



**University of Fort Hare**  
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**THE IMPACT OF MANAGERIAL COMPETENCIES ON THE  
PERFORMANCE OF SMEs IN THE BUFFALO CITY MUNICIPALITY**

**BY**

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**A DISSERTATION SUBMITTED IN FULFILMENT OF THE  
REQUIREMENTS FOR THE MASTERS DEGREE IN BUSINESS  
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## **ABSTRACT**

This research study was undertaken to examine the impact of managerial competencies on performance OF SMEs in the Buffalo City Municipality in the Eastern Cape Province of South Africa. The objectives of the study were, to investigate the relationship between managerial competencies and performance of SMEs in the Eastern Cape; to explore the extent to which human skill impact on SME performance; to establish whether business skills posed by owner-managers promote high performance in SMEs; and finally, to establish whether technical skills inherent in owner-mangers have an impact on SME performance. To achieve these objectives, the study hypothesised the set objectives. A total sample of 184 SMEs was used to obtain the relevant information. Stratified sampling was used to gather data using a self-administered questionnaire as the research instrument. Data obtained from this study was elicited from SME owners and owner-managers only as there were the target elements. The t-test and chi-square were used for statistical analysis in order to derive research findings and conclusions.

After the analysis of the empirical findings, the researcher discovered that, eighty per cent of the SMEs are five years or shorter in existence of which forty-one per cent exist for less than two years. High performance of SMEs was found to be heavily linked to managers technical and business skill. The ability to outperform industry rivals and increase productivity was found dependant on human skill which supported the Human Capital and Resource Dependence theory. The majority of SMEs are hampered by resource shortfalls with the technical skill (networking and innovativeness) resource shortfall being the most critical. SMEs generally conduct financial statement and inventory analysis, but ratio analysis, however is largely neglected. Only forty-two per cent of SMEs practice financial planning and appraisal.

Based on the findings of this study, it is recommended that

- SMEs resort to the consulting with experts and professional support institutes, especially, in those areas where expertise is inadequate.
- Government support institutions are more alert to the individualized needs of SMEs and deviate from the shotgun approach to satisfactorily meet these needs.

## DECLARATION

I, the undersigned, Bryan Tarwirei Madya (201013583), hereby declare that this dissertation with the research topic entitled “The impact of managerial competencies on the performance of SMEs in the Buffalo City Municipality” is my own original work and where ideas, thoughts or sentences were adopted the necessary acknowledgement as done by means of referencing the source in text and also on the reference list. The document has never been submitted and will not be presented at any other University for a similar or any other degree award.

.....

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## **PLAGIARISM DECLARATION**

I, the undersigned, Bryan Madya (201013583), hereby declare that I am fully aware of the University of Fort Hare's policy on plagiarism and I have taken every precaution to comply with the regulations.

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I, the undersigned, Bryan Madya (201013583), hereby declare that I am fully aware of the University of Fort Hare's policy on research ethics and I have taken every precaution to comply with the regulations. I have obtained an ethical clearance certificate from the University of Fort Hare's Research Ethics Committee and my reference number is the following, **RUN0111SMAD01**.

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## **ACKNOWLEDGEMENTS**

I would like to express my gratitude to God Almighty for allowing this project to be such a success, for according me the ability to acquire the finance and physical strength that was needed to carry on. I also want to extend my appreciation to the following people and institutions:

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## **DEDICATION**

I dedicate this project to the Lord God Almighty. You are my rock and fortress; in you, I find strength and purpose to live.

To my dear father the late Madya E. You will always be in my heart: Tears may dry but treasured memories will always be forever.

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## LIST OF ACRONYMS

Eastern Cape Development Corporation.....	ECDC
Gross Domestic Product.....	GDP
Organisation for Economic Co-Operation Development.....	OECD
Small Enterprise Development Agency.....	SEDA
Small Enterprise Finance Agency.....	SEFA
Small Medium Enterprise.....	SME
Statistical Package for Social Sciences Version 20 Software.....	SPSS
The National Small Business Chamber.....	NSBC

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**CHAPTER 1:**  
**INTRODUCTION AND BACKGROUND TO**  
**THE STUDY**

## 1.1 INTRODUCTION AND BACKGROUND

Growth in Small Medium Enterprise (hereafter, SMEs) is a major challenge, and it may be correlated with challenges which require distinct management competencies and financial support. The failure of SMEs even after accessing scarce utilitarian resources, such as funds, mean that SME managers encounter numerous crises at different phases of the SMEs development (Senge, 2012). To be successful in the ever changing market environment, SMEs need to continually increase productivity. Productivity in firms is measured through performance and growth related strategies. Growth-oriented SMEs will employ strategic competencies to promote leadership behaviour and performance-oriented SMEs promote competencies that build organisational capabilities (Bersin, 2007). “Competency” is a quantifiable characteristic within an individual that is linked to improved success at work place, while performance is the employee’s attainment of certain previously assigned goals (Bennett, 2014).

Business success in many industries is a sheer force of intense competition regardless of being a small, medium or even large organization. Bennett (2014) indicates that, for an SME to be performance competent, its management should exhibit good knowledge of the industry, in terms of how to position the SME within the industry. This is management ability to mobilise start-up capital, satisfy customers and network with suppliers and competitors. In retrospect to this scenario SME owner/managers being the driving force of the firm should seek necessary techniques, strategies and skills that enable the firm to achieve a competitive edge over their rivalry firms. This study focuses on specific management competencies that positively or negatively influence SME performance and these have been grouped into three categories, namely: technical skills (the expertise in a specific field such as computers or accounting); business skills (the ability to manage time and human capital successfully); and human/personal skill (the ability of performing a given task efficiently and effectively).

