongolo (2010), it can be deduced from the review of empirical literature that SMEs are a key driver of poverty reduction. Therefore, growing and successful SMEs in South Africa are viewed as offering a critical contribution to the policy goals of poverty alleviation, employment creation and promotion of economic growth. Besides all the contributions that SMEs give to the economy, they also face challenges as they grow. Section 2.6 focuses on the challenges faced by SMEs in South Africa.

2.6 CHALLENGES FACED BY SMEs

Despite the immense contribution of SMEs in South Africa to economic growth, poverty alleviation and employment creation, and the particular interest put in place by the South African government in the development of the SMEs sector, the history of SMEs until recent years, has not excited the public at large. According to Fatoki and Garwe (2010:731), the survival rate of SMEs is relatively low as the failure rate of SMEs is estimated to be between 70% and 80%. This is not only true for South Africa, but is a common phenomenon in the rest of the world. The authors pointed out the fact that millions of South African Rands are being lost on business ventures because of essentially avoidable mistakes and problems.

However, Abor and Quartey (2010:218) state that though SMEs are of great socio-economic significance, their long-term growth and competitiveness have been compromised by the chronic and often acute constraints on their access to professional skills, among other systemic and institutional problems. According to Fatoki and Garwe (2010:732), the probability that a SME will survive beyond 42 months is less likely in South Africa than in any of the 34 countries sampled by GEM. This is simply because SMEs face a number of challenges of which lack of professional skills and motivations are primary. The high failure rate signifies that SMEs in South Africa are not able to accomplish their developmental roles. Table 2.8 below shows the failure rate of SMEs in some selected developing and developed countries.

Table 2.8 Failure rate of SMEs in selected developing and developed countries

Developing countries	Failure rate of SMEs (%)	Developed countries	Failure rate of SMEs (%)
Mexico	68	USA	16
South Africa	57	UK	28
Venezuela	48	Australia	30
Chile	66	Japan	24
	59	France	26

Brazil			
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Source: OECD (2010).

With reference to the results in table 2.8, the failure rate of SMEs in the developing countries is much higher than in developed countries. Therefore, it can be concluded that the chances of a business to survive in developing countries is lower than in developed countries. Of all the African countries sampled by GEM as reported by Mass and Herrington (2006), South Africa had the highest failure rate of SMEs. This suggests that the quality of entrepreneur activity in South Africa is somewhat lower in comparison with other countries in the GEM sample. Table 2.9 below depicts the specific causes of the failure of SMEs in South Africa.

Table 2.9 Specific causes of the failure of SMEs in South Africa

Reason	Frequency	Percentage
Lack of professional skills	20	37.7
Financial reasons	17	32.1
Motivations (e.g. found another job)	7	13.5
Personal reasons	3	7.1
Other reasons	5	9.6
Total	52	100

Source: Mass and Herrington (2006)

Lack of professional skills with 37.7% appears to be the primary reason why most entrepreneurs fail. This therefore underscores the importance of improving on the managerial skills of most SME managers. Corbett (2005:475) states that the ability to discover and exploit new opportunities to create a new business depends largely on previous skills, education, work experience and above all, the motivation of the entrepreneur. Although most entrepreneurs possess a particular set of unique skills and

experiences, it is the motivation factor that drives these entrepreneurs into starting a new business.

On the contrary, Ashley-Coutleur, King, and Solomon (2009) state that some entrepreneurs start their own business due to the fact that they are motivated by push factors such as unemployment, retrenchment, a low paying job with little upward mobility and the desire to escape supervision. In contrast, Verheul *et al.* (2010) stress the fact that entrepreneurs from developed and developing countries are driven into entrepreneurship by pull factors such as changing lifestyle or the desire to use one's own experience and knowledge. Other challenges faced by SMEs in South Africa can be classified as follows:

❖ **Access to finance**

In reviewing access to finance for SMEs, it should be borne in mind the number and range of institutions providing different kinds of finance for different kinds of investment. Some institutions provide long term capital, others short term capital, some equity and others debt. Conceivably, even more striking in South Africa is the “disintegration” between formal and informal capital markets, which operate under different priorities and constraints with few linkages between each other.

However, the two principal constraints currently affecting the SMEs sector in South Africa are limited access to finance and the high cost of finance. The secondary constraints of SMEs are the lack of security and the lack of track record. The majority of SMEs in South Africa lack equity to finance their business and invariably resort to borrowing from financial institutions to start and expand their businesses. This has resulted in SMEs being highly leveraged. That is to say, their capital structure has a high debt to equity ratio, which implies that they are mainly financed through borrowing (Smorfitt, 2009). However, this is only applicable to those SMEs that have access to debt finance.

According to Beck (2007:405), access to finance tops the lists of most constraints faced by SMEs worldwide. A survey conducted by Fatoki and Garwe (2010) concludes that financial support is the number one limiting factor for growth with the primary problem being access to finance. Naude and Havenga, (2004:112) also stressed the fact that SMEs have problems in raising both short- and long-term finance from financial institutions as they (SMEs) have little security to offer in exchange for loans. This makes it difficult for SMEs to obtain finance from financial institutions than for large firms.

Herrington *et al.* (2009) highlight that access to finance is a major problem for the South African SMEs owner(s). Lack of financial support is the second most reported contributor to low SMEs creation and failure, after education and training in South Africa. Many SMEs owner(s) raise the start-up capital from their own or family savings, which is often inadequate, rather than approaching formal institutions or agencies for external finance. Atieno (2009:33) observed that access to debt finance is of vital importance for SMEs in order to reduce the impact of cash flow problems. SMEs need finance to expand their operations, develop new products and invest in new staff or production facilities. The accessibility of finance for investment in positive net present value projects is also of imperative importance to the sustainability and viability of SMEs.

Carpenter and Petersen (2002:300) investigated the relationship between dependence on internal finance and growth of SMEs and found out that the growth of SMEs is constrained by dependence on internal finance. In contrast, SMEs that make use of external finance exhibit growth rates far above what can be supported by internal finance. Therefore, a key challenge for many SMEs is to find a means of accessing debt finance.

According to Demircug-Kunt, Maksimovic, Beck and Laeven (2006:933), the two primary sources of external finance for SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for SMEs. South African Venture Capital Association (2008) contends that venture capital provided only a

small proportion of the equity funding for SMEs. According to the South African Venture Capital Association (2008), there are at least 65 venture capital funds in South Africa, controlling a total of R29 billion with an average investment size of R15.4 million. However, new venture investment with a SME focus is approximately R1.1 billion which is only 3.8% of the funds. This indicates that the availability of venture capital is limited for SMEs. The lack of venture capital funds and other sources of external equity make many SMEs dependent on bank loans, overdrafts.

In contrast, Rogerson (2008) in his study entitled “Tracking SMME development in South Africa: issues of finance, training and regulatory environment”, find that the high failure rate of SMEs in South Africa should be attributed to poor management due to lack of fundamental managerial skills and also the motivation of the entrepreneur. Rogerson (2008) points out that though some entrepreneurs claim that lack of finance is the major problem for their failure, providers of debt finance are in accordance with the fact that a managerial skills is the primary problem and could in fact be the cause of the financial problem. Thus, it can be concluded that despite the many reasons put forward by researchers as to why SMEs fail, managerial skills of entrepreneurs could be claimed to be the most important cause of SMEs failure.

❖ **Acquisition of skills and managerial expertise**

According to the Department of Trade and Industry (DTI) (2005) lack of training and education is one of the problems that lead to low entrepreneurial activities in South Africa. Herrington *et al.* (2009) states that South Africa’s Total Entrepreneurship Activities (TEA) stand at 7.8 and is assumed to be one of the lowest in the world when compared to other developing countries such as Argentina, Brazil and Turkey with an average TEA above the average (10.6) of all the 43 countries that participated in the survey. As such, the acquisition of relevant vocational, technical and business skills is generally regarded as one of the most important factors for successes in SMEs. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities to better earning enterprises with the rapid expansion in the range and number of SMEs all over the country.

Naude and Havenga (2004:112) argue that SMEs in South Africa lack the necessary human resources skills, marketing skills, financial management skills, and general management skills to ensure the continuous survival of the SMEs sector in the country. Martin and Staines (2008) examine the importance of management competence in SMEs success. The researchers point out that lack of managerial competence and personal values as well as other factors such as adverse economic conditions, poorly thought out business plans and the resource starvation are the main causes of the high failure rate of SMEs. The authors state that the distinguishing feature of high growth and low growth SMEs is the education, training and experience of the managers.

Consistent with Martin and Stains (2008), Herrington *et al.* (2009) state that the most crucial factor hindering SMEs development in South Africa is the lack of education and training. The perception is that there is a direct relationship between education and employment. The quality of basic education is flagging in South Africa. The majority of students in high schools in South Africa do not complete their Matric. This results in skills shortage and the impact is seen as hindering economic growth and business efficiency. Herrington *et al.* (2009) further state that South Africa's inadequate educated workforce is one of the most problematic factors for doing business in the country.

On the contrary, Ganotakis (2010) reiterates the fact that training alone is not the only solution that could assist SMEs succeed, but other constraints such as the lack of financial resources, lack of access to market, lack of support services and low literacy levels should also be addressed. The authors suggest that, one possible solution to this challenge is for SME managers to recruit experienced persons within or from abroad who are able to mentor and train their staff in order to build skills throughout their business. But because of the constraint of financial resources, SMEs owners cannot afford high-calibre interim management to assist with skill transfer and development.

Abor and Quartey (2010:218) also argue that managerial skills are not the only cause of the high failure rate of SMEs in South Africa. The authors attribute the high failure of

SMEs in South Africa to the lack of financial support from both commercial financial institutions and government support agencies. Smith, Cronje, Brevis and Vrba (2007) allude to the fact that South Africa has a critical shortage of skilled managers. This makes it difficult for new and established SMEs to attract highly competent managers which are a key component in organisational success. Smith *et al.* (2007) also argue that high staff turnover due to low salaries is another challenge for SMEs success in South Africa.

2.7 SUMMARY

This chapter reviewed the literature on the definition of entrepreneurship and the differences between entrepreneurial ventures and small businesses. The chapter also examined the definition of SMEs from a national and international perspective and the contributions of SMEs to the economy of South Africa. In addition, the chapter explored the challenges faced by SMEs in South Africa. The concept of development and sustainable development was also discussed and it is apparent that SMEs are the engine for the economic development of every country. It was clearly recognized that SMEs play a vital role in the South African economy in terms of employment creation, GDP and poverty reduction. However, despite their significant role in the development of the national economy, it was also established that SMEs face some serious challenges resulting in an estimated failure rate of about 80%. Some of the reasons for the high failure rate as revealed by this chapter are lack of finance and lack of managerial expertise.

The next chapter examines the management skills, motivations and personal values of SME managers.

CHAPTER THREE

MOTIVATIONS, PERSONAL VALUES AND MANAGERIAL SKILLS

3.1 INTRODUCTION

At an individual level, human values, motivations and management skills are the basis upon which we make decisions and follow certain courses of action. Though they are concealed, their consequences are felt personally, particularly when our own personal values, motivations and skills are challenged and our objectives are not attained. De Zoysa and Herath (2007:653) cited the study done by Ibrahim and Goodwin (1986) based on a survey of 144 small firms in the retail, wholesale, service and manufacturing sectors in a few metropolitan areas of the USA and Canada. The authors asserted the fact that entrepreneurial values, motivations and managerial skills of owners/managers are the major contributors to high performance and success in small businesses. In contrast, DuBrin (2012) in his book titled *“Essentials of Management”* states that managers take all the credit for the work done by employees. The author points out the fact that managers with no managerial experiences and entrepreneurial motivation, but with the right management team in place, will still achieve high performance. This research thus investigates the impact of managerial skills, motivation and personal values of managers on firm performance. This chapter in detail provides definitions and explanations of managerial skills, motivation and personal values that can affect the performance of SMEs. The chapter also examines theories of management skills, motivation and values. In addition, the chapter also looks at the relationship between managerial skills, values, and motivation and firm performance.

3.2 MANAGEMENT SKILLS

3.2.1 Definitions of Management skills

Sullivan and Sheffrin (2003) define managerial skill as the stock of competences, knowledge and personality attributes embodied in the ability to perform manual labour

so as to produce economic value. Carmeli and Tishler (2006:13) in consistent with the definition of Sullivan and Sheffrin, define managerial skills as the investment people make in themselves or by their organisations that enhance their economic productivity. In other words, the term skills refer to the ability to do something in an effective manner. Form the above definitions, it is clear that both authors concentrated their definitions on the production of economic values.

On the contrary, Javadin, Amin, Tehrani and Ramezani (2010:170) define managerial skills as a set of behaviour that leads to job performance. In addition, the authors point out the fact that managerial skills are acquiring and learning abilities. The authors also state that the definition of managerial skills must not only focus on the production of economic values but should also include social welfare.

Thus, it can be deduced from the above definitions that management skills is a set of integrated complementary skills possessed by a person which assist the person in executing certain managerial responsibilities. An individual manager, however talented, is unlikely to possess all the managerial skills required for the successful operation of the firm. According to Martin and Staines (2008), management skills are critical to the success of an enterprise and the general pool of management expertise has a crucial bearing on the economic development of a nation. Poor management skills in SMEs are recognised as an acute problem worldwide.

Managerial weakness among others is a key factor in the failure of SMEs. The success of SMEs is often largely related to the performance of their management (most often the manager). Thus, the skills of managers in SMEs are an important factor for any economy's SME sector to succeed. Therefore, there is a need for all managers to acquire the necessary management expertise to ensure the future survival of the SME sector. Both the owners and managers of SMEs who have inadequate management knowledge and skills, cannot operate effectively and efficiently enough to harvest better than marginal results. This implies that these SMEs might be successful in the very

short run, but will not be in a position to realise their full potential over the long term (Dzansi & Dzans, 2011:2108). Managerial skills in this study are considered in terms of:

❖ **Financial management skills**

Financial management can be defined as the management of the finances of a business in order to achieve the financial objectives of the business. Financial management in every business broadly embraces two important aspects, namely: financial planning and financial control. Financial planning according to Marx, De Swardt, Beaumont-Smith and Erasmus (2010:86), is the process of analysing, projecting, formulation, and monitoring of short-term and long-term choices in financial terms for the purposes of straightening out any inconsistencies in order to arrive at a financial plan for the business. Financial planning is essential to the strategic growth of the business. As with all other types of planning, financial planning depends largely on budgets, predictions and targets, and formulates the way in which goals (in this case, financial goals) are to be achieved. The planning process begins with long-term or strategic financial plans that guide the formulation of short-term or operating plans and budget. Financial planning for a business can either be a long-term or short-term:

- Long-term financial plans are the planned financial actions and the anticipated financial impact of those actions over periods ranging from 2 -10 years.
- Short-term financial plans specify short-term financial actions most often covering a 1-2 year period and the anticipated impact of those actions. Short-term plans and budgets effectively implement the business' long-term strategic objectives.

Financial control on the other hand, seeks to assess whether the plan put forward meets the objectives of the business in question. According to Ryan and Trahan (2007:112), effective business management and financial control includes the use of monitoring and incentive mechanisms to align divergent interests between shareholders and managers and encourage the creation of shareholder value. Value-based management systems provide an integrated management strategy and financial control system intended to increase shareholder value by mitigating agency conflicts.

❖ **Human resource management skills**

Human resource is the most active factor in economic activity, and also the most important resource. It has a special effect on economic growth, and also important meanings for the survival and development of enterprise. The concept of human resource management appears after Drucker suggesting the concept of human resource in 1954. Nevertheless, human resource management in the past three decades has experienced two important changes. The first is to become human resource management from general personnel management. The second is to become strategic human resource management from human resource management. Human resource management includes seven aspects: human resource planning, job analysis, recruitment, performance management, compensation management, training and development, and employee relationship management (Chen, 2011:263).

According to De Kok, Uhlaner and Thurik (2006:443) human resource management skills of any manager is the main skill which pushes the firm to meet its goal because it work with line manager, have a good communication with head of all other departments in firm and knows clear about the firm goals and objectives. However, De Kok *et al.* (2006:446) reiterate that human resource management skills of managers is of primary importance to the firm in order to gain accomplishment and tackle issues pertaining to designing employees work, recruit and select the right person for the right job, training and develop employees to be a knowledge worker and empowerment of working environment.

❖ **Strategic planning skills**

Planning is the process of setting objectives and determining the steps that have to be carried out in order to attain them. A strategic plan encompasses strategic decisions relating to aspects such as niche markets and features that differentiate a business and its products from its competitors (Longenecker *et al.*, 2006:366). Strategic planning is essential even in established businesses, in order to ensure that changes in the business environment can be addressed as they occur. Strategic plan in every business can be short-term or long-term. Short-term plans are action plans designed to deal with

activities in production, marketing and other areas over a period of twelve months or less. An important part of a short-term operating plan is the budget. A budget is a document that expresses future plans in monetary terms. A budget is usually prepared one year in advance, with a breakdown by quarters or months. On the other hand, long-term plans are action plans designed to create values to the shareholders of the firm in the future. A firm's path to the future is often stipulated in the long-term plan (Longenecker *et al.*, 2006:368).

❖ Marketing skills

The marketing concept reflects a customer philosophy that identifies consumer needs and integrates marketing activities with all functional areas in the business to attain corporate goals by satisfying those needs. According to Cant, Gerber-Nel, Nel and Kotze (2008:19), marketing is a combination of management tasks and decisions aimed at meeting opportunities and threats in a dynamic environment in such a way that its market offerings lead to the satisfaction of customers' needs and wants so that the objectives of the enterprise, the consumer and society are achieved. Marketing contributes to the achievement of the fundamental objectives of most businesses, which include survival, profitability and growth. In addition, a marketing-oriented firm focuses on satisfying customer wants and needs while meeting enterprise objectives.

At the level of management skills, marketing involves the selection, distribution, pricing and promotion of the products and services of the business. The "marketing mix" demands that managers make choices concerning the type and amount of products to produce, the number and type of distribution channels for those products and the positioning of the products with respect to substitutes and similar offerings from competitors. The marketing mix is the combination of marketing activities that a firm engages in so as to best meet the needs of its target market. Traditionally, the marketing mix consisted of 4Ps which were *product, price, place and promotion*. An additional 3Ps (*physical layout, provision of customer service and processes*) was added to the 4Ps to make a total of 7Ps; as a result of the fact that today's marketing is far more customer-oriented than ever (Du Plessis, Jooste & Strydom, 2005).

❖ **Organising skills (administrative ability)**

According to Carmeli and Tishler (2006:19) administrative ability can be defined as a combination of technical, cognitive and interpersonal skills which enable the ability to coordinate and organise the elements within a business. Carmeli and Tishler further state that the role of the firm's manager administrative ability is to organise and direct all the activities of the business by making and implementing strategic and operational decisions capable of creating values that cannot be taken away by competitors.

According to Barney and Hesterly (2006) SME managers' administrative ability is very important as it helps managers in assigning duties and coordinating efforts among all organisational personnel to ensure maximum efficiency in the attainment of desired objectives. The fact that organising usually follows planning; it involves the determination of procedures to be followed in order to accomplish the predetermined objectives. In actual fact, research reveals that successful businesses follow the wise saying "from strategy to structure". This wise saying implies that planning must come before organising. In general terms, planning helps a business to interact with its environment by setting goals in its strategic plans, while structure helps it to carry out operations proficiently through the establishment of procedures and processes to be followed.

❖ **Networking skills**

Networking and networks is of prime importance to SME managers for the fact that it enables new SME managers to establish a relationship with people they have never met, who would other-wise, not be aware of their business, or improve their existing relationship. Networking enables SME managers to market themselves and their business directly to people who, in turn, may refer other customers to them. At the same time, it enables them to share ideas, information and experience. Networking is seen as a means of raising required capital, identifying market opportunities, obtaining personnel, identifying suppliers, identifying and developing technology (Jenkins, 2007).

Ngoc, Le and Nguyen (2009:872) reveal that in the absence of effective market institutions, networks play an important role in spreading knowledge about a firm's existence and its practices. Networks also help a firm learn appropriate behaviour and therefore, obtain needed support from key stakeholders and the general public. Robb and Fairlie (2008:1435) attribute the high rate of economic success of Chinese and Japanese SME managers to the strong network ties between the managers. They affirmed that networks of co-ethnics provide valuable resources such as customers, labour, and technical assistance to assist in starting and running a business. Co-ethnic networks are also useful in providing access to financial capital for entrepreneurs through rotating credit associations, direct loans, and equity investments in the business.

3.2.2 Theories of Management skills

3.2.2.1 *Schultz Theory (1961)*

Managerial skill theory was proposed by Schultz (1961) and extensively developed by Becker (1964). Schultz (1961) in an article entitled "Investment in Human Capital", introduces his theory of managerial skill. Schultz argues that both knowledge and skill are a form of human capital, and that this capital is a product of deliberate investment. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in human capital leads to an increase in human productivity, which in turn leads to a positive return on investment.

Becker (1964) in his book entitled 'Human Capital' views managerial skills as similar to physical means of production such as factories and machines. Human capital is a means of production into which additional investment yields additional output. Human capital is substitutable, but not transferable like land, labour, or fixed capital. Bruderl, Preisendorfer and Rolf (1992) were the first researchers to fit human capital theory in the entrepreneurial context by arguing that although the general application of human

capital is on employees, there is no reason why it should not apply to entrepreneurs as well. Accordingly, entrepreneurs with higher general and specific managerial skills can be expected to show higher levels of performance than those with lower levels of general and specific human capital. This is termed entrepreneurial human capital.

Hessel and Terjesen (2008) also assert that entrepreneurial human capital refers to an individual's knowledge, skills and experiences related to entrepreneurial activity. Entrepreneurial human capital is important to entrepreneurship development. However, Hessel and Terjesen (2008) point out that the Becker's theory has some inherent limitations. The authors point out that the theory failed to account for a growing general gap between peoples' increasing learning efforts and knowledge bases on the one hand, and the diminishing numbers of commensurate jobs to apply their increasing knowledge investments on the other hand. These limitations led to the development of other management skills theory such as the resource-based view theory.

3.2.2.2 The Resource-Based View Theory

Another theory that has become one of the most widely used theoretical frameworks in the literature of management skills is "The Resource-based View (RBV)" with the main emphases being competitive advantages generated by the firm in order to improve its performance, from its unique set of resource. The theory was proposed by Penrose (1959) and was further developed by Nelson and Winter (1982). For the fact that sources of sustained competitive advantage for a firm has a great impact on its performance, understanding these sources of sustained competitive advantage has become a major area of research in the field of strategic management (Runyan, Huddleston & Swinney, 2007). In addition, most research (Porter, 1980; Hofer & Schendel, 1978 and Ansoff, 1965) on sources of sustained competitive advantage has focused either on isolating a firm's opportunities and threats, describing its strengths and weaknesses or analysing how these are matched to choose strategies.

According to Ferreira, Azevedo and Ortiz (2011:99) studying a firm's strength and weaknesses rest on two fundamental assumptions. Firstly, firms can be thought of as

bundles of productive resources and that different firms possess different bundles of these resources. Secondly, some of these resources are either very costly to copy or inelastic in supply.