SMEs are the major contributors to the economies in developed and developing economies as far as employment creation, poverty alleviation and equitable income distribution are concerned. The government of South Africa recognises SMEs importance in the economy by providing financial assistances through SEDA, SEFA, and NSBC. Despite such commendable efforts from the government and other independent organisations to boost SME performance, studies reveal that most SMEs do not achieve maximum potential (Bennett, 2014; Fatoki, 2012; Kim, 2011).

Ngwenya (2012) noted that, the SME sector in South Africa employs approximately 65 per cent of the working population and contributes between 50 per cent and 60 per cent to the gross domestic product (GDP). Furthermore, SMEs play a critical role in the equitable distribution of income in South Africa especially with the current Gini-coefficient of 0.65 one of the highest in the world (Pahad 2008). According to the Department of Trade and Industry (DTI, 2012), the Eastern Cape SMEs account 7.8 per cent of total national production, employing 54 per cent of the Eastern Cape working population, contributing 35 per cent of provincial GDP, with the Buffalo City Municipality SME sector the second largest contributor after the Nelson Mandela Bay Metro. Despite of the vast actual and potential contribution of SMEs to South African economic and market efficiency most are not realising the maximum economic value. Inability to realise maximum utility results in most of the SMEs adding an insignificant contribution to the economy as a result of weak performance in their businesses (Sekyewa, 2009).

According to Von Broembsen, Wood and Herrington (2010), more than 70% of start-up firms close-down operations between the first two and three years of commencement in South Africa. This is consistent with Fatoki and Odeyemi (2011) who reported that for newly established SMEs, to realise growth and sustainable operations beyond three and half years, is less likely particularly in South Africa. This failure rate is significantly higher when compared to other countries who participated in the annual research conducted for the Global Entrepreneurship Monitor (GEM, 2013). The failure rate of SMEs was a major concern to Opio (2007). In a study of 130 manufacturing SMEs, Opio revealed that, managers lacked relevant managerial skills, knowledge and experience to coordinate their day-to-day responsibilities. This is supported by Bimbona (2008) who contended that, SME owner-managers do not adopt innovative techniques and ideas. Thus, keep on selling similar products and services leading to cut throat competition, which questions the ability of the manager's competencies.

The International Trade Centre as cited in the (DTI, 2012), insinuate that, the Eastern Cape has the largest survivalist SMEs constituting 15 per cent of the national market. According to DTI/ECDC report (2012), 65 per cent of the survivalist SME's are situated in Amatole, OR Tambo and Nelson Mandela Bay Metro. This shows that the Buffalo City Municipality SMEs are not performing well with regards to other municipalities within the province. Fatoki (2012) suggests that the high failure rate of SMEs is mainly attributed to poor business and management competences. Managerial competencies involve human, technical and business skills. Therefore, without sound managerial

practices a firm will not maximize shareholder wealth and market value. The next section, 1.2 highlights and describes the research problem.

## **1.2. PROBLEM STATEMENT**

SMEs are continuously receiving recognition as an important tool in sustaining the economies of most countries throughout the world (Fatoki, 2012). However, it has been established earlier that there is a high failure rate of SMEs in South Africa. Krajcovicova (2012) and Fatoki (2014) revealed that more than 75% of these SMEs fail within the first two years of their conception. The authors suggest lack of sound managerial competencies as the primary cause of the high SME failure rate. Fatoki (2014) revealed that, In South Africa of the 75% closed SMEs, 60% have seized operations due to incompetence's and managers' attitudes towards developing employees.

While it is acknowledged that managerial competencies are critical to SME success, there is limited evidence of managerial competency awareness, benefit, practice and effect on SME performance. Preston (2008) revealed that managerial competencies provide a benchmark for comparing actual and desired performance. This is supported by Krajcovicova (2012) and Fatoki (2014) who stated that competent employees' contribute heavily to the attainment of organisational objectives, mission and goals.

Performance is based on various success pointers of an organisational and management character (Gorgievski, Moriano & Bakker, 2014). However, studies conducted on SME performance only observed the organisational character exposing firm characteristics as the basis for SME's inability to expand (Chimucheka, 2012; Fatoki, 2012; Mazzarol, 2015; Rungani, 2009). The studies ignored the management characteristic. Therefore, this study will adopt the management characteristic effect on performance. Managerial competencies necessary for SME growth will be revealed to enable management capacity to adopt, adapt, and exploit new technology and business practices that improve SME performance.

Other studies conducted in the Buffalo Municipality with regard to SME performance only revealed access to finance as the only obstacle to SME success (Fatoki, 2014; Rungani, 2009; Machirori, 2012). However, performance is a multidimensional spectacle which contains manifold criteria of a financial and non-financial character (Gorgievski et al., 2014; Orser & Dyke, 2009). Managerial competencies form the non-financial character of investigating SME performance. However, existing literature

focused on individual competencies not combined managerial competencies (Chang & Tharenou, 2008; Rogerson, 2008; Ghebrit, 2004). Henceforth, this research will merge all the competencies to provide a wholly conclusive competency benchmark tool for SMEs to increase shareholders and market value.

The studies conducted on managerial competencies were investigating the impact on immigrant-owned SMEs only (Cohen, 2006; Fatoki, 2014; Kanungo & Menon, 2005; Preston). The other studies put emphases on SMEs owned by foreigners and did not target the whole SME sector, as there were investigating retail SMEs (Cohen, 2006; Fatoki, 2014; Preston, 2008). The studies did not provide a generalized impact of managerial competencies in performance of all industries that is manufacturing, agriculture, retail and construction. Thus the purpose of this research is to add to the existing literature by investigating the entire SME sector to increase the generalisation of results (external validity).