Basically, RBV describes a firm in terms of the resources that firm integrates in order to achieve good performance. Nelson and Winter (1982) accentuate the condition of a firm not be just a unit, but also a group of resources. Recurrently, the term resource is limited to those attributes that enhance efficiency and effectiveness of the firm. In addition, resources should have some capability to generate profits or to avoid losses for the firm. Therefore, for a firm to achieve high level of performance and to sustain its competitive advantage, it simply needs to acquire heterogeneous resources that are difficult to create, to substitute or to imitate by rivalry firms. These resources according to Nelson and Winter (1982), can be tangible or intangible in nature. According to Ferreira, Azevedo and Ortiz (2011:100), tangible resources of a firm include capital, access to capital (among others) while Intangible resources consist of knowledge, skills and reputation, motivation, entrepreneurial orientation, among others.

The RBV theory, consistent with Schultz theory, asserts that the main reasons behind the growth and success of every firm can be found inside the firm. That is, firms with resources and superior capabilities will build up a basis for gaining and sustaining competitive advantage which will in turn yield better performance for the firm. However, both theories acknowledge the fact that firm resources are, not sufficient for obtaining a sustained competitive advantage and a high performance. According to the theories, this is possible only if the firms are able to transform the resources in capabilities. Both RBV theory and Schultz theory refer to firms with superior performance, not only because of their better resources, but also because of their distinctive competencies of their managers.

Despite the noted contribution of the theory to firm strategy, the resource-based view theory fell out of becoming a substantive theory for the strategy of the firm as many researchers ascertained. Very convincing criticisms challenged the perspective of RBV

as a substitute for the more classical industrial organisation-based framework in developing strategies for firms. Firstly, the RBV theory failed to provide clarity of the concept of competence; secondly, the incapacity of competence to serve as a basis for strategy and thirdly, the lack of connection between competence and an existing industry are all short comings from RBV theory (Runyan, Huddleston & Swinney, 2007).

3.2.3 Managerial skills and performance

The role of the firm's manager's and management team in creating sustainable competitive advantage and gaining above-normal performance is very vital for the firm's survival. A firm's manager fundamental skills are critical resources for its success because of the significant influence it has on the firm's strategic decisions and its implementation. Without any doubt, the ability of managers "to understand and describe the economic performance potential of a firm's endowments" rests on the integration of his/her professional skills.

According to Spillan and Parnell (2006:236), the level of rivalry existing in the industry in which a business operates will influence the performance of the business. The authors assert that intense rivalry serves to either push down the market prices, or to increase the costs of competition through increased promotional and service costs. As a result, the profitability of the firms within that industry may decrease. The authors stressed that managers of firms can maximize firm performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of managerial efforts on a given segment of the market. In addition, Spillan and Parnell (2006:239) conclude that managers should use their managerial skills especially marketing skills as a means of distinguishing their products and services from those of their rivals and that market-oriented businesses possess a competitive advantage in both the speed and effectiveness of their responsiveness to opportunities and threats.

Wang, Barrett, Walker and Redmond (2008) suggest that, *ceteris paribus*, a key determinant of business success lies in the absence or presence of strategic planning

and financial planning skills of managers. The authors reiterate the fact that strategic planning and financial planning are concerned with the setting of long-term managerial goals, the development and implementation of plans to achieve these goals, and the allocation or diversion of resources necessary for realising these goals. Strategic planning in a practical sense is about competitive advantage and better performance as encapsulated by Priyanath (2006:96) who stated that the purpose of strategic planning and financial planning is to enable a business “to gain as efficiently as possible, a sustainable edge over its competitors”.

Fleetwood and Hesketh (2007:1979) state that appropriate management of an enterprise’s human resources is the key to business survival in today’s world. The managerial effectiveness of the firm and its ability to create a sustainable competitive advantage can hinge on whether HRM practices are properly thought out and successfully implemented. The human potential in a business is generally much more difficult for competitors to duplicate than the plant, equipment or even products that a business produces. Consequently, the nature and well-being of a business’s employees can become its main strength in carving out a profitable existence in the industry. Though employees’ competencies cannot be identified in isolation from the broader human resources structure and strategy, they will only be meaningful if they support the broader human resource management systems.

Furthermore, Parida, Westerberg, Ylinenpaa and Roininen (2010:2) suggest that both new and established businesses can overcome resource-oriented challenges by engaging in collaboration or exchange with external network partners. Many new and good ideas are created in networks of heterogeneous firms, increasing firms’ entrepreneurial opportunities. Through diverse relationships, a firm can obtain valuable and specialised knowledge, competencies and resources complementing or compensating their own limited in-house resources and competencies. These advantages from networking can in turn enable new businesses and small firms to be more innovative, risk taking and proactive, and thus, lead to better performance of the firm.

Shariff and Peou (2008:57) argue that in addition to managerial skills, the ability to generate ideas, the ability to solve problems and the level of technical sophistication of SME owner-managers have a major influence on SMEs' growth and performance. The authors added that SME owner-managers' ability to use their employees' skills and utilise their resources fruitfully would lead to expansion of their business and does not hurt their chances to be successful. However, the authors concluded that the conduct of management also plays an important role in SMEs' growth performance.

In contrast, Bosma *et al.* (2004) however, found that the managerial skills of an entrepreneur are not the unique determinant of performance. Consistent with Bosma *et al.* (2004), DuBrin (2012) find an insignificant relationship between managerial skills of managers and firm performance and a significant positive relationship between skills of employees and firm performance. The author in his book titled "*Essentials of Management*" states that even managers with no managerial experiences and entrepreneurial motivation but with the right management team in place will still achieve high performance. Other empirical literature such as Appuhami (2007) and Chan (2009) also find an insignificant relationship between managerial skills of managers and firm performance. Despite a few dissenting studies, empirical literature tends to support a positive relationship between managerial skills and firm performance. As a result, it is hypothesised that there is a significant positive relationship between management skills of SME managers and firm performance.

3.3 PERSONAL VALUES

3.3.1 Definition of personal values

Hofstede (2001) defines values as an enduring belief that specific mode of conducts or end state of existence is personally or socially preferable to a converse mode of conduct or end state of existence. It refers to principles for ordering consequences or alternatives according to preferences. According to the author, values relate to views held by individuals concerning 'oughtness' of behaviours.

Schwartz (2005) defines values as concepts or beliefs, about desirable end states or behaviours, that transcend specific situations, guide selection or evaluation of behaviour and events, and are ordered by relative importance. According to this definition, values are stable motivational constructs that represent broad goals and apply across contexts and time. Schwartz states that the five features mentioned in the definition are common to all values. In addition, the fundamental content aspect that distinguishes among values is the type of motivational goal they express. Accordingly, in order to coordinate with others in the pursuit of the goals that are important to them, groups and individuals represent these requirements cognitively (linguistically) as specific values about which they communicate. Schutte and Buys (2011) comment that an important merit of this definition is that it distinguishes values from attitudes by pointing at their generalised nature, whereas attitudes are people's beliefs about specific objects or situations.

Consistent with the above definition, Moratto (2006) defines values as the things in our lives that shape our behaviour and define who we are. The author states that value is the central concepts that give meaning to our lives, a set of guiding principles that help us make decisions and choose a path. In addition, Moratto states that if we want to understand who we are, we need to be aware of the values we cherished and if we want to understand others, we need to know about their values. Consequently, the stronger we hold our values, the less willing we are to change or compromise them.

From the above definitions, it can be inferred that values include beliefs and attitudes that guide behaviour and relationships with others. They are often unspoken as well as difficult to universally define. Thus, values justify our own and others' attitudes and behaviour as well as standards for our morality. Values serve as means for comparison of selves with others and are specifically used as criteria to judge and evaluate the actions of ourselves and others. In other words, we can also say that values are learned pre-dispositions. That is, they represent learned mechanisms for bringing about positive consequences or avoiding negative ones with respect to the surrounding environment. Values can be positive or negative; some are even destructive.

According to Joachim (2009), man is, perhaps, the most resourceful, dynamic and complex of all business resources. He frames the business pattern of resources acquisition, allocation, utilisation and the enterprise strategic leanings which provide the framework for operational management and performance. In essence, business strategic orientations are largely the product of man's interpretation of the environment and his development of consistent patterns in the streams of organisational decisions. However, decisions on operations and corporate strategic including resource usage consciously or unconsciously, involve application of personal value judgments. Based on this point, researchers have come to develop the notion that the personal values of individuals make a difference in terms of how they evaluate information, make decisions and behave. In addition, Joachim (2009) states that manager's personal value system influences the extent to which he accepts or rejects organisational pressure, goals as well as achievement. Essentially, managers act and look at the world through the glass of their values.

3.3.2 Theories of Personal Values

3.3.2.1 *Schwartz Theory*

The value theory of Schwartz (1992, 2005) adopts a conception of values that focuses on six main features: (1) Values are beliefs linked inextricably. When values are activated, they become infused with feeling. (2) Values refer to desirable goals that motivate action. (3) Values transcend specific actions and situations. Obedience and honesty, for example, are values that may be relevant at work. (4) Values serve as standards or criteria. Values guide the selection or evaluation of actions, policies, people, and events. (5) Values are ordered by importance relative to one another. (6) The relative importance of multiple values guides action. According to Schwartz, these six features are derived from three universal requirements of the human condition: needs of individuals as biological organisms, requisites of coordinated social interaction, and survival and welfare needs of groups.

The theory identifies a comprehensive set of ten motivationally distinct, broad and basic values that are derived from the three universal requirements of the human condition. The ten basic values are intended to include all the core values recognised in cultures around the world. These ten values cover the distinct content categories found in earlier value theories, in value questionnaires from different cultures, and in religious and philosophical discussions of values. These values include:

- (1) Power:** Social status and prestige, control or dominance over people and resources.
- (2) Stimulation:** Excitement, novelty, and challenge in life.
- (3) Hedonism:** Pleasure and sensuous gratification for oneself.
- (4) Achievement:** Personal success through demonstrating competence according to social standards.
- (5) Self-direction:** Independent thought and action – choosing, creating, exploring.
- (6) Benevolence:** Preservation and enhancement of the welfare of people with whom one is in frequent contact.
- (7) Security:** Safety, harmony and stability of society, of relationships, and of self.
- (8) Conformity:** Restraint of actions, inclinations and impulses likely to upset others and violate social expectations or norms.
- (9) Tradition:** Respect, commitment, and acceptance of customs and ideas that traditional culture or religion provide to Self.
- (10) Universalism:** Understanding, appreciation, tolerance and protection for the welfare of all people and for nature.

However, the value theory also specifies the structural relationships among these ten value types based on an analysis of the conflicts and congruities between the motivational goals. Actions in pursuit of any of the above value have psychological, practical, and social consequences that may conflict or may be congruent with the pursuit of other values. For instance, the pursuit of achievement values may conflict with the pursuit of benevolence values - seeking success for self is likely to obstruct actions aimed at enhancing the welfare of others who need one's help (Schwartz, 2005).

Consistent with Schwartz value theory, the expectancy-value theory of Rotter (1972) explains how value influences choice, determination and performance. Both theories support the fact that the likelihood that a particular behaviour will occur is a joint function of the person's expectancy that the behaviour will lead to one's goals and the values attached to those goals. These goals commonly cluster into broader categories that are conceptualised as values, such as the need for accomplishment, recognition and status, independence, love and affection, physical comfort and protection dependence among others. As a result, people will generally choose actions that, on the basis of previous experience, they expect will lead to valued goals. As such, individuals will engage in behaviour with high probability (expectancy) of getting what they want (highly valued goals) than behaviour with low expectancy of satisfaction.

Rotter's theory concludes that, for every individual, these values will vary in their need values or the values of their satisfaction for that individual. This is in accordance with Schwartz theory which also concludes that actions in pursuit of any of the ten values have psychological, practical, and social consequences that may conflict or may be congruent with the pursuit of other values. Rotter referred to the likelihood, or expectancy, of the behaviour that one has learned to rely upon to achieve satisfaction for a need as *freedom of movement*. Rotter in addition, concluded that freedom of movement coupled with high need value results in a very frustrated individual who feels ineffective in satisfying an important goal.

3.3.3 Values and self-efficacy

Although some of our expectations concern other people, expectations of particular importance to personal values involves the self. Cervone and Pervin (2007) emphasised that people's expectations about their own capabilities for performance are the fundamental ingredients in human achievement and well-being. The authors refer to these expectations as perceptions of their own capabilities for actions in future situations. The authors defined self-efficacy as people's appraisals of what they are capable of accomplishing in a given setting. Personal values such as self-esteem (refers to people's overall 'or global' evaluation of their personal worth) differs from self-

efficacy in two ways. Firstly, self-efficacy is not an abstract sense of personal worth, but a judgement of what one can do. Secondly, self-efficacy is not a global variable; instead, it is recognised that people commonly will have different self-efficacy perceptions in different situations.

According to Crane and Matten (2007), self-efficacy is very important for the fact that self-efficacy perceptions influence a number of different types of behaviour that, in turn, are necessary for human accomplishment. Managers with a higher sense of self-efficacy are more likely to decide to attempt challenging tasks, to persist in their efforts, to be calm rather than anxious during task performance, and to organise their thoughts in an analytical manner. In contrast, managers who question their own capabilities for performance, may fail even to attempt valuable activities, may give up when the going gets rough, tend to become anxious during task performance, and often become rattled and fail to think and act in a calm, analytical manner (colloquially speaking, one might say that persons with low sense of self-efficacy tend to choke on challenging activities).

An elementary claim of social-cognitive theory by Bandura (2006) point out that, self-efficacy perception causally influences behaviour. According to the author, self-efficacy perceptions do not really play a causal role, but one possible factor is people's actual level of skill. Skill levels of managers might influence both self-efficacy and behaviour, and account for the relationship between self-efficacy and motivated actions.

3.3.4 Values and Culture

Significant among the environmental variables of personal values are experiences individuals have as a result of membership in a particular culture. Each culture has its own institutionalised and sanctioned patterns of learned behaviours, rituals and beliefs. South Africa is a perfect example of a country with diverse cultural differences. These cultural practices, which in turn often reflect long-standing religious and philosophical beliefs, provide people with answers to significant questions about the nature of the self, one's role in one's organisation or community, and the values and principles that are

most important in life. As a result, members of a particular culture may share certain values and characteristics.

Schutte and Buys (2011:20) defined culture as “the pattern of shared values and beliefs that help individuals understand organisational functioning and thus provide them with the norms for behaviour in the organisation”. Organisational culture serves as a foundation for every organisation’s management system. According to Lee, Pathak, Chang and Li (2006:355), culture is considered as the shared values, beliefs and norms of a society and is an important contextual factor, collectively programming and affecting entrepreneurs in a given community, ethnic group, religion or country and generating differences across national and regional boundaries. In addition, Lee *et al.* (2006:357) state that national cultures that emphasise achievement and social recognition for all forms of entrepreneurial success are more conducive to entrepreneurship. Meanwhile, communities with low entrepreneurial culture may discourage entrepreneurs, who are afraid of social pressure and being ostracised.

Schutte and Buys (2011:21) assert that Hofstede’s (1980) extensive study into culture led to the development of four dimensions which identify and explain differences in cultural patterns observed across countries. The authors affirm that though Hofstede didnot specify the relationship between culture and entrepreneurial activity per se, his culture dimensions are useful in identifying key aspects of culture related to entrepreneurial orientation. Hofstede’s cultural dimensions considered in his study were:

- I. Individualism versus collectivism that relates to the relationship between the individual and the group;
- II. Power distance that relates to social inequality in relation to authority;
- III. Masculinity versus femininity that relates to the social implications of being born as a male or a female; and
- IV. Uncertainty avoidance that relates to the ability to deal with uncertainty.

Table 3.1: The Hofstede dimensions with key entrepreneurial dimensions

Hofstede's cultural dimension	Entrepreneurial orientation score on the Hofstede	Entrepreneurial dimension	Categorisation for African culture
Masculinity	High	Energy/competitive aggressiveness	Low-more feminine.
Uncertainty Avoidance	Weak	Risk taking	Strong-risk averse
Power distance	Low	Innovativeness	High
Individualism	High	Internal locus of control	Low –collective

Source: Adapted from Schutte and Buys (2011:22)

The personal values associated with proactive strategies, often referred to as entrepreneurial values, cover creativity, risk taking, innovation, achievement-oriented, ambition and independence are all terms highly associated with masculinity. In contrast, values such as equity, affection, social protection and compassion are described as conservative and associated with reactive type strategies and commonly associated with femininity (Boohene, Sheridan and Kotey, 2008:242).

Most developing countries, with South Africa being a reference, are relatively high on power and uncertainty avoidance and low on individualism and masculinity. Unlike developed countries such as the USA and the UK, where their culture is highly in support of entrepreneurship, South Africa's culture does not support the development of entrepreneurship. This is due to the negative attitudes/convictions towards self-confidence, entrepreneurship and failure in general. It is also worth mentioning at this point that there are certain communities in South Africa that view business ownership as suspect and entrepreneurship as associated with dishonesty, poor business ethics and serious acts of indiscipline. In addition, the notion of enterprise creation could be contradicted by the "Ubuntu culture" (a community sharing concept emphasising the common good), which threatens wealth creation and thus discourages managers of

SME from growing their businesses (Rwigema & Venter, 2004:21). Besides, Boohene, Sheridan and Kotey (2008:240) also affirm that managers belonging to a particular culture might achieve more than other managers belonging to a different culture because of the differences in the values of its people.

3.3.5 The role of manager's values and expectations

A person's expectations may vary considerably from one situation to another. Everyone expects the same action might elicit from different reactions in different situations. Individuals naturally discriminate between situations expecting different opportunities, rewards, and constraints in different settings. Boohene, Sheridan and Kotey (2008:241) contend that a primary determinant of our actions and emotions is our expectations about the future. More recently, Boohene, Kotey, and Folker (2005) concluded that the personal values of managers, their skills, the strategies they adopt in operating their businesses and the performance outcomes of their businesses are empirically related. Nevertheless, strategy formulation is rarely so objective an analytical process that the personal values and aspirations of managers are excluded. As such, there is a natural human tendency for managers to draw upon their own personal values, background experiences, preferences, and ambitions when choosing among alternative strategies and when interpreting the strategic plan.

Expectation according to Cervone and Pervin (2007) can be defined as an expectant mental attitude, i.e. the standards for evaluating future good or profit. According to him, a motive could be seen as an expectation. In that context, two expectations are found in the literature relating to personal values of managers: need for accomplishment and high internal locus of control.

❖ Need for Accomplishment

According to Boohene *et al.* (2008), one of the earliest identified values of an entrepreneur was that of the need for accomplishment first described by McClelland in 1953 as *n-Ach*. The need for accomplishment is closely linked to the entrepreneurial motivation to excel. Darroch and Clover (2005:327) assert that managers of firms

(SMEs) are self-starters who appear driven internally by a strong desire to compete against self-imposed standards and to pursue and attain challenging goals. The 'need for accomplishment' is identified as the fundamental driving trait in the personality of successful entrepreneurs according to level five of Maslow's hierarchy of needs. According to McClelland theory of need (1969), some cultures achieve more than others because of the values of their people. The development of capitalism and entrepreneurial drive are largely due to the cultural values which are dominant in certain countries. Protestant values for example encourage the need for accomplishment since a person's success in life is judged by his or her accomplishments.

However, managers who are entrepreneurial have a great need for achievement compared to other managers who are not entrepreneurial inclined. Entrepreneurs strive to achieve goals and measure success in terms of what they have accomplished. Entrepreneurs learn to set challenging but achievable goals for themselves and for their businesses and, when they achieve them, to set new goals. High achievers are moderate risk-takers with a drive to succeed and excel in what they do. Their preference is to take on a challenge and to accept the responsibility to other, or to chance (Darroch & Clover, 2005:329).

❖ **Locus of control**

Individuals like to be in charge of their own lives, and one of the ways of ensuring this is by being in control of one's own business. Entrepreneurs are typically those individuals who like to be in control and have good delegating skills. They have a very high degree of autonomy and do not appreciate at any given time to be told 'what to' or 'what not to' do by someone else with respect to the way they run their businesses (Hisrich, Peters & Shepherd, 2005:65).

One of the basic characteristics consistently found in successful entrepreneurs is the tendency for the entrepreneur to have complete control over the business. Locus of control refers to the degree to which an entrepreneur perceives the outcome of an event to be either within or beyond his or her personal control. High degree of internal locus of

control increases the likelihood that a potential entrepreneur will take action to carry out his/her plans. Managers who have a greater internal locus of control, believe in their ability to control fundamental variables (such as customer demand, price, distribution, financial resources, use of technology and access to raw materials) that ultimately determine failure or success of the business (Gurol & Atsan, 2006:28). For the purpose of this research, the other values of SME managers to be tested are listed in section 1.6 of chapter one.

3.3.6 Values and Performance

Research shows a link between personal values and firm performance. Values have been used to characterise societies and individuals and to explain motivational bases of attitudes and behaviour in organisations. Personal values have been recognised as the most influential leader characteristics as Ling, Zhao and Baron (2007) reported that firms headed by founder-CEOs high in novelty value had average sales growth of 39%, which is 25% larger than firms headed by those low in novelty. Altogether, this evidence supports the notion that firm performance can be viewed as “reflections of the values and cognitive bases of powerful actors in the organisation”. Therefore, values are a key to understanding the relationship between entrepreneurs’ personal characteristics and firm performance.

Shariff and Peou (2008:56) carried out a study on the relationship between entrepreneurial values, firm financing and the management and growth performance of SMEs in Cambodia. The authors pointed out that small business owner-manager having entrepreneurial values such as creativity, integrity, achievement, among others, were more likely to have superior performance in managing organisations than owner-managers without these values. In addition, the experiences and competence levels of SME owners are also an important factor influencing SMEs' growth performance.

Shariff and Peou (2008:58) further state that the working style of owner-managers (particularly the speed with which they can produce high quality work that meet the needs and requirements of customers and suppliers) was another important

determinant of SMEs' growth performance. Owners/managers also need to persevere when appropriate and to think and act creatively (these are additional prerequisite values that contribute to the growth performance of SMEs).

Zainol and Ayadurai (2011:62) maintain that personal values have significant impacts on the performance of a firm. The authors affirm that people adapt their values to their life circumstances as they upgrade the importance they attribute to values they can readily attain. Thus, policy makers, most especially managers of SME, must strengthen efforts on developing their personal qualities as it can be used as assessing criteria by financial institutions for granting financial assistance

In contrast, Mazzarol, Reboud and Soutar (2009:331) however, found an insignificant relationship between personal values of SME managers and firm performance. The authors state that values of managers such as leisure, religion, prestige, among others, have a negative impact on firm performance. Shiu (2006) in support, states that managers should commit themselves fully in their business and equip themselves with the necessary managerial skills in order to achieve desired business performance. Despite a few dissenting studies such as Shiu (2006) and Mazzarol *et al.* (2009), empirical literature tends to support a positive relationship between personal values and firm performance. For the fact that the values of SME managers guide their decision-making and actions which may in turn determine the firm performance, it is therefore hypothesised that there is a significant positive relationship between personal values of SME managers and firm performance.

3.3.7 Values and Management Skills

According to Higgs (2006) values and management skills are often credited with being the central theme within the organisational behaviour domain, particularly with regards to changing organisations and seen as the principal power or determining factor in organisational occurrences. In this respect, Baron (2007) states that personal values grounded in the psychological discipline have a role in all works of human life and thinking. According to Baron (2007), although management skills can be acquired, (i.e.

Management skills can be learned informally through life experiences while others are learned theoretically and developed through formal training) personal values have a very strong influence on the management skills.

Haber and Reichel (2007:121) point out that value will affect not only the perceptions of appropriate ends (people), but also, the perceptions of the appropriate means to those ends. From the concept and development of business strategies, structures and processes, to the use of particular management skill and the evaluation of subordinate performance, value systems will be influential. The authors conclude that entrepreneurs cannot adopt a management strategy that is contrary to their value orientation.

De Dreu and Nauta (2009:1943) state that personal values of entrepreneurs serve as antecedent to management skills as values guide decision-making and motivate behaviour that is congruent with the strategies of the firm. Consistent with this view, Gorgievski, Ascalon and Stephan (2011:213) state that values provide a powerful explanation of human behaviour because they serve as standards for evaluating and assessing conduct and form the basis of individual perception. Thus, this has led researchers to postulate that business owners' success criteria reflect their value orientations.

Even though empirical literature on the relationship between personal values and management skills of managers on firm performance are scarce, results on the few studies remain inconclusive. Shariff and Peou (2008:56) carried out a study on the relationship between entrepreneurial values, management skills and growth performance of SMEs in Cambodia. The authors found a significant positive relationship between values and management skills of entrepreneurs and firm performance.

Chong, Kuppusamy and Jusoh (2005) also carried out a study on entrepreneurial careers among business graduates in Malaysia. The authors found that entrepreneurs with high managerial skills are bestowed with high personal values such as creativity, integrity, achievement, locus of control, among others. In support of these empirical

studies, Zainol and Ayadurai (2011:62) advanced that personal values have significant impact on the management skills of entrepreneurs which in turn, affect the performance of a firm. The authors affirm that people adapt their values to their life circumstances as they upgrade the importance they attribute to values they can readily attain.

In contrast, Mazzarol, *et al.* (2009) and Chan (2009) did not find a significant relation between values and management skills. Despite a few dissenting studies, empirical literature tends to support a positive relationship between managerial skills and personal values. As a result, it is hypothesised that there is a significant positive relationship between management skills and personal values of SME managers and firm performance.

3.4 MOTIVATION

3.4.1 Definition of Motivation

Different psychologists define what they mean by motivation somewhat differently. Ferguson and Bargh, (2004) define motivation as the internal state of the organism that lead to the instigation, persistence, energy, and direction of behaviour. Thus the authors' definition includes the effects of drives such as hunger, emotional states such as anxiety and anger, and many other variations of inner state. According to Ferguson, the main qualities of behaviour that motivation is defined to influence include its initiation, persistence, vigour, and direction.

Custers and Aarts (2005) defined motivation as a concept that accounts for factors within the individual which arouse, maintain, and channel behaviour toward a goal. This definition specifies an additional critical element of motivation that Ferguson's definition did not take into account- that motivation directs behaviour toward specific goals. That is, motivated behaviour is also goal directed behaviour.

Ferguson (2007) refined his definition of motivation and defines it as the internal state of the individual that lead to the instigation, persistence, energy, and direction of behaviour

towards a goal. In this definition, Ferguson takes into account that motivation is a drive and directs individuals behaviour towards definite goals.

Consistent with Ferguson (2007) definition of motivation, Silber and Foshay (2009) define motivation as the process that initiates and maintains goal-directed performance. It energises our thinking, fuels our enthusiasm and colours our positive and negative emotional reactions to work and life. Motivation generates the mental effort that drives us to apply our knowledge and skills. Without motivation, even the most capable person will refuse to work hard. Motivation prevents or nudges us to convert intention into action and start doing something new or to restart something we've done before. It also controls our decisions to persist at a specific work goal in the face of distractions and the press of other priorities. Finally, motivation leads us to invest more or less cognitive effort to enhance both the quality and quantity of our work performance. Thus, motivational performance gaps exist whenever people circumvent starting something new, resist doing something conversant, stop doing something important and switch their attention to a less valued task, or refuse to "work smart" on a new challenge and instead use old, conversant but inadequate solutions to solve a new problem.

However, Clark (2003:21) points out that motivation does not directly influence performance but instead, motivation leads us to use our knowledge, skills and values and apply them effectively to every task. Thus, it is the force that initiates, energises, starts and continues the application of our experience and expertise. Successful performance always involves the cooperation of motivation and knowledge in supportive work environments. Without adequate knowledge, values and skills, motivation alone does not increase valuable performance. However, motivational tools can be "reinforcement" "incentive", "drivers" or "inducements". This research study looks at motivations from the "drivers" point of view. That is, the factors (pull/opportunity entrepreneurs or push/necessity entrepreneurs motivation) that motivates individuals into entrepreneurship.

3.4.2 Necessity entrepreneurs (push motivation) versus Opportunity entrepreneurs (pull motivation)

Most previous empirical research shows that it is of vital importance to differentiate between opportunity and necessity entrepreneurs both in theory and practice. Firstly, Wagner (2005) and Block and Wagner (2007) state that necessity and opportunity entrepreneurs differ in terms of socio-economic characteristics, such as the level of education, age and the level of relevant experience. Block and Wagner find that education and general labour market experience positively affect the earnings of opportunity entrepreneurs but does not affect those of necessity entrepreneurs. In addition, specific vocational training boosts the earnings of necessity entrepreneurs but not those of opportunity entrepreneurs.

Secondly, the start-up motivation may have consequences for the way the business is managed and for business performance. This point is supported by Hessel *et al.* (2008) as the authors state that entrepreneurs who start a business because they want to make more money than their wage-employment, behave differently from those who create a new business in order to meet up with their household responsibilities.

Thirdly, Wagner (2005) and Block and Wagner (2007) support the fact that the determinants of necessity and opportunity entrepreneurship differ. This has important consequences for policy making as measures to stimulate necessity-driven entrepreneurship do not necessarily benefit opportunity-driven entrepreneurship and vice-versa.

In the light of push motivation, unemployed persons or persons with low prospects for wage-employment may become self-employed in order to earn a living. According to Giacomini *et al.* (2007), the effect of unemployment, lowering the opportunity costs of self-employment, thereby driving individuals to start their own business is often referred to as the push effect of unemployment. In addition, there are other factors that may push individuals into the direction of creating a new business such as push motivations

for autonomy (rather than being bossed around), and family pressure, for example in the case of business transfer to a new generation.

In addition, Sarasvathy (2004) argues that there are different types of necessity entrepreneurs, including persons who are fired from their jobs, persons who decide themselves to leave wage-employment because their boss does not want to commercialise their ideas or inventions, and persons who are “unreliable”, e.g., due to lack of educational and language skills (immigrant entrepreneurs) or criminal backgrounds. In the same light, other studies such as Cromie and Hayes (1991) and Hisrich and Brush (1986) show evidence of job dissatisfaction as a reason for new business creation.

As with push motivations, pull motivations may come in different forms. Giacomini *et al.* (2007) differentiate between three pull motivations: market opportunity, social status and profit. Carter, Gartner, Shaver and Gatewood (2003) distinguish between six categories of motivation: innovation, independence, recognition, roles, financial success and self-realisation. Other studies such as Birley and Westhead (1994) and Scheinberg and MacMillan (1988) provide evidence of a multitude of pull motivations, including the need for approval, independence, personal development, improved welfare and wealth, and following role models.

Nevertheless, the role played by each of the different motives in the explanation of entrepreneurship, it has been found that the wish to be independent is the dominant factor explaining new business creation. Hence, individuals are more likely to be pulled than pushed into entrepreneurship. This however, does not mean that other factors did not play a role in this occupational decision. It often happens that individuals are driven by a combination of factors. According to Block and Sandner (2009), starting a business is a complex process which involves a variety of motivations and stimuli. This implies that, apart from the pull and push motivated individuals, there may be potential entrepreneurs who are motivated by a combination of pull and push factors. Other studies such as Giacomini *et al.* (2007) and Carter *et al.* (2003) also support the fact that

pull and push factors are simultaneously present when a person decides to start up a new business.

3.4.3 Theory of Motivation

3.4.3.1 Goal Setting Theory

The goal setting theory of motivation as proposed by Locke and Latham (1990) emphasises the important relationship between goals and performance of a firm. According to this theory, goals have a pervasive influence on entrepreneurs' behaviour and performance in organisations and management practice. According to DuBrin (2012) the goal setting theory is the most appropriate theory that best explains the motivation of entrepreneurs. The author states that managers widely accept goal setting as a means to improve and sustain organisational performance. In addition, DuBrin states that the major finding of goal setting theory is that individuals who are motivated and provided with specific, difficult but attainable goals, perform better than those given easy, nonspecific, or no goals at all. At the same time, however, the individuals must have sufficient ability (the necessary education and business experience), accept the goals, and receive feedback related to performance.

According to Locke and Latham (1990), the goal setting theory has two cognitive determinants of behaviour: *values*, and *intentions* (goals). A goal is defined as a cognitive representation of a desired state. Greenberg (2011) postulates that the form in which one experiences one's value judgments is emotional. That is, one's values create a desire to do things consistent with them. Goals also affect behaviour (job performance) through other mechanisms. To Locke and Latham, goals direct attention and action. Furthermore, challenging goals mobilise energy, lead to higher effort, and increase persistent effort. Goals motivate people to develop strategies that will enable them to perform at the required goal levels and accomplishing the goal can lead to satisfaction and further motivation, or frustration and lower motivation if the goal is not accomplished.

According to the goal setting theory, Park (2005) asserts that entrepreneurial performance is frequently described as a joint function of ability (skills; i.e. including level of education and business experience) and motivation (the desire to pursue opportunities and create a new business), and one of the primary tasks faced by entrepreneurs is being motivated to engage in the search for new opportunities. Park states that identifying and selecting the right opportunities are the most important abilities of successful entrepreneurs. In fact, motivation has been described as “one of the most pivotal concerns of modern entrepreneurship research”.

Shane, Locke and Collins (2003:259) in accordance with the goal setting theory, adopt a definition of motivation as the process by which “opportunities to create future goods and services are discovered, evaluated, and exploited”. To the authors, this definition shows that entrepreneurship is a creative process. In addition, entrepreneurial process occurs because people act to pursue opportunities. People differ in their willingness and abilities to act on these opportunities because they are different from each other. The authors point out that entrepreneurship involves human agency and they argue that the variation among people in their willingness and ability to act has important effects on the entrepreneurial process. It is for this reason that Locke and Latham (1990) emphasises the fact that if some people perform better than other despite being equal in ability and knowledge, then the sole cause must be motivation.

3.4.4 Motivation and Performance

It is often said that a person cannot win a game that they do not play. In the context of entrepreneurship, this statement suggests that success depends on people's willingness to become entrepreneurs. Moreover, because the pursuit of entrepreneurial opportunity is an evolutionary process in which people select out at many steps along the way, decisions made after the discovery of opportunities to positively evaluate opportunities, to pursue resources, and to design the mechanisms of exploitation also depend on the willingness of people to “play” the game. As stated by the goal setting theory, if some people perform better than others despite being equal in ability and knowledge, then the sole cause must be motivational.

Block and Sandner (2009) argued that entrepreneurs motivated by push factors tend to possess lower endowments of relevant managerial skills which they need to manage a successful growing business. For the fact that opportunity entrepreneurs start voluntarily, (most often in an area where they have appropriate managerial skills couple with their high level of education), they may be better prepared for their entry into self-employment and thus, have a higher chances of survival. In addition, opportunity entrepreneurs tend to be more motivated by non-monetary rewards than necessity entrepreneurs. After start-up, if opportunity entrepreneurs are dissatisfied with the fundamental benefits, they probably decide more rapidly to close down the business and look for new opportunities than necessity entrepreneurs. Consequently, opportunity entrepreneurs tend to have a higher opportunity cost than necessity entrepreneurs.

At the macro-economic level, Acs (2006) express that there is a positive relationship between income level and the share of opportunity versus necessity entrepreneurs in a country. Acs and Varga (2005) point out that whereas opportunity entrepreneurship has a positive impact with respect to technological change, necessity entrepreneurship does not have any effect. Thus, necessity entrepreneurs are performance disadvantage at the macro-economic level.

At the micro economic level, Block and Wagner (2007) find that pull entrepreneurs are more successful, both in terms of business success (sales per employee) and personal income. The results are similar to that of Vivarelli (2004) when controlled for other relevant factors that may influence income. Furthermore, opportunities exploited by opportunity entrepreneurs on average are more profitable than those exploited by necessity entrepreneurs. That is, the earnings of opportunity entrepreneurs are fifteen percent (15%) higher than those of necessity entrepreneurs. The lower earnings of necessity entrepreneurs are also confirmed by Block and Sandner (2009). Vivarelli (2004) also finds that the performance of firms started up by individuals based on a convinced choice (i.e. positive entrepreneurial thinking) is higher than for start-ups driven by a defensive reason (i.e. escape from unemployment).

According to Vivarelli (2004:43), if the underlying motivation to start a new business is explicitly linked to innovative projects, then a better post-entry performance may be expected than if a new firm is started on the basis of a purely “defensive” motivation, such as the fear of becoming unemployed. Wong, Ho and Autio (2005) did not find a significant relationship between opportunity and necessity entrepreneurship and economic performance.

Block and Sandner (2009) investigated what actually is the impact of opportunity or necessity motivation on self-employment in Germany. The authors concluded that, the mere fact whether an entrepreneur started out of necessity or opportunity does not have a significant effect on self-employment duration. Despite a few dissenting studies such as Block and Sandner (2009) and Wong *et al.* (2005), empirical literature tends to support a positive relationship between entrepreneurs’ motivations and firm performance. It is therefore hypothesised that there is a significant positive relationship between motivations of SME managers and firm performance.

3.4.5 Motivation and Values

The study of entrepreneurs has often led to conflicting views about what motivates an individual to engage in entrepreneurship. According to Newstrom (2011), motivation is one of the strategies entrepreneurs use to enhance effective performance in organisations as motivation is a basic psychological process. Motivation can be intrinsic and extrinsic. Extrinsic motivation concerns behaviour influenced by obtaining external rewards. Praise or positive feedback, money, and the absence of punishment are examples of extrinsic or external rewards. Intrinsic motivation is the motivation to do something simply for the pleasure of performing that particular activity (Hagedoorn and Van Yperen, 2003). Examples of intrinsic motivation factors are interesting work, opportunity recognition, social recognition, growth, and achievement. All these (recognition, growth, interesting work among others) according to Cervone and Pervin (2007) are high values of successful entrepreneurs. Several studies have found that there is a significant positive relationship between motivation and entrepreneurs values.

Shane *et al.* (2003) suggest that psychological factors influence the likelihood that people will exploit new business opportunities. These factors may be categorised into three general areas: motivational, core self-evaluation, and cognitions. Motivational factors include the desire to pursue new opportunities, need for achievement, risk taking propensity and desire for independence. Core self-evaluation factors include locus of control and self-efficacy. Cognitions are values and attitudes that influence how a person thinks and makes decisions. All these are the perquisites that tend to be associated with entrepreneurship.

According to Hisrich, Peters & Shepherd (2005:67), entrepreneurs' personal values and motivation form the basis for a positive-attitude and approach. A positive attitude and approach are closely related to human relations, and are important qualities that contribute to leadership and successful entrepreneurship. The authors assert that entrepreneurs with positive attitude towards their business, believe in their business despite the setbacks, and are prepared to hold-on in their efforts to ensure success.

Contrary to this view, Jodyanne (2009:366) stress the fact that negative thinking may also be an effective coping strategy that enables some entrepreneurs to motivate themselves to attain higher level of performance. In addition, motivation and values of entrepreneurs are directly related to the level of self-confidence they have with respect to their business. Managers who have high values and motivation for achievement in their business will do their very best to ensure that people will feel positive towards them and will enjoy doing business with them. The authors further reiterate that no business partner will like to do business with individuals who have negative attitudes towards their own business. As such, managers must first of all believe in themselves and their business before other can follow.

Delmar, Davidsson and Gartner (2003:190) state that entrepreneurial values such as growth and the desire to grow must be embedded in the mind-set of the entrepreneur/manager starting or running the business. The lack of an entrepreneurial

mind-set or desire to grow might subconsciously be the main barrier to growth experienced by most business owners/managers.

Other studies that show a significant positive relationship between values and motivation of entrepreneurs include Shariff and Peou (2008) and Zainol and Ayadurai (2011). Mazzarol, Reboud and Soutar (2009) however, found an insignificant relationship between personal values of entrepreneurs and motivation. However, empirical literature tends to support a positive relationship between personal values and motivation of entrepreneurs. For the fact that the values of SME entrepreneurs guide their decision-making and actions which is in turn backed by their motivation, it is therefore hypothesised that there is a significant positive relationship between personal values and motivation of entrepreneurs and firm performance.

3.4.6 Motivation and Management skills

According to Cassar (2009:103), McClelland is among the most known scholars who have analysed the concept of entrepreneurship from a psychological point of view. McClelland emphasises the importance of the motivational aspect of the entrepreneur. In his studies he shows that entrepreneurial behaviour is driven by the need for personal achievement leading to a clear proclivity for becoming an entrepreneur. McClelland also suggests that, regardless of differences in economic development, entrepreneurs with high managerial skills and motivation will always find ways to maximise economic achievement. He identifies 10 personal entrepreneurial competencies for detecting and strengthening entrepreneurial potential, which are remarkably consistent from country to country: (1) opportunity seeking and initiative; (2) risk taking; (3) demand for efficiency and quality; (4) persistence; (5) commitment to the work contract; (6) information seeking; (7) goal setting; (8) systematic planning and monitoring; (9) persuasion and networking; and (10) independence and self-confidence.

Ozgen and Minsky (2006) in addition, state that prior experience of entrepreneurs is an important factor in opportunity recognition. Three major dimensions of prior knowledge

are important to the process of opportunity recognition: prior knowledge of markets, prior knowledge of how to serve markets, and prior knowledge of customer problems. This prior knowledge through entrepreneurial motivation ultimately helps entrepreneurs discover innovative ways (opportunity recognition) to satisfy the needs of the customers either through new products, services or processes.

According to Park (2005), management skills are positively correlated to entrepreneurial motivation which is in turn also positively correlated to business performance. Park argues that entrepreneurs with high management skills, in addition to technical skills, are more motivated to carry on risky investment, thus are most successful than entrepreneurs with little managerial skills. He further states that management skills in addition to technical skills, are required to identify the right opportunities in high-tech start-up. He conducted a study of 134 entrepreneurial businesses and observed that the drive to see the business through to fruition and the ability to recognise opportunities correlated highly with profitability and growth of the business.

Ozgen and Minsky (2006) in support of this fact state that managerial competencies act as a source of information in the opportunity recognition process in high-tech domains. They also argue that entrepreneurs must possess the right managerial skills in order to identify the right strategies to adopt as it helps in identifying and evaluating new opportunities for businesses in an e-commerce environment.

However, Baum, Locke and Smith (2001) and Ardichvili, Cardozo and Ray (2003) did not find a significant positive relationship between managerial skills and motivation of entrepreneurs. However, empirical literature tends to support a positive relationship between managerial skills and motivation of entrepreneurs. For the fact that managerial skills of entrepreneurs, backed by a high motivational level help entrepreneurs in identifying and evaluating new opportunities in the market, it is therefore hypothesised that there is a significant positive relationship between managerial skills of entrepreneurs and motivation.

3.5 SMEs PERFORMANCE MEASURE

Investorwords (2011) defines performance as the results of activities of a business or investment over a given period. According to Abdul Halim, Muda and Mohd Amin (2011:185), due to the distinction on the nature of industry and mode of profit, it is difficult to set a general indicator to measure organisational performance. Measurement of performance should be based on different purposes and use different performance indicators. Abdul Halim *et al.* (2011:187) insisted that the measurement of performance depends on the environment, strategies and objectives. That is, to measure organisational performance with a single indicator does not apply to all organisations. In addition, the authors state that performance could be evaluated in both subjective and objective methods. Three types of indicators have been generally adopted in organisational performance studies: growth, profitability and market share expressed by either financial or non-financial indicators. Since financial indicators of performance measurement are even more thin, especially in the changing competitive environment, non-financial performance should be considered in order to fill the gap in case of insufficient information.

Naldi, Nordqvist, Sjoberg and Wiklund (2007) stress that it is essential to recognise the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held businesses. This is consistent with the view of Fatoki (2011) that both financial and non-financial measures should be used to assess business performance.

According to Chong (2008), there are four main approaches that can be used to measure the performance of firms. These are the goal approach, system resource

approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organisation attains its goals while the system resource approach assesses the ability of an organisation obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organisation based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is the most commonly used method due to its simplicity, understandability and is internally focused. Information is easily accessible by the owners-managers for the evaluation process. The goal approach is a better fit for the SMEs where targets are being set internally based on the owners-managers' interests and capability to achieve.

Richard, Devinney, Yip and Johnson (2008) elucidate that the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with the way the business is progressing. The study used both financial and non-financial measures of performance.

3.6 SUMMARY

This chapter focused on the three main predictor (independent) variables (managerial skills, motivations and personal values) of entrepreneurs believed to have a significant influence on firm performance (the dependent variable). The chapter provides the definition of managerial skills, motivations and personal values. From the definitions of managerial skills, it can be deduced that managerial skills are a set of integrated complementary skills possessed by a person which assist the person in executing certain managerial responsibilities. An individual however talented, is unlikely to possess all the managerial skills required for the successful operation of the firm.

However, Wang, *et al.* (2008) state that managerial skills of managers are critical to the success of an enterprise and the general pool of management expertise has a crucial bearing on the economic development of a nation. The chapter also looked at the theories of managerial skills as proposed by Schultz (1961) and extensively developed by Becker (1964) and the Resource-Based View theory proposed by Penrose (1959). The different managerial skills of managers investigated in this study were also discussed.

From the definitions of values, it can be construed that values justify our own and others' attitudes and behaviour as well as standards for our morality. Values also serve as means for comparison of selves with others and are specifically used as criteria to judge and evaluate the actions of ourselves and others. The chapter also looked at theories of values such as Schwartz theory (1992, 2005) and Expectancy-value theory by Rotter (1972). In addition, values and culture, values and self-efficacy and the role of manager's values and expectations were all discussed.

According to Silber and Foshay (2009), motivation is a process that initiates and maintains goal-directed performance. Motivation energises our thinking, fuels our enthusiasm and colours our positive and negative emotional reactions to work and life. From the literature, there are two basic forms of motivations; Pull motivation and Push motivation. The differences between pull and push motivations were discussed as Wagner (2005) and Block and Wagner (2007) support the fact that the determinants of necessity and opportunity entrepreneurship differs. The chapter also looked at the relationship that exists between each of the three predictor variables and firm performance (dependent variable) and the predictor variables themselves (i.e. motivations and performance, values and performance, managerial skills and performance, motivations, personal values and performance, motivations, managerial skills and performance, and personal values, managerial skills and performance). The definition of firm performance and the measures of firm performance concluded this chapter.

The next chapter presents the research methodology for this study.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Research methodology refers to the method by which data is gathered for a research project. It is the blueprint for the collection, measurement, and analysis of data in order to achieve the objectives of a research project (Cooper & Schindler, 2006:660). Research methodology is important in a research work because it specifies the sampling design. Research methodology explicitly defines the target population and the sampling method used. It also provides the motivation for choosing a specific sampling method. Additionally, research methodology also identifies the data collection method used. This could be self-administered questionnaires, postal surveys, or interviews, and the rationale for choosing a particular data collection method. Furthermore, research methodology identifies the methods of data analysis, describes data handling, statistical tests, computer programmes and other technical information, and the rationale for using a particular method. Finally, research methodology identifies significant methodology or implementation problems such as sampling errors, response and non-response errors and the constraints of cost and time (Cooper & Schindler, 2006:663).