South African business environment stretches all over the nine provinces, thus Western Cape, Gauteng, Northern Cape, North West, Kwazulu Natal, Limpopo, Mpumalanga, Free State and Eastern Cape. The existing literature on managerial competencies indicated that the available studies were conducted only in Gauteng province (Krajcovicova, 2012; Ghebrit, 2004; Fatoki, 2014; Preston, 2008). Therefore, no specific study has been conducted investigating the impact of managerial competencies on SME performance in the Eastern Cape. Therefore, this study seeks to give evidence in the missing literature.

Smit and Watkins (2012) agree that, the gap between large and small firms is increasing due to the critical unavailability of competent managers to lead SME survival in South Africa. There is a high probability that the problem(s) resulting in restricted SME success rate of 25% are internal challenges. The empirical study seeks to add on existing literature by evaluating one of the most important internal issues, the benefit of executing sound managerial capability/competencies. The research seeks to clarify answers to the missing literature questions:

- To what extent are SME owners, owner-managers or managers competent?
- SME owner-managers ability to implement sound managerial competencies, improves SME success rate?
- Which managerial competencies are essential for SME success?

The next section, 1.3 highlights and describes the research objectives and hypothesis of the study conducted.

### **1.3. RESEARCH OBJECTIVES**

The study sought to critically analyse the impact of managerial competencies on performance of selected SMEs in the surveyed area. The research study at hand investigated two categories of objectives, namely the primary and secondary objectives.

#### **1.3.1. Primary Objective**

- To investigate on the impact of managerial competencies on SMEs performance.

#### **1.3.2. Secondary Objectives**

- To establish whether or not a significant association can be found between management skill (preparing and interpreting financial statements and communication skill) and SME performance.
- To establish whether or not a significant association can be found between human capital (prior business experience, level of education) and SME performance.
- To determine the impact of technical/functional skill (technical know-how, networking, innovation) on SME performance.
- To establish the managerial competencies possessed by SME owners/managers.

### **1.4. RESEARCH HYPOTHESES**

In an attempt to achieve the above mentioned objectives, the following null hypotheses (grouped into primary and secondary) were formulated.

- **Primary hypothesis**

H1<sub>0</sub>: Managerial competencies do not impact on the performance of SMEs

- **Secondary hypotheses**

H2<sub>0</sub>: There is no significant association between management skills (preparing and interpreting financial statements and communication skill) and SME performance.

H3<sub>0</sub>: There is no statistically significant relationship between human skill (prior business experience, level of education) practiced by managers or owner-manager and SME performance.

H4<sub>0</sub>: There is no statistically significant relationship between technical skill (technical know-how, networking, innovation) practiced by managers or owner-manager and SME performance.

## **1.5. SIGNIFICANCE OF THE RESEARCH**

The dynamic business environment is characterised by rapid technological shifts in many production processes. This is causing present solutions to customer problems obsolete and explosive growth or plummet conditions in leading industries. In retrospect to the scenario, any SME that is not frequently evolving, acclimatizing to new technological developments and using incubators to yield competent leaders/managers is committing corporate suicide. The mentioned changes indicate the need for SMEs to enhance their managerial competence. Thus, it is significant to investigate whether managerial competencies, impact on SME performance.

Literature has highlighted the impact of managerial competencies on firm performance. However, most studies have focused on large firms and shunned SMEs. The few studies conducted on SMEs have investigated managerial competencies in isolation. Therefore, this investigation seeks to find out if SMEs are aware of the various managerial competencies required to increase SME performance in South Africa. The researcher also seeks to reveal the importance of implementing sound managerial competencies in SMEs for improved performance.

The need to make known more of managerial competencies impact has been stimulated by the failure of future large businesses (SMEs). Therefore, the findings of this research can be adopted by the government, SME owners/managers and academia's to avoid high SME failure rates and stimulate further research studies. This will add valuable information to SME policy makers on hiring and retrenching staff. The recommendations will also provide valuable information to current SME owners/managers on the required managerial competencies on business culture/conduct so as to avoid high failure rates. The investigation at hand will also add to the existing literature on the impact of managerial competencies on SME performance.

## **1.6. PRELIMINARY LITERATURE REVIEW**

For the purpose of this study, a definition proposed by (Hellriegel, Jackson & Slocum, 2008) was adopted as a basis for departure, namely: managerial competencies are a collection pool of skill, knowledge, skill and an attitude that contributes to individual efficiency. This definition is also supported by (Calmorim & Calmorim, 2007) who describes a management competency as a combination of knowledge and skills essential in effectively accomplishing a project. Therefore a general consensus for the purpose of this study is on the notion that managerial competencies include Skills (acquired competencies), Knowledge (acquired mental processing skills) and Experience (skills acquired from practice).

### **1.6.1 Business Skills**

Business skill is the ability to manage time and human capital successfully (preparation and interpreting financial statements and communication skill). For an SME to outperform its rivalry firms it depends on the manager's business skills. The ability to prepare and interpret financial statements enables a firm to increase its chances of accessing financial assistance. Capital inflow is crucial in funding the expansion and diversification, which ultimately lead to high performance of an SME. Other studies carried out on the importance of managerial competencies also outlined the lack experience, poorly constructed business plans, omission of feasibility study and below average personal qualities on the part of the managers or owner-manager of the serving SMEs. Staines and Martin (2008) established that the distinguishing feature of high performance growth and low performance growth in SMEs is the knowledge, training and education of managers. However, the capability to prepare and interpret financial statements is assumed to have a positive relationship with SME performance.

### **1.6.2 Human Skills**

Human capital is the ability to execute a given task efficiently and effectively (prior business experience and level of education). Mazzarol (2015) stated that, SMEs do not have indispensable managerial competencies to perform their daily duties/activities in their respective firms. On the other hand, Chiliya and Roberts-Lombard (2012) augment that, most SME owner-managers are indistinguishable as far as knowledge and skills are concerned. This is observed through the investigated individuals same levels of education with regards to degrees and diplomas obtained. The relevant competencies

that are required of the owner-managers are known. However, there is evidence that some of the entrepreneurs (owner-managers) that run SMEs are frequently uneducated and lack industry experience to accomplish their duties which in turn affects business performance (Senge, 2012). The argument provided above indicates that there is an association between a manager's educational level and SME performance. Hence, the study will test the strength of this association.

### **1.6.3 Technical Skills**

Technical skill is the expertise in a specific field such as computers or accounting (technical know-how, networking, and innovation). However the available literature Senge (2012) and Hayton (2015), stating that managerial competencies are mostly affected by lack of experience, educational qualification, skills attained is neither wholly accurate nor conclusive. This gap between the managerial competency application and SME performance means that the networking, mentoring and innovativeness of SME managers is poor. The fact that the business world is constantly changing due to technological advancement is a true reflection that a manager's technical skill has a positive relationship with SME performance. This research seeks to give evidence in the missing literature as supported by Hayton (2015) who argues that competencies are of paramount importance rather than the knowledge and skill of owner-manager if SMEs are to increase performance in complex tasks with a high level of accountability.

## **1.7. THEORETICAL BACKGROUND**

The reviewing of the literature also helps in identifying the existence of inconsistencies and gaps in the area of research (Ismaila, 2011, p. 4). The study made use of three theories, namely resource dependence, human capital and the iceberg theory.

### **1.7.1 Resource Dependence Theory**

The resource dependence theory states that resources are critical for an organization's success, according to Pfeffer and Salancik (1978). According to Bolingtoft et al., (2003), to establish, sustain and gain comparative advantage for a new small firm, the owner-manager or SME manager needs to have freely available firm resources especially human capital. Resource-dependency theory stresses the critical importance of internal resources to sustain competitive rivalry firms. The theory is applicable to SMEs since SMEs do not want to incur the high costs of acquiring external assets (human skills, machinery and business premises). This is proven in a research conducted by

(Rungani, 2009) who stated that SMEs prefer to utilise internal assets for sustained operations because of lack of external assistance from financial institutions.

### **1.7.2 Human Capital Theory**

The human capital theorem was proposed by Schultz in 1961 and then later developed by Becker in 1964. Schultz (1996) defined human capital as examples instead of formal definitions through this following statement “.... What we often term consumption actually constitutes an investment in human capital. Expenditures directly linked to education and income forgone with mature students pursuing school and co-workers gaining on the job-training equate to human capital examples”. Human capital is a pool of knowledge and personality qualities that promote ability to perform a given task effectively and efficiently in order to add economic value (Abouzeedan, 2011). Human capital involves educational qualifications, work experience, industry knowledge prior to starting the business, hence its relevant theory for the basis of managerial performance on SMEs. Today’s dynamic business environment requires firms to be proactive and the dominant sense is that the SME success is dependent to a large extent on owner-managers and employees with higher levels of individual competence.

### **1.7.3 Iceberg Theory**

The model was put-across in the 1990s specifically by Spencer and Spencer in 1993. Spencer and Spencer (1993) argued that, the iceberg theory is a rational process which assists an individual in discovering the motive behind every underlining event. The theory states that there are hidden and visible competencies were the visible constitute 20% and the invisible 80%. The iceberg theory is applicable in SMEs as observed by Garcia-Teruel and Martinez-Solano (2011) who observed that, SME owners/managers end up improvising their own methods of getting things done (invisible competencies). This is because SMEs prefer the techniques of production to be relevant to their unstructured management hierarchy.

The next section 1.8 will give a brief description of the research methodology.

## **1.8. RESEARCH METHODOLOGY**

The research methodology is seen as the ‘blue print’ on the road to carry out research (Burns & Burns, 2008, p. 47). This section will outline the research methodology which was employed in order to accomplish the research objectives and test the hypothesis.

This study employed a positivistic research methodology. The study adopted a quantitative research design. According to Burns and Burns (2008) the quantitative research method explains variables in a way that they are measurable and statistical summarisation can be used to derive empirical generalisations. The researcher used this design because it offers more evidence as far as value and statistics is concerned. It's easier to compile the gathered data on graphs or charts, the result is unknown and also data was collected from a large group of SMEs in the study area. The data was analysed by use of statistical summarisation.

### **1.8.1 Research Technique**

There are three types of descriptive research, namely an observational method, case study method and finally a survey method. However, this research study made use of the survey technique where the respondents answered given questions (dichotomous, multiple question, Likert-scale) which were administered through questionnaires. The survey involved several trips to the survey area to issue out the questionnaires to randomly selected SMEs located within buffalo municipality. The trips were conducted on a three day spacing to give respondents time to answer questions unbiased, willingly and comfortably. After participants answered the questions, the researcher deduced the responses provided. Burns and Burns (2008) argue that for the survey technique to be reliable and valid it is important that the questions are constructed accurately to suite purpose of investigation. The researcher conducted a pilot study on 20 questionnaires (11%) of the desired sample so as to ensure the questions were not ambiguous.