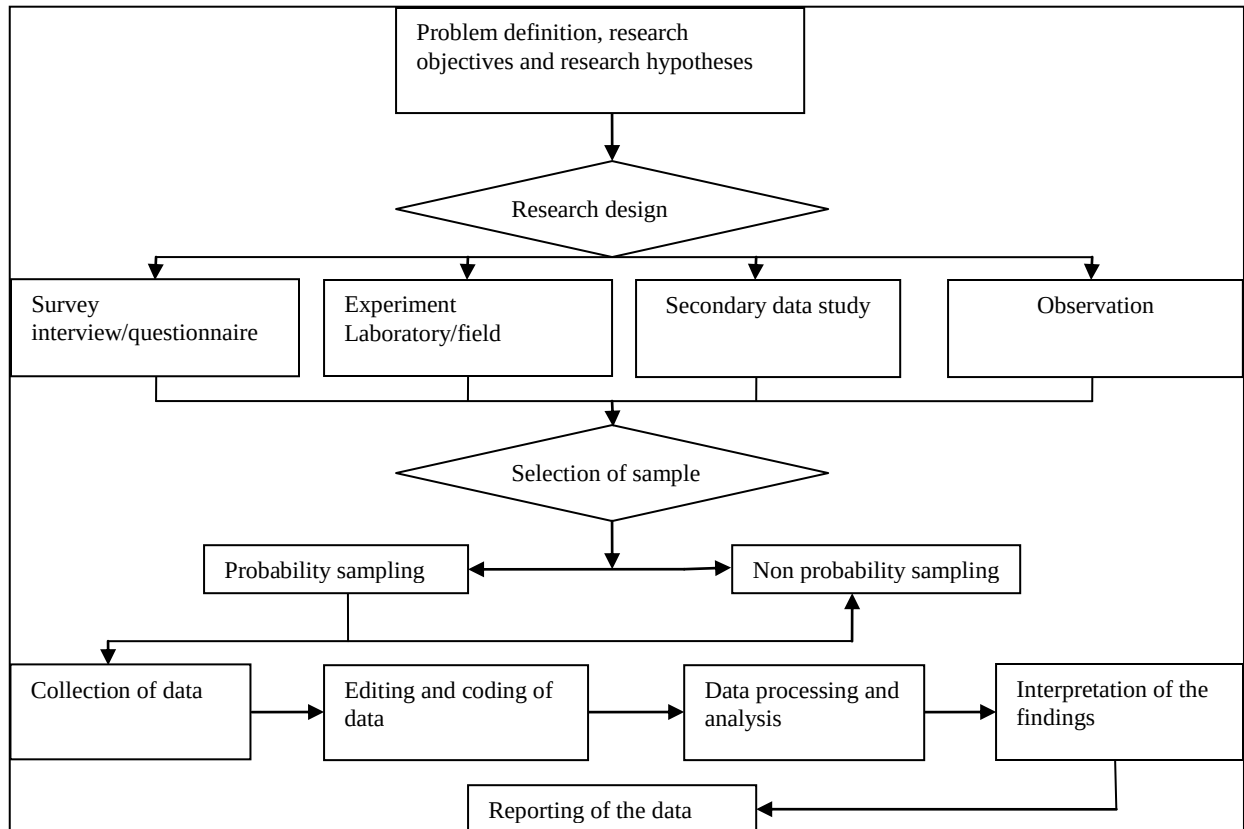
The purpose of this chapter is to present the research methods and techniques applied to obtain the findings presented in the next chapter. Aspects of the research method covered in this chapter include the basic type of research design, a definition of the population, the data collection instrument employed in the research and the administration of the instrument as well as their reliability and validity, the data collection methods used and the statistical techniques applied to analyse the data.

4.2 THE RESEARCH PROCESS

The research process is a sequence of steps in the systematic collection and analysis of data. It involves the application of various methods and techniques in order to create

scientifically obtained knowledge by using objective research methods and procedures. It describes how the research is designed and implemented (Williams, 2007:67). Figure 4.1 depicts the phases of the research process followed in the study.

Figure 4.1 Steps in the research process



Source: Adapted from Zikmund (2003:61) as cited in Fatoki (2011:195).

4.2.1 Step 1: Problem statement, research questions, research objectives and research hypotheses

4.2.1.1 Problem statement

Research problem is the first and most essential step in the research process because without a research problem, then no research takes place as there will be nothing to research on. This step marks the beginning of the research process. A well-defined research problem gives a sense of direction to the researcher to come up with possible

research objectives. The objectives help the researcher to come up with possible solutions (Cant, *et al.*, 2008:50).

Chapter one indicated that despite the substantial contribution of SMEs to the economy of South Africa, their failure rate remains very high. The failure rate according to Brink *et al.* (2003) of SMEs in South Africa is between 70% and 80%. The question most researchers are struggling to answer now is “what is the cause of the high failure rate”? As indicated in chapter one, this research investigates the impact of managerial skills, motivations and personal values of SME managers on firm performance although literature on the impact of managerial skills, motivations and personal values of managers on firm performance remains inconclusive. Thus, the research question for this study was:

“Does managerial skills, motivations and personal values of SME managers’ impact on firm performance”?

4.2.1.2 Research objectives

In order to define the type of information that should be collected and provide a framework for the scope of the study, there is need to specify what it is that is to be researched. This comes in the form of research objectives. Cooper and Schindler (2003:45) define a research objective as the researcher’s vision of a business problem. The objectives of every research define and explain the purpose of the research in measureable terms and define the standards of what the research should accomplish. The objectives of this study were:

- To investigate the impact of SME managers’ personal values on performance;
- To investigate the impact of SME managers’ management skills on performance;
- To investigate the impact of SME managers motivations on firm performance;
- To determine the relationship between managerial skills and motivations of SME managers and performance;
- To determine the relationship between personal values and motivations of SME managers and performance; and

- To determine the relationship between managerial skills and personal values of SME managers and performance.

These objectives were achieved through the following means:

- By reviewing the literature to determine the failure rate and the causes of failure of SMEs in South Africa.
- By reviewing the literature to determine if SME managers' personal values and management skills can impact on performance.
- By reviewing the literature to determine the personal values variable of SME managers that can impact on performance.
- By reviewing the literature to determine the management skills variable of SME managers that can impact on performance.

4.2.1.3 Research hypotheses

Cooper and Schindler (2006:118) state that research hypotheses are possible answers to stated research questions. They define a hypothesis as an unproven statement or proposition about a factor or phenomenon that is of interest to the researcher. A hypothesis is a preposition that is empirically testable. Cooper and Schindler (2006:119) further state that hypotheses are educated guesses about a problem's solution expressed in empirically testable form. And in order to address research objectives, guesses about a problem's solutions are made in the form of hypotheses which can be empirically tested. In order to achieve research objectives, they must first be translated in to hypotheses. In addition, in order to answer research questions, the questions must first be translated into hypotheses (null and alternative). The null hypothesis is denoted as H_0 and is a statement that falsifies the relationship between measured variables. The alternative is denoted as H_a and maintains that there is a relationship between measured variables. The alternative hypothesis can be directional or non-directional. Directional H_a specifies the direction of the relationship (positive or negative). Meanwhile, non-directional H_a does not specify the direction of the relationship (i.e. there is a relationship). The study used the following hypotheses:

- H0:** There is no significant relationship between the personal values of SME managers and firm performance.
- H1:** There is a significant positive relationship between the personal values of SME managers and firm performance.
- H0:** There is no significant relationship between the management skills of SME managers and firm performance.
- H2:** There is a significant positive relationship between the management skills of SME managers and firm performance.
- H0:** There is no significant relationship between the motivations of SME managers and firm performance.
- H3:** There is a significant positive relationship between the motivations of SME managers and firm performance.
- H0:** There is no significant relationship between personal values and motivations of SME managers and performance.
- H4:** There is a significant positive relationship between personal values and motivations of SME managers and performance.
- H0:** There is no significant relationship between managerial skills and motivations of SME managers and performance.
- H5:** There is a significant positive relationship between managerial skills and motivations of SME managers and performance.
- H0:** There is no significant relationship between management skills and personal values of SME managers and performance.
- H6:** There is a significant positive relationship between management skills and personal values of SME managers and performance.

4.2.2 Step 2: Research design

Hair, Wolfinbarger, Bush and Ortinau (2008:32) point out that a research design is an overall plan for the methods to be used to collect and analyse the data of a research study. It provides the glue that holds a research together. Therefore, a research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variables. The research design is used to structure the

research, to show how all of the major parts of the research study such as sampling, data collection and data analysis will try to address the central research question(s). It provides answers to questions such as: what techniques will be used to collect data? What sampling technique will be used? How will time and cost constraint be dealt with?

4.2.2.1 Types of research design

According to Zikmund (2003:68) there are three basic types of research design used in conducting primary research: quantitative, qualitative and a combination of the two. He noted that the choice of research design centres on the nature of the research, the setting, the possible limitations and the underlying paradigm that informs the research project. The nature of the data provided will differ according to the research method followed.

❖ A quantitative research design

Quantitative research generally involves the generation of statistic or primary data from large-scale surveys with the intention of projecting the results to a wider population. It seeks to quantify data by applying a form of statistical analysis. The aim is to generalise the results to a wider setting, based on the results of a representative sample of the population. The research findings are subjected to rigorous mathematical or statistical manipulation to produce broadly representative data that can be extensively applied to the total population, and used as a basis to forecast future events and trends under different conditions (Cant, 2010:73).

Hair *et al.* (2008:78) state that quantitative research places a heavy emphasis on the use of structured questionnaires. These research methods deal with problems that are specific and well defined and the decision maker and researcher have agreed on the precise information needs. This study used the quantitative research design which Ghauri and Gronhaug (2005:204) describe as “*studies whose findings are mainly the product of statistical summary and analysis*”. The main feature of quantitative research is the heavy dependence of the researcher on data analysis to arrive at findings or conclusions.

❖ **Qualitative research design**

Qualitative research is that kind of research that seeks insights through the use of methodless structures and more flexible such as in-depth interviews, focus group interviews and observations. Often, researchers try to explore motivations of behaviour rather than behaviour itself. Hence, it is sometimes referred to as motivational research. Qualitative research approach is often expressed as personal value judgment because it is difficult to make general or collective conclusions. In addition, qualitative research collects data that are generally difficult to quantify. The data are collected from individual cases or very small samples. Qualitatively, data are loosely analysed and analysis techniques produce interpretive and subjective results (Cant, *et al.*, 2008:61).

According to Hair *et al.* (2008:45), qualitative research provides a richness of data due to the unstructured approach of qualitative techniques. It enables researchers to collect in-depth data about respondent's attitudes, beliefs, emotions and perceptions. In this way, data can be collected relatively quickly and cheaply. It also provides preliminary insights into building models and scale measurements about how variables are related and how they can be measured.

There are three types of research that can be used in quantitative research or qualitative research or both, depending on the information required by the research problem. The three types of research are exploratory, descriptive and causal.

❖ **Descriptive research**

Descriptive research is used to describe the research problem in detail. According to Gerber-Nel *et al.* (2005:33), descriptive research answers questions such as who, what, when, where and how? Inherent in descriptive research is the recognition that the researcher already knows or understands the underlying relationships of the research problem. The researcher may have a general understanding of the research problem but conclusive evidence that provides answers to the question should still be collected to determine a course of action. Descriptive research can be conducted in two ways, namely: longitudinal or cross-sectional.

According to Gerber-Nel *et al.* (2005:34), cross-sectional research are those type of research that involve the collection of data from a given population sample elements only once. This type of research is usually performed by means of sample surveys. In sample surveys, a sample is selected to represent a target population and emphasis on the generation of summary statistics, such as arithmetic means and percentages. This study used the cross-sectional approach where data was collected from the respondents only once via the survey method.

Gerber-Nel *et al.* (2005:35) state that longitudinal researches are investigations involving fixed sample of elements (panel) that is measured repeatedly. Longitudinal research can be either true panel (where a fixed sample of respondents' variables are measured repeatedly) or omnibus panel (a fixed samples of respondents are measured repeatedly and their variables change from measurement to measurement).

❖ **Exploratory research**

Gerber-Nel *et al.* (2005:31) describe exploratory research as initial research conducted to clarify and define the nature of the research problem or opportunity by giving ideas or insights as to how the research problem can be addressed. The information required is only loosely defined at this stage, as the process ahead is still flexible and relatively unstructured. Exploratory research can thus be defined as research that is used to gather preliminary data to help clarify the research problem. Exploratory research was used in this study via the review of the literature to explore the gaps. This helped the researcher to define the research questions and to develop the research hypotheses.

❖ **Causal research**

Causality refers to the identification of the cause-effect relationships between variables. According to Cooper and Schindler (2003:45), causal research examines whether one variable causes or determines the value of another variable. For instance if the occurrence of event X increases the probability of the occurrence of event Y, causality thus looks at whether X did cause Y. Thus, causal research reveals a cause-effect

relationship between the dependent and independent variables. A dependent variable is a concept or symbol that is expected to be caused by an independent variable. An independent variable is a concept or symbol over which the researcher has some control. It is hypothesised that the independent variable causes or influences the dependent variable. Researchers can also use causal research to test hypotheses. Causal research through the use of Pearson correlation was one of the research methods used in this study.

4.2.3 Step 3: Selecting the primary research data collection method

This section discusses the various methods of data collection as well as the questionnaire design.

4.2.3.1 Basic primary data collection methods

Gerber-Nel *et al.* (2005:88) identify three primary data collection methods namely: observation, experimentation and survey.

❖ Observation

Cant *et al.* (2008:102) define observation as the process through which primary data is obtained by observers (humans or machines) about the behavioural patterns of people, objects or occurrence without questioning or communicating with them. Observation method of collecting primary data on human behaviour relies on observation by humans or recording devices of relevant facts or consumer behaviour. Observation is an alternative to direct questioning and is done by strategically placed humans or machines.

❖ Experimental research

Cant *et al.* (2008:103) point out that experimental research is based on the concept that one variable (independent variable) is manipulated in a certain way that may have a certain effect on another variable (dependent variable). The researcher manipulates the independent variable and then measures the effect. Keeping all the other factors under

control, it can be assumed that the independent variable has a causal effect on the dependent variable. Experiment setting can be in a laboratory or in the field. This study used the survey as the research method because other methods of data collection such as experiment and observation were not suitable for collecting data to investigate the research problem.

❖ **survey**

Cant *et al.* (2008:90) note that surveys are a quantitative research data collection method which uses questionnaires as its data collection instrument. Data is collected from respondents via mail, telephone or in person. Survey research can be used to identify the characteristics of the target population. The merits of using surveys are that surveys offer quick, inexpensive, efficient and accurate ways of collecting information. Another merit of the survey method is that surveys are useful in describing the characteristics of a larger population. This study used the survey method by way of self-administered questionnaires. The self-administered questionnaires are research questionnaires personally delivered to the respondent by the researcher but completed by the respondents with no researcher involvement. The decision to use self-administered questionnaires was because:

- Self-administered questionnaires ensure anonymity and privacy of the respondents, thereby, encouraging more honest responses;
- Self-administered questionnaires have proven to have a higher response rate than other data collection techniques such as mail surveys; and
- Self-administered questionnaires are less expensive than other data collection methods such as personal interviews where the researcher must be present with respondents at all times (Cant *et al.*, 2008:92).

4.2.3.2 Questionnaire design and content

❖ **Questionnaire**

Questionnaires are widely used in most surveys mainly because of the advantages they give to the researcher. The primary research instrument used in this study was the

questionnaire. According to Hair, *et al.* (2008:170) a questionnaire is a document consisting of a set of questions and scales to gather primary data. Likewise, a questionnaire is a structured sequence of questions designed in a formal way to draw out facts and opinions and which provides a vehicle for recording the data. The question and scale arrangement directly impact the survey process. To collect accurate data, researchers should devise good questions and select the correct type of scale. Most often, the metrix scales should be used. In addition, researchers should be careful to maintain consistency in scales used to minimise confusion among respondents in answering questions. However, the researcher used questionnaires for the research study because of the following reasons:

- Using a questionnaire is more economical in terms of time and money;
- The use of a questionnaire enabled respondents to remain anonymous and honest in their response;
- The use of a questionnaire was based on the result of a pilot study, which revealed that respondents were literate and able to complete the questionnaire without any assistance; and
- Questionnaires facilitate data processing.

Despite all the advantages of a questionnaire, it also has the disadvantage that respondents might ignore it and not complete it at all. There might also be missing values in certain cases.

❖ **Survey questions**

Tustin *et al.* (2005:398) point out that there are two types of survey questions from which to choose: open-ended and close-ended questions.

❖ **Closed-ended questions**

These types of questions require the respondents to choose from a predetermined set of responses and scale points. These formats reduce the amount of thinking and effort required by respondents, and the response process is faster. In quantitative surveys, close-ended questions are used much more often than open-ended questions. They are

easier for respondents to complete and easier for researchers to code. There are three types of closed-ended responses which are dichotomous responses, multiple-choice responses and scaled responses or Likert Scale. A brief discussion of each type follows below.

➤ ***Multiple-choice questions***

They are fixed questions which offer two or more alternative answers to choose from. According to Tustin et al., (2005:398), respondents are asked to give one alternative that correctly expresses their opinion or, in some instances, to indicate all the alternatives that apply. These types of responses are used when information can be classified into reasonably fixed categories, or when the respondent's thoughts are deliberately channelled in a certain direction. Nominal data is generated through multiple choice questions. However, when the choices are numbers, this response structure will produce at least interval and sometimes ratio data. When the choices represent ordered numerical ranges (for example a question on manager age), the multiple choice question generates ordinal data.

➤ ***A dichotomous question***

This is a question that offers two alternative answers to choose from. It is the simplest form of closed-ended responses and allows only two possible responses which are normally opposing each other. Dichotomous responses generate nominal data for example, yes or no. For these responses to be valid, the answer must fall into one of the two categories (Tustin et al., 2005:398).

➤ ***Scale question (Likert scale)***

This is a verbal scale which requires a respondent to indicate a degree of agreement or disagreement. Scaling permits the measurement of the intensity of respondents' answers to multiple-choice responses. Furthermore, many scale-responses incorporate numbers, which may be used directly as codes. The researcher is able to employ far more powerful statistical tools by using some scaled-responses. Ordinal and interval data can be generated from the rating scale (Tustin et al., 2005:400).

❖ Open-ended questions

Open-ended questions allow respondents to respond to the questions in their own words. There is no predetermined list of responses available to aid or limit respondents' answers. A great advantage that open-ended questions have over close-ended questions is that the respondents are not influenced by a predetermined set of alternative responses. However, a very great disadvantage with open-ended questions is the fact that it is more difficult to code for analysis purposes. Perhaps more importantly, these questions require more thinking and effort on the part of the respondents. As a result, the response rate may be very low as respondents often find it boring. Quantitative surveys generally have only a few open-ended questions. Unless the question is very interesting to respondents, open-ended questions are often inadequately answered (Tustin *et al.*, 2005:401). The questionnaire for this study made use of mostly closed-ended questions for the following reasons:

- Closed-ended questions eliminate the development of response bias amongst the respondents;
- Close-ended questions can be used to assess attitudes, beliefs, opinions and perception;
- Responses from closed-ended questions are easy to code and analyse directly from the questionnaires;
- Questions can be administered more quickly; and
- Using closed-ended questions makes the response items standard and comparable.

The questionnaire for this study was divided into five sections (A-E): The first section of the questionnaire (section A) focused on the biographical information of the respondents. The second section (Section B) asked questions on motivations of managers. The third section (Section C) asked questions on managerial skills of managers. The fourth section (Section D) asked questions on personal values of managers. The last section (Section E) asked questions on firm performance. The questionnaire was designed in a way that ensured that responses were reliable.

Reliability and validity are undoubtedly the hallmarks of good measurements and the keys to assessing the trustworthiness of any research study. In order to ensure that the results of the study were credible, the questionnaire was pre-tested:

❖ **Pre-testing the questionnaire**

The final evaluation of the questionnaire was obtained from a pre-test. Pre-testing refers to testing the questionnaire on a small number of the sample of respondents to identify and eliminate or rephrase difficult questions. The purpose is to ensure that the questionnaire meets the researcher's expectations in terms of information that it obtains. Respondents from the pre-test should be drawn from the same population. Pre-testing is essential for the researcher to be satisfied that the questionnaire designed will perform its various functions in the interview situation, and that the data collected will be relevant and accurate (Aaker, Kumar and Day, 2003:118). According to Aaker *et al.*, (2003:120) the following concerns must be pre-tested:

- a) The length: each section of the questionnaire must be timed to ensure that none of them is too long. The length of the questions is also checked to ensure that the questions are not too long;
- b) The flow of the questionnaire: questions must appear in a logical sequence and be part of a coherent flow;
- c) Skip patterns: skip patterns must be clear and well laid out for easy answering of the questionnaire; and
- d) Respondent interest and attention: capturing and maintaining the interest of a respondent throughout the entire questionnaire is a major design challenge.

Pre-testing the research instrument during the survey development stage was done via a pilot study with 20 respondents. The result of the pre-testing led to the test-retest reliability. Further details of reliability and validity test are explained in section 4.2.6.4 of this chapter.

4.2.4 Step 4: Sample design

Cooper and Schindler (2006:434) define sampling as a process of selecting some elements from the population to represent that target population in a survey research. The primary idea of sampling is that by selecting some of the elements in a population, it is possible to draw conclusions about the entire population. The purpose of sampling is to make generalisations about the whole population which are valid and which allow prediction. It allows the researcher to draw conclusions about the entire population as it is possible to observe all relevant events in the population. The main reasons for sampling in this study were: lower cost, greater accuracy of results, greater speed of data collection, and availability of population elements. The next section looks at the different types of sampling design.

4.2.4.1 Types of sampling design

The sampling method applied to select the representative sample for the study is an important part of this research and will be explained in the section below. According to Cant (2010:163), there are two major types of sampling design. These are probability and non-probability sampling. This study made use of the probability sampling method.

❖ Probability sampling

Probability sampling involves selection methods in which all the elements of a sample are chosen through a random process. The researcher chose the probability sampling method because with probability sampling, each of the elements had a known, non-zero chance of being included in the sample. Also, probability sampling allows the researcher to make inferences from information about a random sample to the population from which it was drawn. This implies findings derived from a sample can be generalised to the entire population. This method also reduces the chances of getting a non-representative sample. Thus, permit precise estimation of the likelihood that a sample differs from the population by a given amount. As such, sampling was not done at the preference of the researcher, as it would have been the case if the non-probability sampling method was used (Cooper & Schindler, 2003:192). In addition, Cooper and

Schindler identify four major types of probability sampling. These are simple random sampling, systematic sampling, stratified sampling, and cluster sampling.

The researcher used simple random sampling to select the 300 SMEs from the sample frame. Williams (2007) defines simple random sampling as a probability sampling in which each element in the population has a known and equal probability of selection. Furthermore, each possible sample of a given size (n) has a known and equal probability of being the sample actually selected. This simply implies that every element is selected independently of every other element and the sample is drawn by a random procedure from a sampling frame. The researcher applied the simple random sampling technique for the study to ensure that each element of the population had an equal chance of being selected. As a result, bias was eliminated.