### **1.8.2 Secondary Data**

Secondary data refers to the collecting, analysing and interpreting the data which has already been observed, experienced and recorded already by other researchers or scholars (Calmorin & Calmorin, 2007). The researcher obtained information related to the study at hand from internet sources, books, journals, unpublished dissertations in the library and newspapers to mention a few. It should be noted that secondary data was not prepared specifically for the current research study, however, it can assist in understanding the problem at hand in a greater detail.

### **1.8.3 The Survey Area**

Gill and Johnson (2010) define the study area as the description of the geographic location where elements of the sample frame reside. This research study at hand was

conducted in the Buffalo City Municipality. This area was chosen mainly because of the existence of a large number and variety of SMEs in the city. The Municipality includes amongst others, East London, King Williams Town, Bhisho and the townships of Mdantsane and Zwelitsha. The researcher chose this area due to its proximity to the university and large number of SMEs in operation.

#### **1.8.4 Population**

Basically, a population refers to a group of objects or people which the researcher is interested in investigating or experimenting (Babbie, 2010, p. 199). The researcher contacted the Eastern Cape Development Corporation (ECDC) to obtain the total number of SMEs conducting business activities in the Buffalo City Metropole. The records obtained from the ECDC reveal that there are a total of 350 active and registered SMEs.

#### **1.8.5 Sample Size**

The collection of data from a large population of 350 is relatively time consuming and costly, hence the researcher collected data from a sample. The researcher used the Rao-soft sample size calculator to compute the sample size. The sample size was calculated at a confidence level of 95%, response distribution of 50% and a margin of error of 5% and the recommended sample size obtained from the computation is 184. Thus, the researcher distributed 184 questionnaires to SMEs. The sample size of 184 was established on the basis that there is need to have a representative sample population, the cost of data collection and the need to have a sufficient statistical power.

#### **1.8.6 Sampling Technique**

The study at hand employed the stratified simple random technique. Chimucheka (2012) points out that the stratified simple random ensures that each element under investigation faces identical chances of being selected. This is done after having grouped the population into sub-strata. In order to ensure the accurate selection of the sample, the research made use of the list of registered SMEs according to the Eastern Cape Development Council (ECDC). This list provided the sample frame for this study. The elements being the manager or owner-manager of the SME were selected exclusively by chance and each element of the sample population had an equivalent opportunity of being selected. The questionnaires were handed out to randomly

selected SMEs located within the survey area so respondents provide unbiased information.

### **1.8.7 Research Instrument**

Generally a research instrument refers to the means or tool which is used to gather data from research respondents (Cant, Nel & Kotze, 2005, p. 131). Calmorim and Calmorim (2007, p. 151) identified some of the research instruments, namely: questionnaires, tests, observation schedule, checklists, rating scales and interviews. The study at hand, made use of a questionnaire. The researcher prepared the questionnaire based on the existing literature, measurement scales obtained from (Ghebrit, 2004; Fatoki, 2014; Franco & Leitao, 2008; Rungani, 2009; Machirori, 2012). To ensure that the research instrument served its purpose, the research instrument was tested for validity and reliability before distributing it to the research respondents.

#### **1.8.7.1 Variable Measurement**

Cooper and Schindler (2008, p. 44) states that a variable is a symbol were attaching numerals or a value is possible. The study at hand contained two sets of variables which were independent and dependent variables. The investigated independent variables were selected managerial competencies and the dependent variable was performance.

- **Independent Variables**

To measure the human capital variable education and experience were used. The education variable was tested based on the highest level of educational qualification reported in the data collection. We measure experience as total imputed labour market experience. These questions are asked using a nominal question set-up as used by Ghebrit (2004), Fatoki (2014) and Rungani (2009).

Management skill was measured through leadership skill, financial statement preparation and interpretation. To test we used the four-item likert mentoring/leadership scale with a Cronbach's alpha of 0.91. The likert scale was adopted from Levenson, Van Der Stede and Cohen, (2006). The financial statement preparation and interpretation data rating in the questionnaire employed a 5-point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A technical/functional skill was measured through networking, innovativeness and technical know-how. The managerial networking competency being tested included interactions with customers, suppliers and competitors. To test networking involvement dichotomous questions were utilised as in other studies carried by Cooney (2012), Laperche and Liu (2013) and Machirori (2012). The dichotomous questions had a Cronbach's alpha of 0.82. Innovativeness tested using a five-point likert scale and semantic differential scale which had a Cronbach's alpha of 0.85. The scales were used by Fatoki (2010).

- **Dependent Variable**

The dependent variable being performance was measured using growth, number of employees, profitability and satisfaction on performance with set benchmarks. The study employed a five-point likert scales, dichotomous questions, open and closed-ended questions as well as multiple choice questions to measure the sales, number of the employee base, satisfactory levels of stakeholder and profitability ratios. These measurement scales represented the financial and non-financial measures which is consistent with similar studies conducted by Fatoki (2012) and Machirori (2012).

## **1.9 DATA ANALYSIS PROCEDURE**

The researcher with the aid of the Statistics Department at the University of Fort Hare conducted the data analysis procedure. The correlation was applied to analyse the descriptive statistics such as the mean, mode, median and frequency distribution graphs. The researcher used the statistical analysis package (SPSS version 20) to analyse the data. The statistical analysis package was used to analyse graphs, while the chi-squared test for independence was employed to test for association and multiple linear regression was used to measure relationship between independent and dependent variables. The data analysis involved using descriptive statistics such as graphs, tables and t-tests.

- Descriptive statistics was applied to the basic characteristics of the sample. This employed both frequency and means to describe the data which included industry type, years of operation and characteristics of SME managers/owners.
- Factor analysis was used to aid data reduction and refine the research questions.

- ANOVA test was performed on the biographic information such as age of the owner/manager, technical skill, networking capacity, communication, and level of education. The test is used to determine the impact of these factors on performance.
- The T-test analysed the differences in the midpoint and mean scores of the factors so as to determine the level of significance in the differences if any between the variables. Thus to determine if more years of experience yield better performance levels in SMEs and does technical skill increase performance levels.
- Correlation was used to determine how strongly and in what direction (that is, positive or negative) are the Independent Variables and the Depended Variables related. Thus to test the relationship between communication, prior business experience, level of education, technical know-how, networking, innovation, preparing and interpreting financial statements and mentoring on SME performance.

## **1.10. RELIABILITY AND VALIDITY**

Reliability is the ability to reproduce the exact results when used again (Babbie & Mouton, 2002, p. 15). The researcher made use of the statisticians at the University of Fort Hare and research supervisor to ensure reliability and validity of the questionnaire. The researcher conducted a pilot study on 10% of the desired sample so as to ensure that the questions within questionnaire will measure what there are supposed to measure. The pilot study helps in identifying any available ambiguities and corrects them before the questionnaire is distributed to the designated sample. The pilot study of 10% will had a sum of 20 questionnaires with the given sample frame.

Babbie and Mouton (2002) sinuates that validity is the ability of a measurement instrument (questionnaire) to accurately measure the intended study purpose, given the context in which it is applied. The researcher used the chi-squared test to determine if a relationship or an association exists among the different variables given. To measure the strength of the relationship between the variables researcher used the linear regression model. The ability to generalise the results to be gathered through the research study the sample size was large enough to represent the larger population omitted from the study. Random sampling was also used to eliminate or minimise bias.

## **1.11 ETHICAL CONSIDERATIONS**

In conducting research projects, the researcher may violate certain rules that could result in a conflict between the research participants, researcher promoter and possibly the final user of the information obtained from the research study. Thus, a researcher has to follow certain ethical principles. Cant et al., (2003) defines ethics as generally recognized values of right and wrong behaviour. Sound ethical principles were applied from the beginning to the end of the research project. Some of the research principles which the researcher followed include disclosing the nature and objectives of the research study to all research participants and circumventing any deception as per the ethical code. The researcher warranted anonymity of all respondents and permission to conduct the research project was granted by the University of Fort Hare's Research Ethics Committee (UREC) with an official clearance number.

## **1.12. LIMITATIONS AND DELIMITATIONS OF THE STUDY**

The limitations of this study include the fact that the researcher used a sample and not a census. A sample is not a total representation of the population and therefore some errors due to sampling errors might be present. Other limitations attached to the research study include the ignorance of SME owners or owner-manager to answer questionnaires, unavailability of proper financial records/books and illiteracy among respondents which may cause unreliable data collected because some SME owners or owner-manager are not educated enough to understand the questions proposed within the questionnaire. The researcher used a sample to collect data because of the constraint of time and the budget.

Some delimitation to the study was that, the research was done in the Buffalo City Municipality and this is only one part of the Eastern Cape. The researcher chose the Buffalo City Municipality region because of its proximity to the researcher and that the study be carried out in the time budgeted. In carrying out the research the researcher used less of qualitative methods because they are not effective when collecting data from a large number of respondents.

## **1.13. ORGANISATION OF THE DISSERTATION**

- **CHAPTER TWO: AN OVERVIEW OF SMEs AND SME PERFORMANCE IN SOUTH AFRICA**

This chapter provides a brief overview of the role of SMEs, the contributions to the economy and the challenges faced by SMEs in South Africa. In addition, SME performance is discussed with regard to the South African business environment.

- **CHAPTER THREE: MANAGEMENT COMPETENCY THEORIES**

This chapter gives an overview of and reflects on existing managerial competencies literature. In addition, relevant managerial competency theories and practices and its implementation in South Africa and globally, are described and discussed.

- **CHAPTER FOUR: RESEARCH METHODOLOGY**

This chapter describes the research process, more specifically, how the research was conducted and the methodology followed. The research design, population and sampling, the research instrument and data analysis procedures are explained.

- **CHAPTER FIVE: ANALYSIS AND INTERPRETATION OF RESEARCH RESULTS**

The data analysis and the research findings are presented in this chapter.

- **CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS**

This, the final chapter of the study, presents a summary of the research, the major conclusions on the findings as well as recommendations based on the results of the study. This chapter concludes with a discussion of the limitations of the research findings as well as areas for further research.

## **1.14 SUMMARY**

This chapter's main objective was to outline the problem statement, state research objectives and explain the significance of the research study. Hence, the problem statement, objectives, hypothesis and significance were clearly highlighted within the chapter. The chapter also highlighted on the research methodology to be adopted for collecting data.

The sample frame was determined to be 184 SMEs using the Raosoft calculator. The questionnaire to be used was tested for reliability according to the Cronbach's coefficient alpha. The data analysis test to be adopted was also highlighted in the chapter. The theories used as the founding base for the research topic were also

discussed. In the chapter to follow an overview of SMEs in the South African economy is given while the merits and performance of SMEs are provided.