❖ **Non-probability sampling**

With non-probability sampling, the probability of selection of the elements is not known and for this, the researcher cannot be sure that the sample is representative of the population. One great disadvantage of the non-probability sampling method is that there is a high possibility that human judgement would affect the selection process, making some elements of the population more likely to be selected than others. This kind of bias was eliminated via the use of probability sampling (Cooper & Schindler, 2003:193). The next section examines the sample size.

4.2.4.2 The population

Cooper and Schindler (2003:321) describe the term “survey population” as the list of population elements from which the sample will be drawn. Though in practice, it is difficult to find complete lists or records of all of the elements in the survey population, the survey population for this study was obtained from the Nelson Mandela Bay Chamber of Commerce and the telephone directory. Double counting was avoided by checking the names of the firm on both the list from the Chamber of Commerce and the telephone directory. This results in a sample drawn from the lists which do not

necessarily contain all of the elements. Both lists revealed that there are 913 registered SMEs in both towns which adhere to the definition of a SME as specified in chapter 2.

❖ **Sample size**

Tustin *et al.* (2005:338) define a sample as a sub-group of the population that is selected to participate in the research. It should be noted that the correct sample size in a study is dependent on the nature of the population and the purpose of the study. The sample size usually depends on the population to be sampled, although there are no general rules. Generally, sample sizes larger than 30 and less than 500 are the most appropriate for most research. Nonetheless, in multivariate study, the sample size ought to be several times as large as the number of variables in the study in order to accomplish good results. Nevertheless, the determination of the sample size is usually a balance between the margin of error, the confidence level, the population and the response distribution. The sample size for the study was 271 SMEs as calculated using the Raosoft Sample Size Calculator. However, 300 questionnaires were distributed because of the limitations associated with self-administered data collection method such as non-response.

❖ **The margin of error**

The margin of error is the amount of error which can be tolerated and is selected by the researcher depending on the precision needed to make population estimates for a given sample. The margin of error ranges from 3% to 7% in business research, with 5% margin of error being the most appropriate. 5% margin of error was used for this research in calculating the sample size for the study (Cant, 2010).

❖ **Confidence level**

The confidence level is the amount of uncertainty that the researcher can accept. It is the estimated probability that a population estimate lies within a given margin of error. The confidence interval in business research varies from 90% to 100% with 95% being the most commonly accepted. The higher the confidence level, the larger the sample size. 95% confidence level was used for this study.

❖ **Response distribution**

The response distribution answers the question, “for each question in the questionnaire, what does the researcher expect the results to be”. If the sample response is skewed highly one way or the other, the population is probably skewed too. Using the Raosoft electronic calculator, a response distribution of 50% is usually used for the fact that it gives the largest sample size (Raosoft, 2011). Using the Raosoft sample size calculator at 5% margin of error and 95% confidence level, the minimum recommended sample size for the study was 271. However, 300 questionnaires were distributed because of the limitations associated with self-administered data collection method such as non-response.

4.2.4.3 The survey area

The study covered all the SMEs in Port Elizabeth and Port Alfred adhering to the definition of a SME as specified in chapter 2. The Eastern Cape Socio-Economic Consultative Council (ECSECC) (2005) affirms that Nelson Mandela Metropolis which comprises of Port Elizabeth and Port Alfred, dominate in terms of businesses in the Eastern Cape Province. SMEs in these towns provide approximately 40% of formal employment in the province.

4.2.4.4 The study unit

The study covered SMEs in the different sectors in the Nelson Mandela Metropolitan area (Port Elizabeth and Port Alfred) in the Eastern Cape Province of South Africa. The towns are situated on the Indian Ocean coast and have one of the largest ports in the country. These locations were chosen for their diverse and rich business activities. Port Elizabeth is the largest industrial centre in the province while Port Alfred is the third after East London (ECSECC, 2005). The Researcher also chose this region as a study area because of its proximity to the university and also the fact that it has a relatively large number of firms from observation.

4.2.5 Step 5: Data collection

This section defines the actual gathering of data and the treatment of missing values as well as coding. Data collection was done by three trained field workers who issued out the questionnaires to the respondents to follow-up on the completion of the questionnaires. The researcher and the field workers made several repeated calls to respondents to ensure that the questionnaires were completely filled. Some of the respondents started filling the questionnaire on the spot and asked the field workers to come back after an hour and collect the questionnaire. A total of 300 questionnaires were sent to respondents.

4.2.5.1 Missing values

Proper handling of missing values is important in all analyses and is very critical in some, such as time series analysis. Missing values may represent or is a product of an unknown value. Missing values occur in surveys as a result of the fact that the respondents did not provide answer(s) to some of the research question(s) in the questionnaire. According to Cant *et al.* (2008:202), the final issue to be revisited as part of data cleaning process is missing values. Treatment of missing values in a research poses problems, particularly if the proportion is more than 10%. It is therefore very important for the researcher to manage missing values professionally. Failure in handling missing values properly may lead to inaccurate interpretation of the data. As a result of improper handling of missing values, the result obtained by the researcher will differ from those where the missing values are present. Cant *et al.* (2008:203) further state that there are three options when dealing with missing values. The options are as follows:

❖ Case wise deletion

The first option is to use the casewise deletion approach which excludes subjects that have missing values on the variable under analysis. Analysis is done only on the available data. Using casewise deletion requires that analysts discard any cases with any missing responses for any of the variable measured in the study. This is an extreme

option which may result in small sample sizes. Deleting large amount of data is undesirable because data collection is costly and time consuming. Furthermore, respondents could differ systematically from respondents with complete responses. In this respect, casewise deletion could introduce bias (Cant *et al.* (2008:205).

❖ **Pairwise deletion**

The second option is to use pairwise deletion which requires data analysts to use all the cases with complete responses for a specific calculation. This is a less drastic option. Pairwise deletion only removes the specific missing values from the analysis. Some respondents for example, may not have provided complete response to an expenditure question, but may have provided complete responses to all the other questions in the survey. These respondents' data will be included in all calculations except for those involving expenditure variables. This approach works very well when the overall sample size is very large, there are relatively few missing responses, the variables are not related, and where there is no reason to believe that missing responses follow a systematic pattern across questions (Cant *et al.* (2008:207).

❖ **The rule of thumb**

The third and last rule is the rule of thumb. This rule is used to determine the rejection of individual questionnaires with a large proportion of missing responses. Research firms that often use rule of thumb are often uncomfortable using the pairwise deletion. They argue that a high proportion of missing responses may be attributed to a sloppy field work, where the respondent did not understand key questions, or a hurried respondent who did not adequately consider his or her responses (Cant *et al.*, 2008:209). In the case of this study, imputation was done by way of replacing missing values. This ensured that the sample size was not reduced. Imputation was done by way of mean substitution. The missing values were replaced with the mean of the variable.

4.2.5.2 Coding

Coding is defined as the process of assigning a code or symbol, preferably a number to each possible answer to a particular question. The purpose of coding is to transform

respondents' answers to survey questions into codes and symbols that can be easily entered and read in a statistical analysis software package. When coding, it is important that the researcher makes sure that categories within a single variable are approximate, exhaustive, mutually exclusive and derived from one classification principle (Cant *et al.*, 2008:190). Coding is therefore the assignment of responses to categories, and involves the identification of each response with the number associated with that category. For instance, the age characteristics of respondents can be coded as follows:

Age	Less than 20	21-30	31-40	41-50	51-60	60 and above
Code	1	2	3	4	5	6

Coding involves two approaches which are pre-coding and post coding. Pre-coding is appropriate with the dichotomous and multiple choice questions, which have only limited selection responses. The nature of these question types allows the researcher to pre-determine the way in which the numbers are to be assigned to different responses. Post-coding refers to the final coding. This was done during data preparation to establish a **codebook** describing each variable in the dataset.

4.2.6 Step 6: Data analysis

The principal objective of this section is to outline how the data collected was analysed by the researcher. Data analysis usually involves the reduction of accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. It also includes the interpretation of the research findings in the light of the research questions, and determines if the results are consistent with the research hypotheses and theories. Data analysis is a process of gathering, modelling and transforming data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, indifferent business, science, and social domains (Cooper & Schindler, 2003:87).

Gerber-Nel *et al.* (2005:204) state that the purpose of analytic methods is to convert data into information needed to make decisions. The choice of the methods of statistical analysis depends on:

- 1) The type of questions to be answered,
- 2) The number of variables, and
- 3) The scale of measurement.

The type of question the researcher is attempting to answer is a consideration in the choice of the statistical technique. Based on this factor, the researcher may be concerned about the central tendency of the variable or distribution of that variable. The number of variables is also considered to determine whether the statistical techniques applied should be the univariate data analysis, bivariate data analysis or multivariate data analysis. The scale of measurement on which the data are based or type of measurement reflected in the data determines the permissible statistical technique and whether the appropriate empirical operation may be performed. Data analysis for this study included descriptive statistics, central tendency, factor analysis, Pearson correlation and multiple regression analysis.

4.2.6.1 Descriptive statistics

Gerber-Nel *et al.* (2005:204) state that descriptive statistics are used to describe the basic features of the data in a survey. Descriptive statistics are used to describe the main features of a collection of data in quantitative terms. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics help to simplify large amounts of data in a sensible way. Each descriptive statistic reduces a lot of data into a simpler summary. In this study, the following descriptive statistics were used:

❖ **The distribution**

The distribution is a summary of the frequency of individual values or ranges of values for a given variable (Gerber-Nel *et al.*, 2005:205). This study made use of tables and charts.

❖ **Central Tendency**

The central tendency of a distribution is an estimate of the “centre” of a given distribution of values. Central tendency involves the mean, median and standard deviation. The mean or average is probably the most commonly used method of describing central tendency. The median is the score found at the exact middle of a set of given values. The standard deviation is a more accurate and detailed estimate of dispersion. The standard deviation shows the relationship that a set of scores has to the mean of the sample (Gerber-Nel *et al.*, 2005:205). Only the mean was used in this study.

4.2.6.2 Bivariate data analysis

Cooper and Schindler (2003:531) define bivariate data analysis as data analysis and hypothesis testing when the investigation concerns simultaneous investigation of two variables using tests of differences or measures of association between two variables at a time. Pearson correlation was used to test the association between the motivations, personal values, management skills and firm performance.

❖ **Pearson correlation**

Pearson correlation was used to test for the direction and strength of the relationship between motivations and performance, personal values and performance, management skills and performance, motivations and personal values, motivations and management skills, and personal values and management skills. According to Coakes (2005:18), the main result of a correlation is called the correlation coefficient (denoted by “r”). It ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. If r is close to 0, it means there is no relationship between the variables. The P-value measures the level of significance. 5% level of significance was used for this

study. This is consistent with the significance level of most of the empirical studies on business management. Table 4.1 illustrates the value of r and the implication for the strength of the relationship.

Table 4.1 Value of correlation and strength of relationship

Value of r	Strength of relationship
-1.0 to -0.5 or 1.0 to 0.5	Strong
-0.5 to -0.3 or 0.3 to 0.5	Moderate
-0.3 to -0.1 or 0.1 to 0.3	Weak
-0.1 to 0.1	None or very weak

Source: Coakes (2005:18)

4.2.6.3 Principal component analysis

According to Cooper and Schindler (2003:591) principal component analysis can be referred to as a multivariate method used to describe variability among observed variables in terms of fewer unobserved variables called factors. Principal component analysis is a statistical approach that can be used to analyse inter-relationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). Principal component analysis has two main purposes. Firstly, it is used for data reduction and secondly, for detection of structure (underlying dimensions) in a set of variables. Factor analysis also helps to confirm the validity and reliability of the measuring instruments. Factor analysis was used in this study to enhance the reliability and validity of the measuring instrument, as well as for data reduction. Principal component analysis also assisted in classifying the variables and in developing and refining research questions and hypotheses.

According to Cooper and Schindler (2006:590), there are two types of factor analysis: Exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). EFA is used to uncover the underlying structure of a relatively large set of variables. This is the most common form of factor analysis. There is no prior theory and one uses factor loadings to

intuit the factor structure of the data. CFA seeks to determine if the number of factors and the loadings of measured (indicator) variables on them conform to what is expected on the basis of pre-established theory. Indicator variables are selected on the basis of prior theory and factor analysis is used to see if they load as predicted on the expected number of factors. The principal objectives of an EFA are to determine the number of common factors influencing a set of measures and to measure the strength of the relationship between each factor and each observed measure. This study made use of EFA (for managerial skills only) to enhance the reliability and validity of the measuring instrument as well as for data reduction.

Leech, Barrett and Morgan (2009:80) state that the decision about which factor to retain depends on the percentage of the variance accounted for the variable, the absolute variance accounted for by each factor, and whether the factor can be meaningfully interpreted. Varimax rotation was used to transform the components into factors that were more clearly interpretable. To facilitate an easier interpretation of principal components, factor rotation methods were developed. This research study uses the Varimax orthogonal rotation method. This rotation method is based on the criterion of maximising the factor loadings of dominant variables in each principal component. Varimax rotation facilitates an easier interpretation of factors. Rotation makes it so that, as much as possible, different items are explained or predicted by different underlying factors, and each factor explains more than one item. Factor with Eigenvalues greater than one are usually retained.

❖ **Assumptions of principal component analysis**

Leech *et al.* (2009:83) note that the assumptions of exploratory factor analysis include:

- *Normality*: Exploratory factor analysis is robust to the assumption of normality. Nevertheless, if variables are normally distributed, then, the solution is enhanced.
- *Sampling adequacy*: Bartlett's test of sphericity (BTS) and the Kaiser-Meyer-Olkin (KMO) measures the sampling adequacy and can be used to determine the factorability of the matrix as a whole. If BTS is large and significant, and if the KMO is greater than 0.6, then factorability is assumed. The KMO measure of

sampling adequacy is an index used to examine the appropriateness of factor analysis. Higher values (between 0.6 and 1.0) indicate factor analysis is appropriate. Values below 0.6 indicate that factor analysis may not be appropriate. In addition, the KMO also tells the researcher whether or not enough items are predicted by each factor. The BTS should be significant (i.e., a significant value of less than 0.05). This implies that the variables are highly correlated enough to provide a reasonable basis for factor analysis (Leech *et al.*, 2005:84).

❖ **Procedures followed for principal component analysis**

The procedures followed for the principal component analysis in this study were as pointed out by Leech *et al.* (2009:81).

- Eigenvalues greater than 1.00 were identified.
- The variables are subjected to exploratory factor analysis. Where the variables loaded were found to be less than 0.300, they were removed and another round of exploratory factor analysis carried out.
- Rotated, unrotated and sorted factor analyses are carried out for the factors. Item analysis is then carried out for all the factors.

4.2.6.4 Multiple regression analysis

Multiple regression analysis is a powerful technique used for predicting the unknown value of a variable from the known value of two or more variables- also called the predictors. By multiple regression, we mean models with just one dependent and two or more independent (exploratory) variables. The variable whose value is to be predicted is known as the dependent variable and the ones whose known values are used for prediction are known independent (exploratory) variables. In general, the multiple regression equation of Y on $X_1, X_2, \dots, X_k$ is given by:

$$Y = B_0 + B_1 X_1 + B_2 X_2 + \dots + B_k X_k + \mu$$

Here B_0 is the intercept and $B_1, B_2, B_3, \dots, B_k$ are analogous to the slope in linear regression equation and are also called regression coefficients, $X_1, X_2, \dots, X_k$ are known as the independent (predictor) variables and μ is known as the standard error. They can be interpreted the same way as slope. More precisely, multiple regression analysis helps us to predict the value of Y for given values of $X_1, X_2, \dots, X_k$. Multiple regression model measures the naturally occurring scores or effects on a number of predictor (independent) variables and try to establish which set of the observed variables gives rise to the best prediction of the criterion (dependent) variable (Leech *et al.*, 2009:95).

❖ When to use multiple regression

Multiple regression can be used when exploring linear relationships between the predictor variables and the criterion variable. To examine non-linear relationships, special techniques can be used. The criterion variable should be measured on a continuous scale (such as interval or ratio scale). Separate regression method such as logistic regression can be used for discontinuous dependent variables. In addition, the predictor (independent) variables in the study should be measured on a ratio, interval, or ordinal scale. A nominal predictor variable is legitimate but only if it is discontinuous, i.e. there are no more than two categories. For example, sex is acceptable (where male is coded as 1 and female as 0) but gender identity (masculine/not masculine; feminine/not feminine and androgynous/not androgynous). The term *dummy* is used to describe this type of dichotomous variable. However, multiple regression requires a large number of observations. The number of participants must substantially exceed the number of predictor variables used in the regression (Cohen, Cohen, West, & Aiken, 2003).

❖ R and R square (R^2)

An especially useful application of multiple regression analysis is to determine whether a set of variables contributes to the prediction of Y beyond the contribution of a prior set. R is a measure of the correlation between the observed value and the predicted value of the criterion variable. Applying this to this study, this would be the correlation

between the level of business performance (dependent variable) reported by our respondents and the level predicted for by the predictor (independent) variables. R Square (R^2) is the square of this measure of correlation and indicates the proportion of the variance in the criterion variable which is accounted for by the model. However, R square tends to estimate the success of the model when applied to the real world. The appropriateness of the multiple regression model as a whole can be tested by the F-test in the ANOVA table. A significant F indicates a linear relationship between dependent and the independent variables. The standard error for the regression model indicates the room for error (Steinberg, 2011:93).

❖ **Assumptions of multiple regression**

Multiple regression technique does not test whether data are linear. On the contrary, it proceeds by assuming that the relationship between the dependent variable and each of the independent variables is linear. Another important assumption is nonexistence of multicollinearity- the independent variables are not related among themselves. At a very basic level, this can be tested by computing the correlation coefficient between each pair of independent variables or use other correlation method such as Pearson correlation. Other assumptions include those of homoscedasticity and normality. According to Steinberg (2011:88), if the sample size used in a study was randomly selected and sufficiently large (e.g., at least 120 participants), then normality can be assumed. Meanwhile, Homoscedasticity assumes that the dependent variable has an equal level of variability for each of the values of the independent variables. It is also worth noting that when the error term vary depending on the value of **X** (i.e., homoscedasticity exists), then the error term is related to **X** (Cohen, *et al.*, 2003).

4.2.6.5 Statistical Package for Social Sciences (SPSS)

This study used SPSS Version 12.0 for windows as the statistical software for data analysis. According to Coakes (2005:65), SPSS is software for performing statistical procedures in the field of social sciences. SPSS is among the most widely used programmes for statistical analysis in social sciences. SPSS is a complete statistical

package based on a point and click interface. The SPSS package has almost all statistical features available and is widely used by researchers to perform quantitative analysis.

4.2.6.6 Validity, reliability and errors

Validity and reliability are two very important characteristics of a good research instrument. According to Cooper and Schindler (2003:156), a researcher is duly responsible to ensure that the evidence and conclusions from a research can stand up to scrutiny. This will, however, depend on how scientifically good the measuring instrument is. However, to ensure the credibility of the findings and conclusions of this study, certain steps were taken to ensure both the reliability and validity of the instrument so as to reduce the errors.

❖ Reliability test

Reliability is concerned with consistency of measures. The level of an instrument's reliability is dependent on its ability to produce the same result when used repeatedly. There are a number of procedures used to assess the reliability of measurement scales used in surveys (Cant, *et al.* 2008:188). This study made use of Cronbach's alpha to test for reliability. Cronbach's alpha is a test for survey's internal consistency. It is also referred to as scale reliability test. It is a measure of how well each individual items in a scale correlate with the remaining items. Reliability measurements of a test remain consistent over repeated tests on the same subject. Alpha coefficient ranges in value from 0 to 1. The higher the score, the more reliable is the generated scale. Eighty four percent (84%) of the questions passed the alpha test at design stage and twelve percent (12%) failed. This however, led to the redesigning and re-testing of the questionnaire which then led to the passing of those that had initially failed.

Reliability for this study was further finely tuned by:

- Using a panel of experts to review the questionnaire for question phrasing and sequencing. A panel of 4 PhD students, 2 lecturers from the English department, a lecturer from the Political Science department, a lecturer from Social Works

department and my supervisor were engaged in reviewing the questionnaires and the necessary recommendations were effected.

- Keeping open-ended questions to a minimum. This is clearly reflected in the questionnaire sample annexure A.

❖ **validity**

Validity refers to whether an instrument actually measures what it is supposed to measure given the context in which it is applied. Validity according to Cant *et al.* (2008:235) can be defined as the extent to which differences in observed scale scores reflect true differences between objects on the characteristics being measured, rather than systematic or random errors. The following types of validity were considered when designing and evaluating this research study:

- Face validity which refers to the fact that the concept being measured is done appropriately;
- Content validity which refers to the use of measures that incorporate all of the meanings associated with a specific concept;
- Criterion –related validity which is associated with establishing measures that help predict future outcomes in relation to specific criteria;
- Construct validity which is associated with a measure encapsulating indicators that are theoretically sound;
- Internal validity which refers to whether the cause, as contained in the hypothesis, produces the given effect in the research; and
- External validity which refers to the extent to which the results of the research can be generalised.

The steps that were taken in this study to ensure validity included the following:

- Using a statistician and a panel of experts to evaluate the research instrument. A statistician was engaged to carry out statistical tests on the validity of the research instrument and the results were positive.
- Pre-testing the research instrument.
- The use of a large sample size greater than 50 and a margin of error not more than 5% and a confidence interval of 95%.

- Comprehensive review of literature, which was done in chapter two and three.

❖ **Errors**

According to Cooper and Schindler (2006:48), errors most especially the response and non-response errors can also pose a serious threat to the reliability of data and must be minimised by the researcher. Response errors are the estimated inaccuracies that can be introduced by the researcher, or the respondents. The researcher may make the error in the design of the research instrument or may not properly define the problem and the related data required. Response errors can also occur when the respondents, intentionally or unintentionally, provide inaccurate responses to the survey questions. This may be caused by the respondent's inability to fully comprehend the question, fatigue, boredom, or misinterpretation of the question (Cant *et al.*, 2005:183). Errors in this study were dealt with according to Cant *et al.* (2008:183) as follows:

- Using self-administered questionnaires, whereby the field workers and the respondents had direct contact;
- Repeated phone calls and visits to the respondents by the field workers and researcher;
- Removing sensitive questions from the questionnaires;
- Carefully constructing and pre-testing the questionnaires; and
- Thorough training of field workers to eliminate administrative errors.

4.2.7 Step 7: Reporting the results

As depicted in the research process (figure 4.1), the final stage is the interpretation of the results and the drawing of conclusions relevant to managerial decision-making. In this step, the researcher reports the research findings, conclusions and makes recommendations (Gerber-Nel *et al.*, 2005:234). The research results are presented in the next chapter.

4.3 SUMMARY

This chapter examined the research methodology for this study. Research methodology was defined and then the research process described. Steps in the research process were identified and followed by the researcher. As pointed out in the research process, the problem statement, the research objectives and the research hypotheses were identified. As pointed out by Cooper and Schindler (2006:45), the formulation of the research problem is of paramount importance in the research. The two main types of research design, namely quantitative and qualitative research were explained. The motivation for using quantitative research for this study was discussed. In addition, the three types of quantitative or qualitative research namely: exploratory, descriptive and causal research was also discussed. Furthermore, Gerber-Nel *et al.* (2005:88) identified three primary data collection methods namely observation, experiment and survey. The reasons for using a survey were given.