**CHAPTER TWO:**  
**AN OVERVIEW OF SMEs AND SME**  
**PERFORMANCE LEVELS IN SOUTH AFRICA**

## **2.1 INTRODUCTION**

Small Medium Enterprise (SMEs) is the catalytic machine for achieving economic development and they form an extensive part of the business world. The Department of Trade and Industry (DTI) states that, SMEs are very important because they make crucial contribution not only to the South African economy, but also to the society and community (DTI, 2011). The significance of SMEs in job creation, improving standard of living and economic wealth is globally recognised. It is for these and other reasons that many economies world-wide concern over the success and continued existence of these SMEs. It is also important to note that SMEs face a lot of challenges that affect their performance (Malan, 2010). Consequently, governments all over the world are focusing on implementing policies which promote the SME sector (Fatoki & Gware, 2010). The South African economy is also benefiting from this sector. This is attributed to SMEs ability to absorb more labour with limited capital, which automatically adjusts market waves (Abor & Quartey, 2010; Nieman & Nieuwenhuizen, 2009; Olawale & Garwe, 2010; Singh, Garg & Deshmukh, 2008).

The previous (first chapter) provided an introductory background to this research study. The motivation for carrying out this research study was given and the research problem was hypothesised into researchable measurements. In this chapter an overview of SMEs in the South African economy is given. The aim of this chapter is to evaluate the relationship between SMEs and performance from both the international and South African perspective. The initial sections of this chapter will provide the definition of SMEs from both global and South African perspectives. Hereafter, a discussion about the SMEs contribution towards employment, gross domestic product and income distribution will follow. The performance of SMEs will also be discussed with respect to the South African business environment. The concluding sections of this chapter will focus on the challenges that SMEs are facing. A question will therefore be asked whether remedies exist to help the struggling SMEs.

## **2.2 DEFINING SMES**

Defining SMEs in the world is a major challenge universally. Lloyd (2010) arguments that before the definition of SMEs can be questioned, it is imperative to differentiate small and large firms. According to Smit and Watkins (2012) there is no universal definition for an SME because the grouping of business organisations into large,

medium and small is based on a variety of judgements. Kushnir (2011) and Monks (2010) emphasize that different definitions of an SME exist, but some common elements of defining the SME can be picked out which include:

- Number of employees
- Total turnover
- Balance sheet total
- Amount of capital

Due to the above mentioned difficulties it is only positive to define SMEs in accordance to country economic structures or in reference to the country under study. This notion is supported by Stamatovic and Zakic (2010, p. 152) who states that the definition of SMEs in one country can be considerably different to the definition of an SME applied in another country.

The definition of SMEs in retrospect to level of economic development within a nation is outlined below in section 2.2.1.

### **2.2.1 Global Perspective**

Quantitative and qualitative measures may be utilised to aid definition of SMEs. A substantive qualitative definition is provided by the United Nations Industrial Development Organisation report (2010). It states that, these are SMEs which are labour intensive, attract an undefined and weak competitive position in the market and usually independent of a large firm. Quantitative measures include, among the following, the number of employees, annual turnover and the value of assets (AIU, 2012). However, the quantitative definition has been utilised in similar previous research studies. Therefore, for the purposes of this study, a similar approach will be adopted.

The United Nations and the World Bank are positive to the notion that SMEs are the most important drivers in solving economic developmental challenges. In a study conducted by Nenzhelele (2009), the majority of European and American economies SMEs are restricted to employing between 200 and 500 employees. However, major differences exist when defining SMEs, according to the annual turnover and balance sheet totals.

The Department of Trade and Industry (DTI, 2014) and the Business Population Estimates (BPE) (2012), state that a small business in the United Kingdom is the one that employs between 50-249 employees, with a turnover not exceeding £23 million and not more than £11.5 million in the balance sheet.

SMEs are defined using the criteria of quantitative factors within the European Union. An SME is defined as firm not employing more than 250 employees and a maximum turnover of 50 million Euros with a balance sheet total face value of 43 million Euros this is (Anon, 2009). The Australians and Italians define an SME as an entity not employing more than 500 employees.

Asian SMES are defined as an establishment employing less than 300 employees while in Japan and in Taiwan its defined according to the level of capitalisation as provided by (Ministry of International Trade and Industry Japan, 2000; Grossruck:, 2000).

From a continental perspective, in Nigeria SMEs are those with a total cost (excluding land cost) of between N10 million and N100 million, employing 71- 200 full time employees and a total turnover not exceeding N20 million (Onugu, 2005, p. 28). Aiguran (2007, p. 2) states that, SMEs in Tanzania are firms employing between 5 and 99 employees with a capital outlay exceeding 5 million shillings but less than 800 million shillings.

In Zimbabwe the definition of SMEs is based on the variable of the asset base and the number of employees. According to the Zimbabwe Revenue Authority (ZIMRA) (2014) defines SMEs as any enterprise with less than 75 employees, a maximum annual turnover of 1 million dollars and a maximum of 2 million dollars in gross value of assets. That is SMEs are defined in reference to the number of employees, total assets and legal structure. Botswana states that an SME is that which employs a maximum of 25 employees with an annual turnover between P60 000 and P1 500 000.

With the SME definition of some African and European countries outlined above, section 2.2.2 provides the definition of an SME in a South African context.

### **2.2.2 South African Perspective**

The South African economy is a free market economic system therefore has its own legislative parameters governing the classification of firms small, medium and large.

The study at hand will make use of the South African Revenue Service (SARS) and National Small Business Act 102 of 1996 as amended in 2003 SME definitions.