This study made use of self-administered questionnaires in a survey and the motivation for using self-administered questionnaires was discussed. The questionnaire was used as data collection instrument and six hypotheses were tested in this study. Before the hypotheses were tested, reliability and validity tests were done to ensure accurate results. The questionnaire was put through rigorous testing first by pre-testing it and also applying the Cronbach's alpha test. A panel of experts and statisticians were also used to ensure validity of the results. A missing value may represent or is a product of the unknown. The pairwise deletion method under SPSS was used. The data analysis for the study was done through frequency distributions, charts, measures of central tendency (mean), factor analysis, Pearson correlation and multiple regression analysis. In addition, the methods used to ensure validity and reliability were discussed. The final step in the research process concerns the analysis of results of the empirical study.

Results of the data analysis are discussed in the next chapter.

CHAPTER FIVE

RESEARCH RESULTS

5.1 INTRODUCTION

Chapter four of this study presented aspects of the research methodology including the research design, the sampling method as well as the data collection and data analysis methods used in this study. This chapter examines the empirical findings of this study. In interpretation, the immediate results were translated into integrated and meaningful statistics and findings. Neely and Cortes (2009:21) stressed the fact that research findings should be related to the objectives of the research. Thus, if both the data analysis and interpretation are not carried out properly, the success of the study cannot be assured. Consequently, the objectives of this chapter are: (1) To systematically present the findings of the research study; (2) To interpret the findings.

Data for this study was analysed using the principal component analysis, descriptive statistics, means, Pearson correlation and multiple regression analysis. A summary of findings in line with the hypotheses was also done. As a result of the huge volume of data analysis, only the summary results were presented in this chapter.

5.2 EMPIRICAL FINDINGS

5.2.1 Response rate

Response rate (also known as completion rate or return rate) in survey research refers to the number of persons who answered the survey divided by the number of people in the sample. Table 5.1 depicts the response rate for this study.

Table 5.1: Response rate

No. of questionnaires sent out	No. of questionnaires returned	Response rate
300	140	46.6%

5.2.2 The normality of the data

According to Coakes (2005:35), the normality of the data in survey research can be determined by using the Kolmogorov-Smirnov test (if only the sample size is greater than 100) and the Shapiro–Wilks test (if only the sample is less than 100). If the significance level is greater than 0.05 using either of the two tests, then normality of the data is assumed. This study used Kolmogorov-Smirnov test to determine the normality of the data because the sample size was greater than 100. The significance of the Kolmogorov-Smirnov test was greater than 0.05 in all the tests. This therefore implies that the normality of the data can be assumed.

5.2.3 Reliability of the questionnaires

The questionnaires consisted of five main sections. Section A focused on demographic information, section B on the measure of motivations, section C on the measure of personal values, section D on the measure of managerial skills and section E measured the performance of the business. The reliability of the variables in four of the five sections namely motivations, personal values, managerial skills and performance was tested using the Cronbach's coefficient alpha. The variables were tested for reliability after the questionnaires were returned by the respondents. The reliability for each variable is indicated in table 5.2.

Table 5.2: Reliability test of the variables

	Number of variables	Cronbach's alpha
Motivations	5	.721
Personal values	20	.939
Managerial skills	24	.890
Performance	4	.781

The first variable- “motivations” had five Items with an alpha of .721. The second variable- “personal values” had twenty items and recorded an alpha of .939. The third variable- “managerial skills” had an alpha of .890 and consisted of twenty four items. The fourth variable- “performance” recorded an alpha of .781 and consisted of four variables. Cooper and Schindler (2006:420) note that a score of 0.7 is the acceptable reliability coefficient. The results indicate that the scales are reliable.

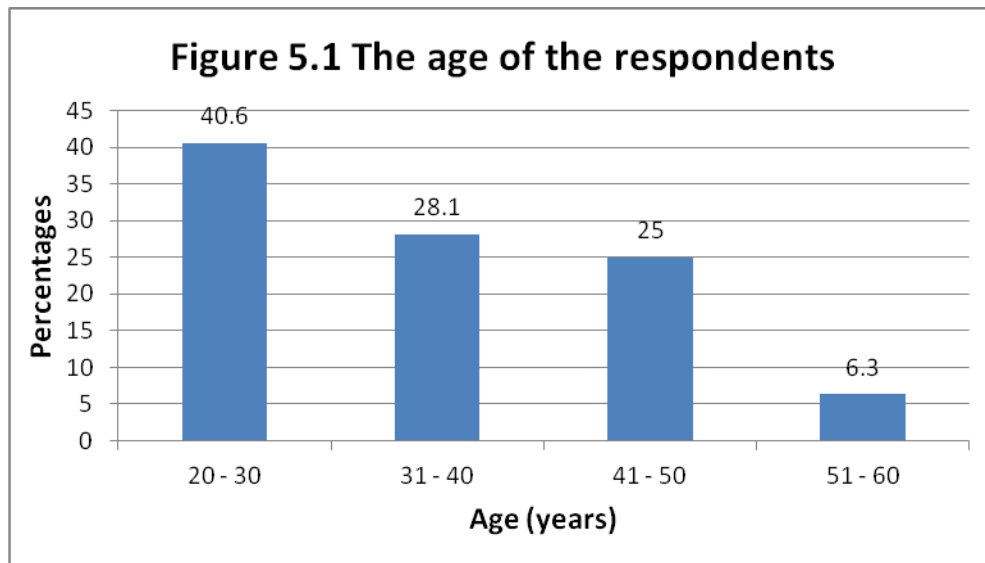
5.3 RESEARCH RESULTS

The research results refer to the outcomes of a study. In this section outcomes of this research are discussed by analysing every section of the questionnaire.

5.3.1 Section A: Demographic information

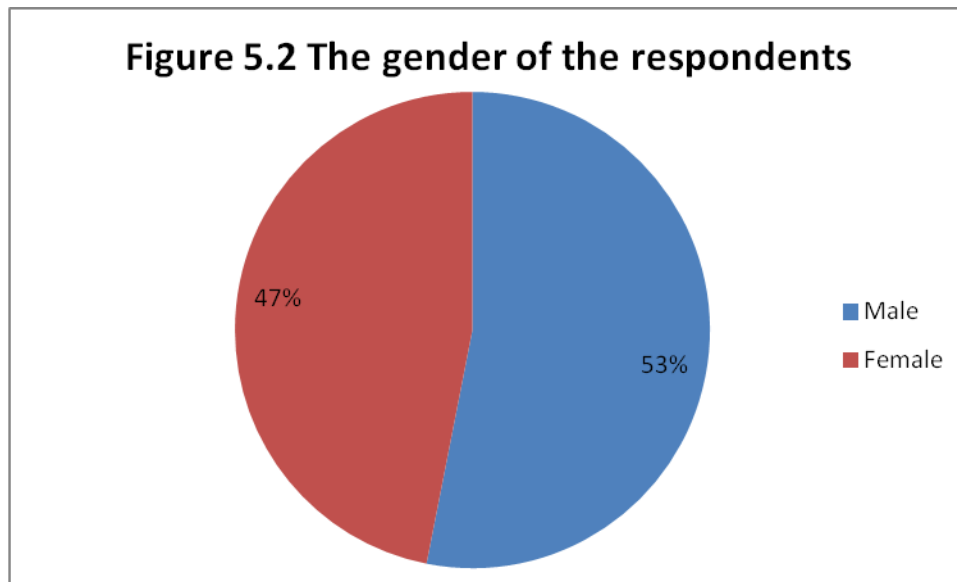
This section identifies and discusses demographic factors related to the SMEs and the response of research participants. Basic demographic analysis was used in the study for two reasons: to identify population characteristics in order to determine basic information about the respondent(s) and to provide identification material about the respondents such, age, gender, level of education, level of business experience, legal status of the business and number of full time employees. These questions were also important as other studies such as Fatoki, & Garwe (2010) and Gorgievski, *et al.* (2011) argue that these factors contribute to the high failure rate of SMEs. Age was specifically asked to ensure that no one outside the age range would be included in the survey.

5.3.1.1 Question 1: Age of the respondents



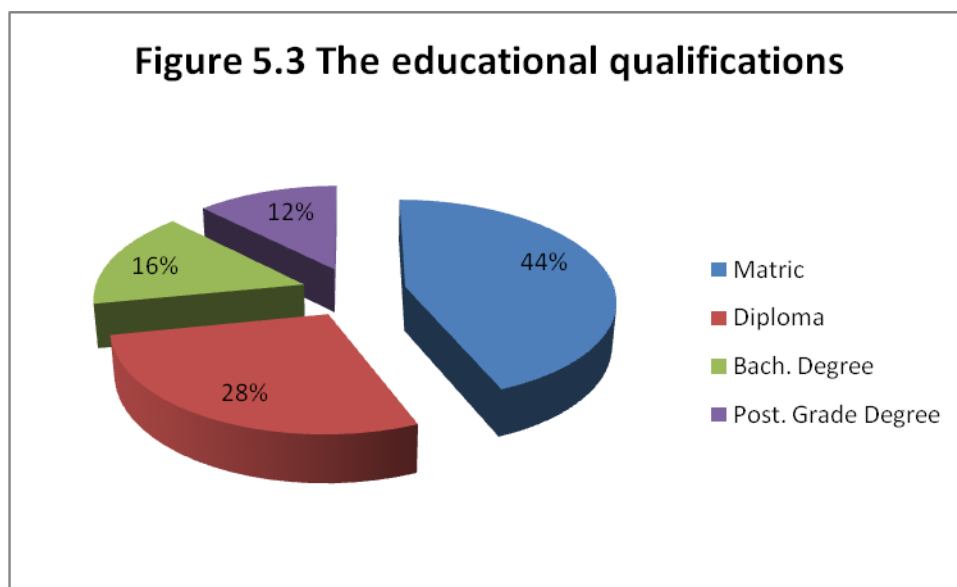
Age is distributed into five main categories, that is: 20-30, 31-40, 41-50, 51-60, and above 61. The distribution shows that the majority of respondents in the study were between the ages of 20-30. This implies that the level of entrepreneurial activity is highest within the 20- 30 age group. The 'above 60' age range had the least representation with none of the managers belonging to that age range. This means most managers retire from business at the age of 60. This result shows that SME owners are generally active between the ages of 20-50. It is also consistent with the findings by Kuratko and Audretsch (2009) who maintained that there are two natural age peaks correlated to entrepreneurship, namely: the late twenties and mid-forties.

5.3.1.2 Question 2: Gender of the respondents



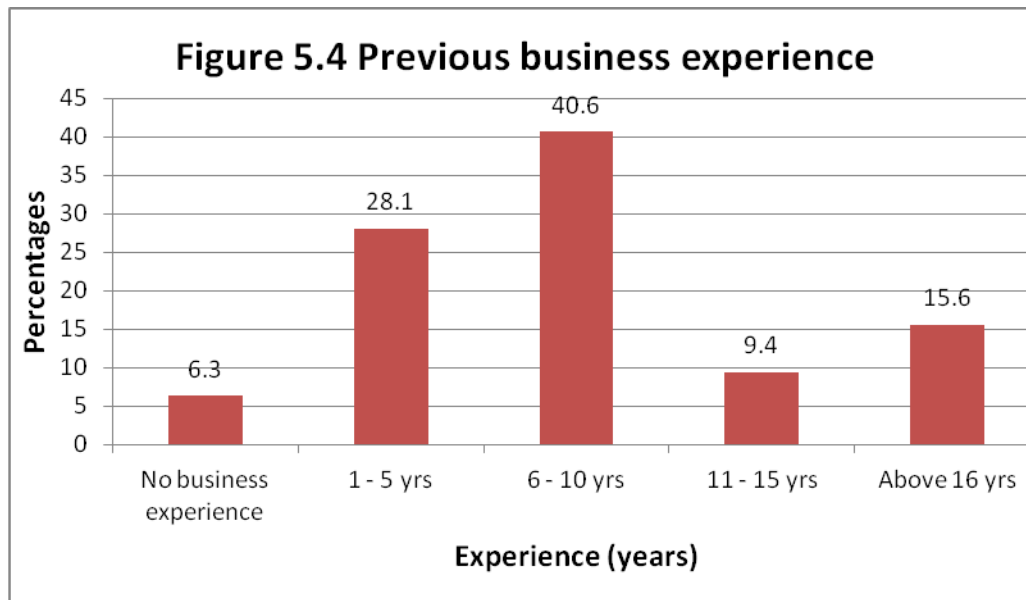
The results indicate that there is a relatively low participation rate for women in small businesses as managers. The results are consistent with the study by Delmar and Wiklund (2008). The authors point out that very few women hold managerial positions in organisations because of their house-hold responsibility and other family commitments.

5.3.1.3 Question 3: Educational qualifications



The results indicate that the majority of respondents have post Matric qualifications. This is consistent with the study done by Ahmad, *et al.* (2010) which concluded that the level of education increases the likelihood of identifying good business opportunities and the chance of the success of the business.

5.3.1.4 Question 4: Previous experience



The results indicate that most SME managers have prior working experience. This result suggests that most SMEs are formed in response to the prior business experience of the managers and not the inability of the managers to secure paid employment.

5.3.1.5 Question 5: Legal status of the business

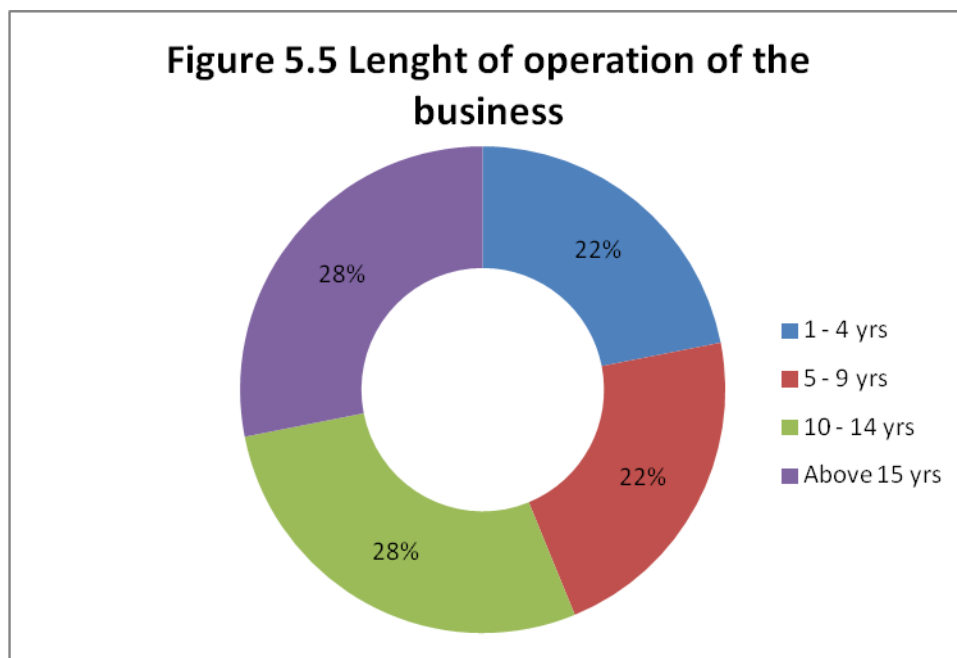
Table 5.3 shows the legal status of the businesses as indicated by the respondents.

Table 5.3 Legal status of the business

	Frequency	Percentage
Sole proprietor	36	25.7
Partnership	30	21.4
Close corporations	46	32.9
Company	28	20
Total	140	100.0

The results indicate that close corporations are the most dominant business status of the respondents with a percentage of (32.9%). The results are consistent with the study by Delmar and Wiklund (2008) which find that close corporations are the dominant business status in South Africa. The second dominant form of business is sole proprietor with 25.7%. It is also interesting to mention here that 58.6% of the businesses were made of sole proprietors and close corporations. This result is consistent with the study by van Vuuren and Groenewald (2007) which states that more than 50% of all businesses in South Africa are close corporations and sole proprietors.

5.3.1.6 Question 6: Length of operation of the business



The results indicate that most of the SMEs are young and approximately (72%) of them have not been operating for more than fourteen years. However, (28%) of the SMEs have been in operation for more than fifteen years. The World Bank (2010) report on SMEs in South Africa also reveals that the majority of SMEs in the country are post-apartheid firms established after 1995.

5.3.1.7 Question 7: Number of full time employees

According to the Government Gazette of the Republic of South Africa (2003), the following criteria are important for defining SMEs in South Africa.

Table 5.4 Number of full time employees

Types of firm	Total number of employees	Observation	Balance sheet	Frequency	Valid percentage
Small	1 – 49	Lowest 6 Highest 19 Average 8.9	Maximum R5m	93	66
Medium	50 - 200	Lowest 53 Highest 93 Average 58.7	Maximum R13m	47	34

The results indicate that (66%) of the firms are small and (34%) are medium enterprises.

5.3.2 Section B: Measures of motivations

The objective of this section of the questionnaire (refer to questions 8 to 12 of the questionnaire) was to measure the motivations of SME managers in South Africa. Malik, Ghafoor and Naseer (2011:38) define motivation as that psychological process that gives behaviour purpose and direction, that tendency to behave in a purposive manner

to achieve specific unmet needs. In addition, it is that internal drive in a person to satisfy an unsatisfied need and the will to achieve. The authors used the same scale to measure the motivations of employees. Block and Wagner (2007) also used a similar scale. Table 5.4 shows the results of the measures of motivations of SME managers.

Table 5.4: Measures of motivations

Items	Frequency	Valid percentage
Business experience as a motivating factor	98	70
Educational qualification as a motivating factor	99	71
Started business out of necessity	59	42
Started business because of opportunity	84	60
Stigma to failure.	61	44
Both necessity and opportunity	38	27

It can be noted from table 5.4 that (70%) of the respondents responded positively that their past business experience motivated them in going into business while (71%) of the respondents also responded that their level of education also acted as a motivating factor. Also, (42%) of the respondents were in accordance with the fact that they started their business out of necessity and (60%) of the respondents stated that they went into business because of the business opportunity they saw in the market. In addition, (44%) of the respondents were not in accordance with the point that one should start a business if there is a risk it might fail whereas, (27%) of the respondents stated that they went into business because of a combination of motivations (both necessity and opportunity motivation). This also means that, next to the 'pure' opportunity and necessity motivated individuals, there are potential entrepreneurs who are motivated by a combination of opportunity and necessity factors. Other studies that highlight the possibility that opportunity and necessity factors are simultaneously present in an individual includes Giacomini *et al.* (2007) and Block and Sandner (2009).

It could be concluded from the above results that, the level of education and past business experience both play very important roles in managers' motivation. According

to Malik, Ghafoor and Naseer (2011:39), self-motivation is much better than simple motivation (for instance, financial incentive) in the managers of the organisations. Martin and Staines (2008) in a study on the success of small businesses in Canada, found that the level of education and business experience of the owner/manager is positively related to the success of the business. Small businesses operated by people with a minimum of secondary education, had their revenues grow more than twice as fast compared to enterprises managed by individuals with less than high school education.

Driver, Wood, Segal and Herrington (2001) argue that in South Africa, individuals with a matric or those with tertiary education are, significantly, more likely to own a small business than those without matric. In addition, Baron (2007) states that personal qualities such as level of education and level of business experience help entrepreneurs to identify better opportunities and assess risk better than other entrepreneurs. In addition, the author further states that risk tolerance reduces the likelihood of failure for those who start their business out of opportunity and mixed motivations, but not for those who start their business out of necessity motivations. Entrepreneurs are not only motivated by opportunity or necessity motivation but both opportunity and necessity motivations are present in some entrepreneurs as stated by Block and Sandner (2009).

5.3.3 Section C: Measure of management skills

The objective of this section of the questionnaire (refer to question 13 of the questionnaire) was to measure the management skills of SME managers in South Africa. Questions in this section contributed comprehensively to the understanding of managerial skills that have an effect on the performance of SMEs. DuBrin (2012) explain managerial skills as a set of behaviour that leads to job performance. The author stressed that managerial skills are acquiring and learning abilities. These skills include financial management skills, strategic planning skills, marketing skills, human resource management skills, networking skills and organising skills. Due to the nature of the questions in the questionnaire, a principal component analysis was used.

❖ Principal component analysis

Due to the nature of the questions for managerial skills in the questionnaire, a principal component analysis was used for data reduction and secondly, for the detection of question structure. Questionnaire items with factor loading lower than 0.300 were removed as suggested by Leech, *et al.* (2009:13). The results of the principal component analysis are presented from section I to III.

I. BTS and KMO

To ensure the use of factor analysis, the Barlett Test of Sphericity (BTS) and Kaiser Meyer-Olkin (KMO) test of appropriateness were carried out accordingly. The results are presented in table 5.5.

Table 5.5: BTS and KMO

	Values
KMO	.795
BTS	510.297
Sig.	0.001

Sig at 0.05 (2-tailed)

The results (BTS=510.297; sig. = 0.001) indicated that the data were appropriate for the purpose of factor analysis. The result of the KMO measure of sampling adequacy was 0.795. The result indicated that there are sufficient items for each factor. The two tests support the appropriateness of the principal component analysis technique.

II. Rotated factor loadings

This section depicts the factor loadings for managerial skills of managers. Six factors were identified for the respondents.

Table 5.5: Rotated factor matrix for managerial skills

Factors	1	2	3	4	5	6
Involve employees in decision making	.765					
Assessed employees job satisfaction	.760					
Assessed employees performance	.759					
Emphasised a clearly laid down reward and punishment system	.670					
Prepare budget/forecast		.910				
Set performance goals of the business		.809				
Develop plans		.805				
Produce formal statements of business objectives		.642				
Maintain relationship with suppliers			.865			
Maintain relationships with customers			.861			
Attends trade exhibitions			.846			
Belong to a professional association			.497			
Document all aspects of the business				.873		
Administered provision of employees amenities & facilities				.699		
Consult/employ professionals in management				.616		
Review progress of activities to						

determine consistency with plans				.514		
Emphasis cost reduction in all areas of the business					.799	
Re-invest profit earned					.748	
Prepares financial plans and measure performance					.575	
Maintain large cash balances					.660	
Emphasised product quality						.731
Advertised products						.615
Extend credits to customers						.528
Price products lower than competitors						.509
Eigenvalue	4.103	3.123	2.998	2.640	2.146	2.092
Percentage of variance explained	21.095	16.014	13.492	11.001	8.940	8.715
Cronbach's alpha	.882	.821	.774	.866	.747	.742

Factor loading less than 0.300 has been omitted.

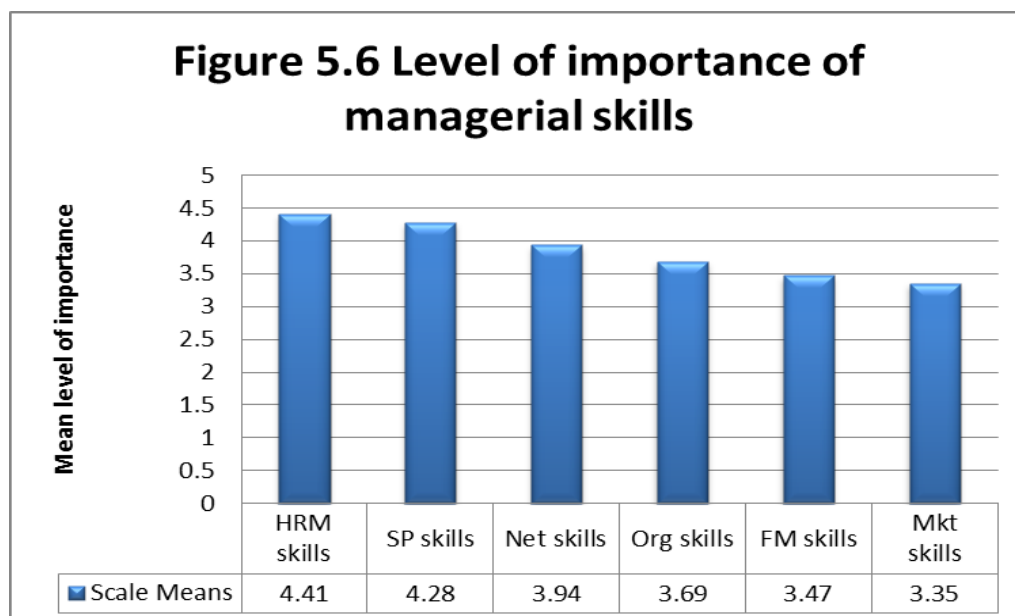
III. Total variance explained

According to the results of the principal component analysis as indicated above, six factors with Eigenvalues greater than one account for (79.257%) of the total variance. The six factors are further explained by the rotation sum of squares after Varimax rotation. Fortunately, no questionnaire items with factor loading lower than 0.300 was realised. The six factors are presented below in order of importance as indicated by their contribution to the percentage of total variance.

- Factor one was *human resource management skill*. The Eigenvalue for the factor is 4.103. The factor includes four items. This is the most important factor according to the factor analysis. Cronbach's alpha for the factor yielded a value of 0.882, indicating the reliability of the factor.

- Factor two was *strategic planning skills*. The Eigenvalue for the factor is 3.123. The factor includes four items. Cronbach's alpha for the factor yielded a value of 0.821, indicating the reliability of the factor.
- Factor three was *networking skills*. The Eigenvalue for the factor is 2.998. The factor includes four items. Cronbach's alpha for the factor yielded a value of 0.774, indicating the reliability of the factor.
- Factor four was *organising skills*. The Eigenvalue for the factor is 2.640. The factor includes four items. Cronbach's alpha for the factor yielded a value of 0.866, indicating the reliability of the factor.
- Factor five was *financial management skills*. The Eigenvalue for the factor is 2.146. The factor includes four items. Cronbach's alpha for the factor yielded a value of 0.747, indicating the reliability of the factor.
- Factor six was *marketing skills*. The Eigenvalue for the factor is 2.092. The factor includes four items. Cronbach's alpha for the factor yielded a value of 0.742, indicating the reliability of the factor.

Figure 5.6 presents the mean scores for the measure of managerial skills with respect to the importance attached to underlying factors which influences SME managers' performance. Only the summary results are presented.



Note; HRM skills- human resource management skills, SP skills- strategic planning skills, Net skills- networking skills, Org skills- organising skills, FM skills- financial management skills, and Mkt skills- marketing skills.

With respect to figure 5.6, human resource management skills is the most important skills for SME managers with a scale mean of 4.41 while marketing skills is the least important skills for SME managers with a scale mean of 3.35. These results were further confirmed by the ranking of factor loading (table 5.5).

5.3.4 Section D: Personal values

The objective of this section of the questionnaire (refer to question 14 of the questionnaire) was to measure the personal values of SME managers in South Africa. Questions in this section contributed comprehensively to the understanding of personal values of SME managers that could impact the organisational values and thus, have an effect on the performance of the business. Cervone and Pervin, (2007) defined personal values as qualities that contribute to an individual's enduring and distinctive patterns of feeling, thinking, and behaving. The authors state that personal values have been recognised as the most influential manager characteristics and firm performance is explained by the fit between values and strategic choices. Responses for the questions related to measure personal values of managers are given in Table 5.6. Percentages of number of respondents according to the level of importance to each value item are given in each cell with mean score corresponding to each value.

Table 5.6 Managers' rating scores of value items

Values	Rating scores (%)					Mean
	NI	SI	MI	VI	EI	
Achievement	-	3.1	10.8	35.5	50.6	4.58
Trust	-	-	9.4	34.4	56.3	4.53
Reputation	3.2	3.2	16.1	25.8	51.6	3.91
Autonomy	7.1	17.9	28.6	21.4	25.0	2.90
Pride	-	9.4	21.9	28.1	40.6	3.27
Loyalty	-	6.3	6.0	28.4	59.4	4.61
Pleasure	3.1	12.5	6.3	34.4	43.8	4.09
Challenge	-	3.2	21.8	28.1	46.9	4.05
Equality	3.1	7.0	15.4	28.5	46.1	4.12
Honesty	-	3.4	6.0	28.0	62.6	4.73
Security	-	6.3	18.8	28.1	46.9	4.13
Development	-	3.7	15.6	40.6	40.0	4.26
Affection	-	6.3	12.5	34.4	46.9	4.31
Optimism	-	3.5	9.0	46.9	40.6	4.39
Innovation	3.1	-	9.4	43.8	43.8	4.09
Authority	6.3	12.5	21.9	28.1	31.3	2.97
Creativity	-	-	15.6	37.5	46.9	4.43
Hard work	-	3.1	-	34.4	62.5	4.60
Risk taking	6.3	9.4	25.0	31.3	28.1	3.16
Work ethics	-	3.1	9.4	28.1	59.4	4.59

Note; NI-not important, SI-slightly important, MI-moderately important, VI-very important, EI-extremely important

Fig 5.7: Least important values of managers of SMEs

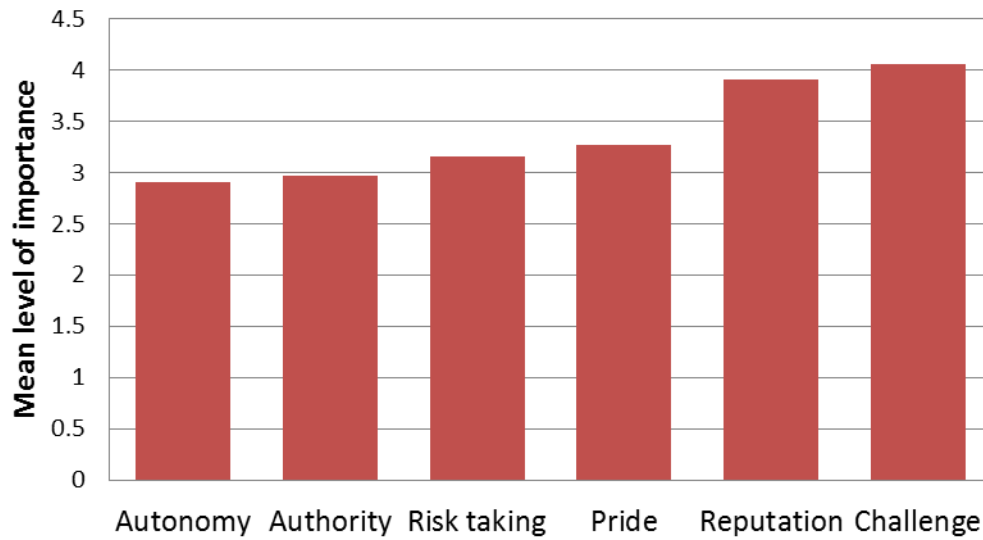
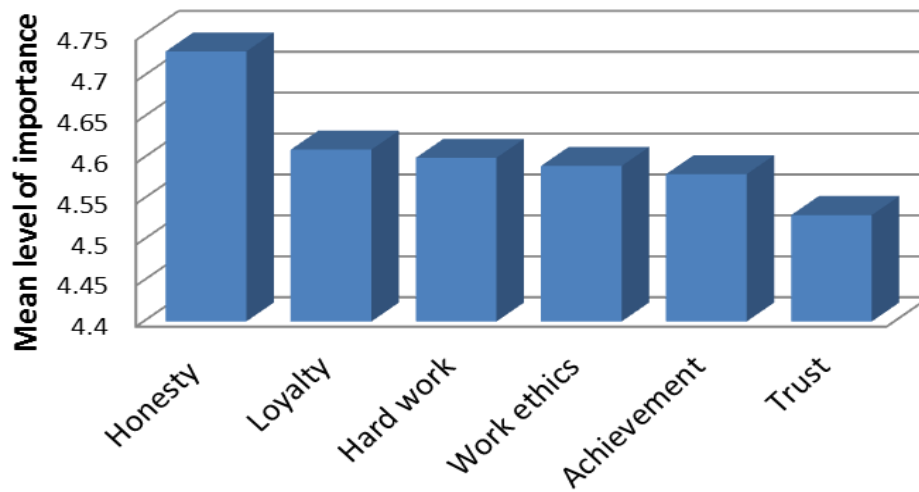


Fig 5.8: Most important levels of values of managers of SMEs



According to Table 5.6, the calculated percentages and mean values illustrate which values are the most important and least important. As shown, 62.6% of SME managers indicated “honesty” as the most important value. This is further strengthened by its high mean value (4.73). Loyalty comes second with the mean value of 4.61 and hard work third with a mean value of 4.60. In addition to these three manager values, another three value items scored over 4.50 (mean). These value items are work ethics, achievement and trust. The higher level values of managers within their work life which scored over 4.50 mean are shown in Figure 5.7 above.

On the other hand, autonomy (Mean=2.90) is the least important value within the business. The least important level of six values of managers which scored below 4.0 (mean), (namely autonomy, authority, risk taking, pride, reputation and challenge) within their business is depicted in Figure 5.6 above. The above analysed data revealed that the important finding is consistent with the literature. That is the most important personal values of managers of SMEs are entrepreneurial values like, honesty, loyalty, trust, hard work, work ethics and achievement. Therefore, it can be said that having such high level of entrepreneurial values is a good characteristic of a successful enterprise which is consistent with the study by Blackman (2003).

5.3.5 Section E: SMEs performance

The objective of this section of the questionnaire (refer to questions 15 to 18 of the questionnaire) was to measure the performance of SMEs in South Africa. Questions in this section contributed comprehensively to the understanding of performance of SMEs. Investorwords (2011) defines performance as the results of activities of a business or investment over a given period. Responses for the questions related to measure performance of SMEs are given in Table 5.7.

Table 5.7 Measures of SMEs performance

Items	Frequency	Valid percentage
Satisfied with sales growth	121	86
Satisfied with the profitability growth	116	83
Satisfied with business performance compared to competitors' performance	97	69
Satisfied with overall business performance	103	74

Firm performance was measured over a period of three years

Based on the results, (86%) of SME managers indicated that they are satisfied with the sales growth of their business over the past three years whereas, (83%) of the managers indicated that they are satisfied with the profitability of their business over the past three years. About (69%) of the responses of managers indicated that they are satisfied with their business performance compared to competitors' performance though about (24%) of the respondents claimed they are not sure about their business performance compared to that of their competitors. Finally, (74%) of SME managers indicated that they are satisfied with the overall business performance of their business.

5.3.6 Correlation results between the variables

The Pearson correlation was used to test for the direction and strength of the relationship between motivations, personal values, managerial skills and performance. Table 5.8 below presents results of the correlation.

Table 5.8: Pearson's correlation between motivations, personal values, managerial skills and performance

Factors		Motivations	Personal values	Managerial skills	Firm performance
Motivations	r	1	.605	.588	.708
	p-value		.009	.016	.002
Personal values	r	.605	1	.820	.348
	p-value	.009		.035	.020
Managerial skills	r	.588	.820	1	.793
	p-value	.016	.035		.012
Firm performance	r	.708	.348	.793	1
	p-value	.002	.020	.012	

Sig. 0.05 (2-tailed)

❖ Motivations and performance

The Pearson product moment correlation (r) between the two variables namely: motivations and performance was 0.708. It is very important to also note that the probability value (p -value) is 0.002 meaning that the correlation is significant since the p -value is less than 0.05. The results indicate that there is a significant positive relationship between the motivations of SMEs managers and firm performance.

Therefore, the null hypothesis that there is no significant relationship between motivations of SME managers and firm performance (H_{30}) is rejected.

Giacomin *et al.* (2007) also identified a significant positive relationship between motivations and firm performance. The authors state that the start-up motivation would have consequences for the way in which a business is managed and for business performance. The authors state that, though some entrepreneurs are motivated by push or pull factors, some entrepreneurs are motivated by a combination of push and pull factors. The authors concluded that, the level of motivations in the entrepreneurs in

starting and running a business will positively have an impact on the performance of the business.

❖ **Personal values and performance**

The Pearson product moment correlation (r) between the two variables namely: personal values and performance was 0.348. The probability value (p-value) is 0.02 meaning that the correlation is significant since the p-value is less than 0.05. The results indicate that though the relationship between personal values and performance is weak, it is also a significant relationship for the fact that the p-value is less than 0.05.

Therefore, the null hypothesis that there is no significant relationship between personal values of SME managers and firm performance (H1₀) is rejected.

The findings are consistent with the conclusion of Shariff and Peou (2008). The authors carried out a study on the relationship between entrepreneurial values, firm financing and the management and growth performance of SMEs in Cambodia. The authors pointed out that small business owner-manager having entrepreneurial values such as creativity, trust, achievement, loyalty, hard work among others, were more likely to have superior performance in managing organisations than owner-managers without these values.

❖ **Managerial skills and performance**

The Pearson product moment correlation (r) between the two variables namely: managerial skills and performance was 0.793. The probability value (p-value) is 0.012 meaning that the correlation is significant since the p-value is less than 0.05. The results indicate that there is a significant positive relationship between the motivations of SMEs managers and firm performance.

Therefore, the null hypothesis that there is no significant relationship between managerial skills of SME managers and firm performance (H2₀) is rejected.

The results are consistent with the study of Lyles, Saxton and Watson (2004). The authors in their study entitled “venture survival in a transitional economy”, evaluated managerial competencies as measured by the level of education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and managerial skills in the line of business. On the other hand, profitability tends to be low when the entrepreneur has little knowledge on startup and managerial skills. The results confirm the importance of managerial skills on new venture success.

❖ **Motivations and personal values**

The Pearson product moment correlation (r) between the two variables namely motivations and personal values was 0.605. The probability value (p -value) is 0.009 meaning that the correlation is significant since the p -value is less than 0.05. The results indicate that there is a significant positive relationship between the motivations and personal values of SME managers.

Therefore, the null hypothesis that there is no significant relationship between motivations and personal values of SME managers (H_0) is rejected.

Zainol and Ayadurai (2011) also identified a significant positive relationship between motivations and personal values of entrepreneurs. Zainol and Ayadurai suggest that managers’ personalities, in particular their values and goals, are indistinguishable from the goals of their businesses. The authors further suggest that managers’ personal values and motivations influence the management and business practices they adopt in operating their businesses and, ultimately, the performance of their business.

❖ **Motivations and managerial skills**

The Pearson product moment correlation (r) between the two variables namely: motivations and managerial skills was 0.588. The probability value (p -value) is 0.016 meaning that the correlation is significant since the p -value is less than 0.05. The results

indicate that there is a significant positive relationship between motivations and managerial skills of SME managers.

Therefore, the null hypothesis that there is no significant relationship between motivations and managerial skills of SME managers (H5₀) is rejected.

The results are consistent with the study by Park (2005). The author concluded that management skills are positively correlated to entrepreneurial motivation which is in turn also positively correlated to business performance. The author conducted a study of 134 entrepreneurial businesses and observed that managerial skills coupled with the drive to see the business through to fruition, and the ability to recognise opportunities correlated highly with profitability and growth of the business.

❖ Personal values and managerial skills

The Pearson product moment correlation (r) between the two variables namely: personal values and managerial skills was 0.820. The probability value (p -value) is 0.035 meaning that the correlation is significant since the p -value is less than 0.05. The results indicate that there is a significant positive relationship between the personal values and managerial skills of SME managers.

Therefore, the null hypothesis that there is no significant relationship between personal values and managerial skills of SME managers (H6₀) is rejected.

The results are consistent with the conclusion of Chong, Kuppusamy and Jusoh (2005). The authors carried out a study on entrepreneurial careers among business graduates in Malaysia. Their results indicated that entrepreneurs with high managerial skills are bestowed with high personal values such as loyalty, integrity, hard work, achievement, locus of control, among others.

Table 5.9 provides a summary of the hypotheses and results for this study.

Table 5.9 Summary of hypotheses and results

Hypotheses	Results
H1o: There is no significant relationship between the personal values of SME managers and firm performance.	Rejected
H2o: There is no significant relationship between the management skills of SME managers and firm performance	Rejected
H3o: There is no significant relationship between the motivations of SME managers and firm performance.	Rejected
H4o: There is no significant relationship between personal values and motivations of SME managers and performance.	Rejected
H5o: There is no significant relationship between managerial skills and motivations of SME managers and performance.	Rejected
H6o: There is no significant relationship between management skills and personal values of SME managers and performance.	Rejected

5.3.7 Multiple regression analysis

A multiple linear regression was conducted in which business performance was entered as the dependent variable and motivations, personal values and managerial skills were entered as the independent (predictor) variables. Table 5.10 shows a summary of the results.

Table 5.10: Model summary of multiple regression

Model	R	R Square	Standard. Error	p-value
1	.894	.799	.0429	.029

a. Predictors: (Constant), Values, Motivation, Manager

From the results in table 5.10, a significant relationship, $R=0.894$, $R^2=0.799$ was found between the set of predictor (independent) variables and business performance. In other words, the predictor (independent) variables explain 79.9% of the variance in the

dependent variable (firm performance) is being explained in the model. To assess the statistical significance of the result, an ANOVA test was conducted. This tests the null hypothesis that multiple R' in the population equals zero. The model in this study shows a statistical significance with a p-value of 0.029. This implies there is a significant positive relationship between the dependent and the independent variables. The standard error of regression of 0.0429 is reasonably small which indicates that there is a small room for error. However, in order to determine the degree of effect of each independent (predictor) variable (motivations, personal values, managerial skills), on the dependent variable (firm performance), the regression coefficients and associated probabilities (p-value) were calculated. Table 5.11 shows the results of the regression coefficients and associated probabilities.

Table 5.11: Regression coefficient and associated probabilities

Model	Unstandardized Coefficients		Standardized Coefficients	
	B	Beta	t	p-value
(Constant)	3.115		1.961	.030
Motivations	.176	.172	2.361	.021
Managerial skills	.185	.252	2.702	.000
Personal values	.133	.137	2.156	.009

a. Dependent Variable: firm performance.

Substituting the variables for the study, the multiple regression model used for the study can be written as:

$$P = B_0 + MX_1 + PVX_2 + MSX_3 + \mu$$

P = firm performance (dependent variable)

B₀ = Intercept (constant)

M = Motivations

PV = Personal values

MS = Managerial skills

μ = Standard error

From table 5.10, the significance of the lagged value of each variable will be assessed by using the regression coefficients, the beta value, the test statistic as well as the p-value. The coefficient of regression of each variable shows how a percentage change in that variable affects firm performance, the dependent variable in the model. Substituting the values in the regression equation, the equation can be written as:

$$\text{Performance} = 3.115 + 0.176\text{Motivation} + 0.185\text{Manager} + 0.133\text{Values} + 0.0429$$

Motivation has a regression coefficient of 0.176, a beta coefficient of 0.172 and a test statistic of 2.361, which exceeds the rule of thumb test statistic of 1.961 at 95% confidence interval. The result was further confirmed by a p-value of 0.021. The coefficient value means that a 1% change in the motivations of SME managers will lead to an increase of 0.176% in the performance of SME managers. Meanwhile, the test statistic and p-value indicate that there is a significant positive relationship between the motivations of SME managers and performance. The beta coefficient is also used in comparing the contribution of each independent variable.

Managerial skills have a regression coefficient of 0.185, a beta coefficient of 0.252 and a test statistic of 2.702, which exceeds the critical value of 1.961 at 95% confidence interval. A p-value of 0.000 further confirms the significance of the result. Therefore, a 1% change in managerial skills of SME managers will lead to an increase of 0.185% in the performance of SME managers. The beta coefficient for managerial skills is the largest of the three predictor variables. This implies that managerial skills is the most important of the three predictor (independent) variables and will contribute the highest to performance. The test statistic and p-value also indicate that there is a significant positive relationship between the managerial skills of SME managers and performance.

Personal values have a regression coefficient of 0.133, a beta coefficient of 0.137 and a test statistic of 2.156, which exceeds the critical value of 1.961 at 95% confidence interval. A p-value of 0.009 further confirms the significance of the result. Personal values had the lowest beta coefficient of the three predictor variables. Hence, personal values of SME managers will contribute the least to performance. However, the result indicates that if SME managers change their personal values by 1% to match the values of the organisation, then the performance of the organisation will increase by 0.133%. Thus, there is a significant positive relationship between personal values of SME managers and performance.

5.4 SUMMARY

The empirical findings of this study were presented in this chapter. The response rate for the study was 46.6%. The Koglomorov-Smirnov test was used to determine the normality of the data. The empirical findings on demographic variables were presented using figures, tables and charts. The chapter also presented the empirical findings on the relationship between predictor (independent) variables (motivations, personal values, and managerial skills) on the dependent variable (firm performance). All three predictor variables had a significant positive relationship on performance. The findings also revealed that there is a significant positive relationship between the predictor variables. The mean was used to determine the most important and least important values of SME managers. Principal component analysis was done to group the question items for managerial skills. Six underlying factors were identified. Pearson correlation was used to determine the relationship between the independent variables and the dependent variable. Pearson correlation was also used to determine the relationship between the independent variables. Multiple regression analysis was used to further confirm the overall relationship between the independent variables on the dependent variable. The results also revealed a significant positive relationship. The regression coefficient was used to determine the independent variable that has the greatest effect on the dependent variable. The results revealed that managerial skills have the greatest influence on performance while personal values have the least influence on performance.

The next chapter presents the conclusions and recommendations of the study. In addition, the achievement of the objectives of the study will be presented. Furthermore, the limitations of the study and areas for further study will be highlighted.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

This chapter provides a conclusion to the study that was carried out to determine the perceived impact of motivations, personal values, and managerial skills of SME managers on firm performance in selected towns (Port Elizabeth and Port Alfred) in the Eastern Cape Province of South Africa. High failure rate of SMEs is a problem currently faced by South Africa as supported by the literature which has resulted in the high unemployment rate. As a result, it is of great importance to understand the influence of factors such as motivations, personal values, and managerial skills of SME managers on firm performance. A discussion of the findings and recommendations limitations of the study and areas for further study are presented in this chapter.

The section below presents a brief summary of all the chapters in this study as well as the findings. Furthermore, recommendations and the achievement of the research objectives as well as the limitations of the study and areas for further research are discussed in the following sections. The final section gives the conclusion of the study.

6.2 SUMMARY OF THE STUDY

This study consists of six chapters. The following section will present the summary of the chapters.

6.2.1 Introduction to the study (Chapter One)

The current study aimed at investigating the impact of motivations, personal values, and managerial skills of SME managers on firm performance. The primary focus of this study was to determine if motivations, personal values, and managerial skills have impact on performance using SME managers as the case study. According to Brink,

Cant and Ligthelm (2003), it is estimated that the failure rate of SMEs in South Africa is between 70% and 80%. Accordingly, many SMEs do not reach their full potential and fail to grow, resulting in loss of jobs and wealth for the region in which they are based. In addition, this has led to the high unemployment rate of the economically active population. The research problem for this study was to investigate the impact of personal values, motivations and management skills of SME managers on SMEs performance.

To obtain solutions to this problem, a review of the literature and development of hypotheses was important. The research hypotheses for this study were:

H1₀: There is no significant relationship between the personal values of SME managers and firm performance.

H1: There is a significant positive relationship between the personal values of SME managers and firm performance.

H2₀: There is no significant relationship between the management skills of SME managers and firm performance.

H2: There is a significant positive relationship between the management skills of SME managers and firm performance.

H3₀: There is no significant relationship between the motivations of SME managers and firm performance.

H3: There is a significant positive relationship between the motivations of SME managers and firm performance.

H4₀: There is no significant relationship between personal values and motivations of SME managers and performance.

H4: There is a significant positive relationship between personal values and motivations of SME managers and performance.

H5o: There is no significant relationship between managerial skills and motivations of SME managers and performance.

H5: There is a significant positive relationship between managerial skills and motivations of SME managers and performance.

H6o: There is no significant relationship between management skills and personal values of SME managers and performance.

H6: There is a significant positive relationship between management skills and personal values of SME managers and performance.

6.2.2 Small and medium enterprises (SMEs) (Chapter Two)

Chapter two of this study focused on small and medium enterprises in South Africa. The chapter started by defining entrepreneurship and concluded that many definitions of entrepreneurship exist and no definition can be singled out as totally defining entrepreneurship. Nonetheless, it was also brought to light that entrepreneurship and SMEs are synonymous and are used interchangeably in literature. In addition, the definition of SMEs from both national and international perspective was also brought to the fore. The chapter also proved that the definition of SMEs also differs from country to country. Furthermore, literature with respect to the importance of SMEs to the South African economy was also examined. SMEs create new employment, eradicate poverty and contribute significantly to economic growth. Finally, the challenges faced by SMEs in South Africa concluded the chapter.

6.2.3 Motivations, personal values and managerial skills (Chapter Three)

Chapter three examined the literature in respect to the relationship between motivations, personal values, and managerial skills and firm performance. Literature review revealed that motivations include level of education, previous business experience, opportunity recognition, necessity, and the desire to take risk in business. Performance was measured under two separate categories; financial measures which included growth in profit, and growth in sales. Non-financial measures included

managers' satisfaction with overall performance and manager's satisfaction with the way the business is progressing compared to competitors. Motivations was measured by the level of education, previous business experience, started business because of opportunity, started business out of necessity and the risk of business failure. Personal values was measured by hard work, honesty, equality, accomplishment, risk taking, optimism, growth, national security, loyalty, compassion, trust, responsibility, creativity, innovation, autonomy, social security, religion, affection, competence, security, ambition, prestige, energy and work ethics. Managerial skill was measured by financial management skills, strategic planning skills, administration skills, marketing skills, human resource management skills and networking.

6.2.4 Research methodology (Chapter four)

Chapter four of the study dealt with the research methodology. This chapter examined aspects of the study including the research design, definitions and measurement, data collection methods, and data analysis. The study was based on descriptive and causal research in which simple random sampling technique was used to draw a sample. The research instrument used to collect data was self-administered questionnaires. The data collected was transformed into more suitable format for analysis by using Excel software. After data processing, the Statistical Package for Social Science (SPSS) was used for data analysis. Statistical techniques used in this study included descriptive statistics, central tendency (mean), principal component analysis, Pearson correlation and multiple regression analysis. Reliability was tested using Cronbach's alpha.

6.2.5 Research findings (Chapter five)

The research findings were presented following the questionnaire's structure which presented the questions in a serial order.

6.2.5.1 Response rate

In this study, out of the 300 questionnaires that were issued out to managers of SMEs, 140 questionnaires were returned. The response rate for this study was 46.6%.

6.2.5.2 Demographics

Majority of the respondents for this study were male managers and were between the 20 – 30 age range. Most of the respondents also had at least a matric qualification with 6 – 10 years of previous business experience. In addition, the results also indicated that most of the businesses were younger than fourteen years and close corporations were the dominant form of business.

6.2.5.3 Measures of motivations, personal values, managerial skills and firm performance

The questions were necessitated by the need to identify the motivations, personal values, managerial skills of SME managers that could positively impact on the performance of their businesses. Six hypotheses were developed. The mean was used to determine the most important and least important values of SME managers. Principal Component Analysis was used to group the question items for managerial skills in which six underlying factors were identified. Pearson correlation was used to determine the relationship between the independent (predictor) variables and the dependent variable. Pearson correlation was also used to show the relationship between the independent (predictor) variables. Multiple regression analysis was used to further confirm the overall relationship between the independent (predictor) variables on the dependent variable. The findings were as follows:

- The null hypothesis that there is no significant relationship between motivations of SME managers and firm performance is rejected.
- The null hypothesis that there is no significant relationship between personal values of SME managers and firm performance is rejected.
- The null hypothesis that there is no significant relationship between managerial skills of SME managers and firm performance is rejected.
- The null hypothesis that there is no significant relationship between motivations and personal values of SME managers is rejected.
- The null hypothesis that there is no significant relationship between motivations and managerial skills of SME managers is rejected.

- The null hypothesis that there is no significant relationship between personal values and managerial skills of SME managers is rejected.

From the results obtained from this study, it can be concluded that there is a significant positive relationship between the independent (predictor) variables (motivations, personal values, and managerial skills) and the dependent variable (firm performance). In addition, it can be further concluded that there is a significant positive relationship between the independent (predictor) variables themselves.

6.3 RECOMMENDATIONS

SMEs have a crucial role to play in the South African economy. They are a key source of economic growth and poverty alleviation. SMEs also contribute to employment, help diversify economic activity and make a significant contribution to exports and trade. The findings of this study revealed that motivations, personal values, and managerial skills of SME managers positively impact on the performance of SMEs in South Africa.

Schwartz theory (1992, 2005) developed the theoretical foundation of personal values used for this study. As organisations and business units are concerned with defining their vision for the future, their mission and a statement about their purpose, vision and mission alone are incomplete, in that both the mission and vision define only the major external focus of task energy. According to Schwartz theory (1992, 2005), in addition to an organisation's mission and vision, every manager must also determine how its employees will work together, how they will treat each other, and what bonds them together. This is based on the fact that as complex as we human beings are, people work for different reasons, and they want different things from each other and the organisation. The review of the literature revealed that personal values of SME managers greatly influence their behaviour which in turn influences their decision and their management style.

The empirical findings of this research show that SME manager's personal value is an important factor which positively influences the performance of SME managers. This is

evident from the fact that a manager in an organisation will agree on a vision and mission, but lapse into conflict because different people have different values about how to put it into action. Some managers might want to work on their own, some want lots of interaction, while others see the workplace as an arena for personal competition and “winning” through good results. Thus, as managers face increasing responsibility, making more complex and far-reaching decisions, a corporate values standard is recommended as an essential guide for organisational behaviour. How you achieve your goals and vision is as important as the goal itself. Values exploration makes these differences explicit, and leads to a shared team agreement about them and what they mean.

In addition, Schwartz theory (2005) stressed the fact that values form the bedrock of any corporate culture. As the essence of a company's philosophy for achieving its goals, values provide a sense of common direction for all employees and guidelines for their day-to-day behaviour. The author reiterates the fact that If managers and employees know what their business stands for, if they know what standards they are to uphold, then they are much more likely to make decisions that will support those standards. Managers are also more likely to feel as if they are an important part of the organisation. They are motivated because life in the company has meaning for them. Thus, both managers and employees should align their personal values to those of the organisation in order to achieve organisational and personal goals as both personal values and organisational values provide the foundation for implementing an organisation's strategy, mission, and structure.

Consequently, an important key to greater organisational effectiveness is a close link between personal and organisational values and this study suggests that an understanding of the relationship between personal and organisational values will provide new leverage for corporate vitality. This relationship according to Sun (2008:138), when mismanaged, can be the breeding ground for conflict and cynicism. The study thus provides evidence that shared values between the manager and the business are a major source of both personal and organisational effectiveness. When

managers' values are congruent with the values of their businesses, their personal lives are in better shape, their approach to their job is more optimistic, and their stress lower.

On the other hand, the goal setting theory of motivation by Locke and Latham (1990) was used as the theoretical foundation for motivation for this study. According to goal setting theory, the level of education and business experience of an entrepreneur acts as a boost towards entrepreneurship. This is evident from the study by Bosma *et al.* (2004) and Lyles *et al.* (2004). These authors stressed the fact that level of education and past business experience of the founder influence the overall performance of the business. In addition, experience in activities relevant to the business increases the survival time of the business. Both studies concluded that businesses managed by highly-educated and business experienced persons make more profits.

Furthermore, Park (2005:741) reiterates the fact that more educated persons have a higher chance of spotting and exploiting more viable business opportunity while at the same time, it reduces the odd of "not starting a business if there is a risk of failure". The author further points out that, more educated and business experienced persons are more risk tolerable and risk tolerance enhances survival chances for opportunity driven and mixed motivated entrepreneurs. This study thus recommends that managers of SMEs should undertake professional degrees and post-degree programmes in order to boost their educational and professional career.

Meanwhile, Schultz theory (1961) and the Resource-based View theory by Penrose (1959) were the theoretical foundations for managerial skills used for this study. According to both Schultz theory (1961) and Resource-based View theory (1959), managerial skills is a form of human capital. The theories reiterate that it is of utmost importance that managers be equipped with the necessary skills in order for them to run their businesses successfully. Choo and Wong (2009:60) were of the opinion that lack of managerial skills is not only an inhibiting factor to starting a business but also a critical factor required in running a business successfully. However, the problems of managerial skills exist in South Africa as evident by the high failure rate of SMEs.

According to Herrington *et al.* (2009), entrepreneurship education should be seen as a key prerequisite for raising the levels of managerial skills in South Africa. This is also supported by Shariff and Peou (2008:59) that apart from the educational impact of the home, academic institutions can be regarded as the place where the most profound impact can be brought about in the development of managers and would be managers of a business. Therefore, entrepreneurship education is one of the initiatives that can be designed to enhance skills and knowledge in entrepreneurship.

Another means by which managers of SME can acquire and improve on their managerial skills is through training. Government agencies such as Small Enterprise Development Agency (SEDA), Development Corporations can organise practical trainings for managers. The present system where government agencies such as SEDA use consultants who write business plans for managers which they cannot articulate does make sense, but could potentially be counterproductive. The personal involvement of the managers in gathering the relevant information and in the writing of the business plan is critical to learn about the industry and to the success of the business. Managers also need to acquire high level of financial management skills if they want to get more funding to expand their businesses from investors. Non-governmental organisations should be well funded through local and international grants to help with the training needs of SME managers.

Furthermore, a “learning from peer” or mentorship approach can be instituted by government agencies to help managers to get involved in entrepreneurship training at tertiary institutions. Awareness campaigns of government support instruments should be done. Managers should thus be encouraged to use seminars as a fertile place to network with others. Subsidies could also be provided to help entrepreneurs in obtaining the professional advice they require to make them business ready. This means helping them to produce a credible strategic business and finance plan, sourcing appropriate types of finance and even coaching in presentation skills. The programme can also be designed to provide post-investment mentoring to help the businesses achieve their objectives once funding has been secured.

6.4 ACHIEVEMENT OF OBJECTIVES

This section of the study measures the success of the study against the research objectives formulated in section 1.3.1. The objectives of this study were:

- To investigate the impact of SME managers' personal values on firm performance;
- To investigate the impact of SME managers' management skills on firm performance;
- To investigate the impact of SME managers motivations on firm performance;
- To determine the relationship between managerial skills and motivations of SME managers and firm performance;
- To determine the relationship between personal values and motivations of SME managers and firm performance; and
- To determine the relationship between managerial skills and personal values of SME managers and firm performance.

The first objective of this study was to investigate the impact of SME managers' personal values on firm performance. The second objective was to investigate the impact of SME managers' management skills on firm performance. The third objective was to investigate the impact of SME managers' motivations on firm performance. The fourth objective was to determine the relationship between personal values and motivations of SME managers and performance. The fifth objective was to determine the relationship between managerial skills and motivations of SME managers and performance. Meanwhile, the sixth objective was to determine the relationship between management skills and personal values of SME managers and performance.

In order to achieve these objectives, two approaches were employed. One was through the review of literature and the other through empirical evidence. The first approach was achieved through the review of literature in chapter three and the second approach was also achieved through the presentation of empirical findings in chapter five. All six objectives were achieved using the first approach in chapter three and the second approach in chapter five.

6.5 LIMITATIONS OF THE STUDY

One of the principal limitations to this study was the measure of values, motivations, management skills and performance. Values of an individual can also be measured in terms of security, vitality, energy and pleasure. On the other hand, performance can also be measured by Return on Asset (ROA), Return on Debt (ROD) and Debt to Equity ratio (D/E). For the purpose of this study, the measure of values, motivations, management skills and performance were limited to the measures listed in section 6.2.3. In addition, the study was limited to SMEs in the Eastern Cape Province precisely Port Elizabeth and Port Alfred. Because of the above limitations pointed out, care should be exercised in the interpretation and the application of the results of this study and the generalisation of the findings to the whole of South Africa.

6.6 AREAS FOR FURTHER RESEARCH

The non-accessibility of debt finance from commercial banks and trade creditors is seen as one of the major contributing factors to the failure of SMEs in South Africa. Further research studies can investigate the impact of personal values, motivations and managerial skills of SME managers on access to debt finance from commercial banks and trade creditors. Another study could compare the impact of motivations, personal values and managerial skills on firm performance between immigrant entrepreneurs and South African entrepreneurs.

6.7 SUMMARY

This chapter examined the conclusions, recommendations, achievement of objectives, limitations and areas for further study in respect of a study titled the impact of motivations, personal values, and managerial skills on the performance of SMEs in the Eastern Cape Province of South Africa. Herrington *et al.* (2009) point out the fact that one of South Africa's greatest limitations to economic growth and development can be attributed to the lack of potential managers and entrepreneurs. According to the authors, the ratio of potential managers/entrepreneurs to workers in South Africa is

approximately 1 to 52; meanwhile, the ratio in most developed countries is approximately 1 to 10. Potential managers and entrepreneurs are the key to deal with this challenge. Various factors are faced by these managers which influences their business performance. The purpose of this study was to find ways of reducing the high failure rate of SMEs in South Africa by ascertaining the perceived values, motivations and managerial skills of SME managers.

In addition, the study investigated the relationship between motivations, personal values and managerial skills. The results indicate that there is a significant positive relationship between motivations, personal values and managerial skills. The findings also show that entrepreneurs are not only motivated by pull or push factors in to entrepreneurship but some entrepreneurs are also motivated by a combination of both pull and push factors. The six most important values of SME managers as revealed by the study include honesty, loyalty, hard work, work ethics, achievement and trust. While the least six important values include autonomy, authority, risk taking, pride, reputation and challenge. Managerial skill was found to be the most contributing factor that affects performance of SME managers.

To improve the performance of SMEs (which will reduce the high failure rate of SMEs), the study recommends that SME managers should improve on their educational level in order to be able to analyse the market for better business opportunity. The study also recommends that SME managers should attend training and seminars to improve on their managerial skills. In addition, the study recommends that government should invest more in SEDA and Development Corporation so that these agencies can organise trainings and seminars for SME managers on a regular basis. The study also recommends a corporate values standard as an essential guide for organisational behaviour, as the success and effectiveness of every organisation is based on the close link between personal and organisational values.

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ANNEXURE A



University of Fort Hare
Together in Excellence

QUESTIONNAIRE

Dear participant

My name is Asah Francis and I am a Master student in Business Management at the University of Fort Hare under the supervision of Prof. O. Fatoki. I am writing to invite you to participate in my research in the form of a questionnaire. My masters' project is entitled "The impact of managerial skills, motivations and personal values of SME managers on firm performance". Specifically, the study focuses on business skills, motivations and personal values of owner/managers that readily impact on the firm performance. The failure rate of SMEs in South Africa is between 75% - 80%. This is one of the highest levels in the world. Literature suggests that the values, motivations and skills possess by SME managers are responsible for how good or bad their businesses perform. Consequently, the success or failure of SMEs is largely influenced by the skills, values and motivations of the managers. Through the questionnaire, I hope to be able to determine the skills, motivations and values of owner/managers of SMEs that affects firm performance and make necessary recommendations to appropriate authorities. The questionnaire should take about 20 minutes to complete. The information supplied by participants will be treated as strictly confidential. Completion of the questionnaire is voluntary. If you would like to obtain a summary of the results of this research, I would be happy to send you a copy.

Please feel free to contact me on 0835808429 or asfrant03@yahoo.com with regards to any queries you may have, or my supervisor, Prof. O Fatoki (email: ofatoki@ufh.ac.za) (phone no: 040-653-2248).

Section A: Biographical questions

Question 1: The age of the respondent (in years);

20 – 30	31 – 40	41 – 50	51 – 60	Above 61

Question 2: Gender of the respondent;

Male	Female

Question 3: Educational qualification of the respondent

Matric	Diploma	Bach. Degree	Post. Grade Degree

Question 4: Previous business experience

No business experience	1-5	6-10	11-15	Above16

Question 5: What is the legal status of your business?

Sole proprietor	Partnership	Close corporation	Company

Question 6: For how long has your business been in operation (in years)?

1 – 4	5 – 9	10 – 14	Above 15

Question 7: How many full time employees do you have?

Section B: Questions on Motivations

Indicate your level of agreement or disagreement with the following questions on the motivations of managers.

Question 8: (Don't answer this question if your response to **question 4** is "no business experience"): Your past business experience motivated you to start your own business.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 9: Your educational qualification also motivated you in starting your own business.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 10: The reasons why you started your business was out of necessity.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 11: You started your business because you saw an opportunity in the market.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 12: One should not start a business if there is a risk it might fail.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Section C: Questions on managerial Skills

Question 13: Circle the number that corresponds to the extent to which each of the following managerial skills was used in your business **during the past three years**.

Managerial skills	<i>Not used at all</i>	<i>Used sparingly</i>	<i>Used moderately</i>	<i>Used quite extensive</i>	<i>Used very extensive</i>
Advertised your products	1	2	3	4	5
Extended credits to customers	1	2	3	4	5
Emphasised product quality	1	2	3	4	5
Priced your products lower than competitors.	1	2	3	4	5
Involved employees in decision-making	1	2	3	4	5
Assessed employees' job satisfaction	1	2	3	4	5
Assessed employees' performance	1	2	3	4	5
Emphasised a clearly laid down reward and punishment system for all employees.	1	2	3	4	5
Prepares financial plans and measures performance	1	2	3	4	5
Re-invest profit earned	1	2	3	4	5
Maintain large cash balances	1	2	3	4	5
Emphasis cost reduction in all areas of your business	1	2	3	4	5
Produced formal statements of business objectives	1	2	3	4	5
Set performance goals of the business	1	2	3	4	5
Developed plans	1	2	3	4	5
Prepare budget/forecasts	1	2	3	4	5
Belongs to a professional association (e.g. chamber of commerce)	1	2	3	4	5
Attends trade exhibitions	1	2	3	4	5
Maintains relationship with suppliers	1	2	3	4	5
Maintains relationship with customers	1	2	3	4	5
Documented all detailed aspects of your business	1	2	3	4	5
Administered provision of employee amenities and	1	2	3	4	5

facilities					
Consulted/employed professionals in management	1	2	3	4	5
Reviewed progress of activities to determine their consistency with plans.	1	2	3	4	5

Section D: Personal Values of Managers

Question 14: Circle the number that corresponds to the level of importance of each value to you, show the extent to which you consider each of the VALUES listed to be important

<i>Not important</i>	<i>Slightly important</i>	<i>Moderately important</i>	<i>Very important</i>	<i>Extremely important</i>
1	2	3	4	5

I. Achievement- values achievement within the business and personally.

1	2	3	4	5
---	---	---	---	---

II. Trust- trusts customers, employees, suppliers and receive trust in return

1	2	3	4	5
---	---	---	---	---

III. Reputation- pleasure from building a good reputation. Reputation is seen as fundamental to the business

1	2	3	4	5
---	---	---	---	---

IV. Autonomy (independence)- free from rules and regulations imposed by others

1	2	3	4	5
---	---	---	---	---

V. Pride- in the business he/she has created and the offer he/she put to customers

1	2	3	4	5
---	---	---	---	---

VI. Loyalty- devotion towards the business and to customers.

1	2	3	4	5
---	---	---	---	---

VII. Pleasure- from doing what he/she does and being with people

1	2	3	4	5
---	---	---	---	---

VIII. Challenge- liking the challenge of creating something, the challenge of the business

1	2	3	4	5
---	---	---	---	---

IX. Equality- love and treat all employees and customers without discriminating

1	2	3	4	5
---	---	---	---	---

X. Honesty- relates to honesty in dealing with employees, customers and suppliers

1	2	3	4	5
---	---	---	---	---

XI. Security- provides security for him/herself and others

1	2	3	4	5
---	---	---	---	---

XII. Development- satisfied with the growth and progress of the business

1	2	3	4	5
---	---	---	---	---

XIII. Affection- communicates warmth and care towards employees and customers

1	2	3	4	5
---	---	---	---	---

XIV. Optimism- has a positive outlook towards , and view of, the business in the future

1	2	3	4	5
---	---	---	---	---

XV. Innovation- doing what he/she is doing better than his/her competitors

1	2	3	4	5
---	---	---	---	---

XVI. Authority (power)- the pleasure of being the boss and delegating tasks to others

1	2	3	4	5
---	---	---	---	---

XVII. Creativity- bringing novel ways and strategies in doing business

1	2	3	4	5
---	---	---	---	---

XVIII. Hard work- belief in complete commitment (hands-on) to the business

1	2	3	4	5
---	---	---	---	---

XIX. Risk taking- use profit from business to invest in other businesses

1	2	3	4	5
---	---	---	---	---

XX. Work ethics- relates to dressing code and conduct within the business

1	2	3	4	5
---	---	---	---	---

Section E: Performance of SMEs

Indicate your level of agreement or disagreement with the following questions on the performance of your business.

Question 15: You are satisfied with the sales growth of your business for the last three years.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 16: You are satisfied with the profitability growth of your business for the last three years.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 17: You are satisfied with the performance of your business compared to the performance of your competitors.

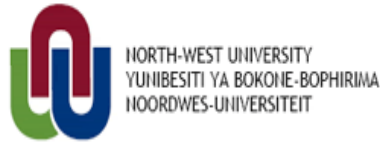
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Question 18: You are satisfied with the overall performance of your business.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree

**Thank you for taking your time to complete this survey.
I appreciate that your time is valuable. So has been your contribution!**

ANNEXURE B



DEPARTMENT OF ENGLISH

28 NOVEMBER 2012

TO WHOM IT MAY CONCERN

RE: EDITING OF THE DISSERTATION OF ASAH FRANCIS TANGWO

STUDENT NUMBER: 201013640

TITLE: THE IMPACT OF MOTIVATIONS, PERSONAL VALUES, MANAGEMENT SKILLS OF MANAGERS ON THE PERFORMANCE OF SMEs IN SELECTED TOWNS (PORT ELIZABETH AND PORT ALFRED) IN THE EASTERN CAPE PROVINCE, SOUTH AFRICA

This serves to confirm and certify that the language and grammatical errors in the above-mentioned research study have been corrected. The candidate has been advised on the correctness and usage of English and the necessary amendments have been effected to the best of my knowledge.

Yours sincerely,

A handwritten signature in purple ink, appearing to be 'P. N. NKAMTA'.

P. N. NKAMTA, BA Honours; MA (DEPARTMENT OF ENGLISH)