The National Small Business Act states that, an SME is a “separate and distinct entity, including cooperative enterprises and non-governmental organisations, managed by one or more which, including its branches or subsidiaries, if any, is primarily carried out in any sector or sub-sector of the economy” as stated in the National Small Business Act 102 of 1996 as amended by Act 29 of 2004.

**Table 2.1: Definitions of SMMEs given in the National Small Business Act**

<b>Size of the enterprise</b>	<b>Number of employees</b>	<b>Annual turnover</b>	<b>Gross asset value</b>
Small	Not more than 50	Less than R2million or R25million depending on the industry	Less than R2million or R4.5million depending on the industry
Medium	Not more than 100 or 250 depending on the industry	Less than R4million or R51million depending on the industry	Less than R2million or R18million depending on the industry

Adapted from: (Matarino, 2008)

The SARS (2007) defined an SME in accordance to their primary purpose of business franchises. SARS prescribes the following definitions to outline what constitutes an SME:

- For capital gains tax, an SME has a total net assets valued less than R5m.
- For amnesty purposes, an SME is an entity with a maximum turnover of R10M.
- For income tax purposes, an SME has a turnover of less than R14M.

The table 2.2 below exhibits how SMEs are defined across different industries in South Africa.

**Table 2.2: Defining SMEs in South Africa by Industry**

<b>Sector, according to industrial classification</b>	<b>Size of class</b>	<b>Equivalent full time employees</b>	<b>Total turnover</b>	<b>Total gross asset value</b>
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
Mining and quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
Electricity, gas and water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
Wholesale and commercial agents	Medium	200	R64m	R5m
	Small	50	R32m	R3m
Finance and business services	Medium	200	R26m	R6m
	Small	50	R13m	R3m
Retail and motor trade	Medium	200	R39m	R6m
	Small	50	R19m	R3m

Adapted from: Smit and Watkins (2012).

Having outlined the SME definition to be adopted for the current study, the following section 2.3 will now examine the importance of SMEs in South Africa.

## **2.3 THE IMPORTANCE OF SMEs**

The economic value added by the SME sector is not identical all over the world, since it differs from nation to nation with regard to the prevalence rate of economic growth pattern and level. Matarirano (2008, p. 24) postulates that for any SME to have an important role in economic development, SMEs must be survivalist, sustainable and have the ability to expand. The value of SMEs is, however, recognized worldwide, irrespective of the economic development stage within the country. SMEs are the critical partners in penetrating new markets, absorbing labour and generally expanding economies in innovative ways throughout the world. The argument in favour of SME significance was provided by previous studies (Abor & Quartey, 2010; Mbongo, 2013; Olawale & Garwe, 2010; Singh et al., 2008).

- SMEs are labour intensive in nature hence require more workers constraining unemployment levels to a minimum.
- SMEs are not capital intensive, hence funding required is minimised.
- SMEs contribute to a total saving of national economy.
- SMEs act as training ground for future leaders in the market.
- SMES cause minimum damage to the environment compared to large firms hence sustainability of the environment (Environmental sustainability regulations).
- SMEs create a social balance within the economy.

In most American economies the significance of start-up firms is quantitatively expressed in the national statistical figures with SMEs employing more than 50% of the private sector total population, while generating 60%-80% of new jobs according to Monks (2011). Anon (2009) indicates that SMEs in the United States are responsible for 99.7% of all business activity within the economy. In the European Union SMEs contributed 67% to total employment and 58% to Gross Value Added (GVA) (Ecorys, 2012).

The Chinese economy is benefiting from the large number of SMEs operating within their borders employing 78% of job seekers, contributing 60% to the GDP and 68% of the final exports for trade Mahembe (2011). The Malaysian Institute of Economic Research (MIER) indicates that SMEs comprise 90% of total manufacturing establishments, 29.7% of the employment population, resulting in 20% of total GDP of the economy (SMIDEC, 2013).

SMEs also contribute significantly to the gross domestic product (GDP) of many African economies. In Ghana, SMEs represent 92% of operating firms and contributing 70% to Ghana's GDP (Abor & Quartey 2010). In Egypt, SMEs employ 75% of the total employed workforce and contribute 57% of the total GDP. SMEs have contributed 40% in 2010 from a previous 13% 1993 to the GDP in Kenya and also the SME sector approximately employs 80% of the population and contributes over 92 per cent of the new jobs created annually according to the Kenya National Bureau of Statistic (2012).

**Table 2.3 Contribution of SMEs in different Countries (%)**

<b>Country</b>	<b>Number of SME</b>	<b>SMES Employment (%)</b>	<b>SMES GDP (%) Contribution</b>
United kingdom	4 984 100	52	30
Brazil	8 893 268	67.0	20
United states	5 868 737	50.6	52
Mexico	2 891 300	71.9	59
China	8 000 000	78.0	57
Egypt	1 649 794	75	25
Ghana	25 679	65	55

Source: Monks (2011)

The contents provided in the table above indicate that Small Medium Enterprises (SMEs) are an integral determinant for the economic development and growth of the any nation. The table indicates that the SME contribution is greater in developing than developed economies. Therefore, need to give more support through positive supportive SME policy, resources and platform to entrepreneurs within developing nations. SMEs mostly outnumber large firms in both quantity of institutions and share of the labour force they employ. SMEs account for more than 96% of all firms worldwide, 50% to 85% of domestic employment, between 30% and 53% of the total GDP and the export contribution of SMEs ranges between 19% and 31% according to World Bank (2013). The South African economy is no exception to this phenomenon and therefore section 2.3.1 discusses the importance of SMEs in the South African economy.

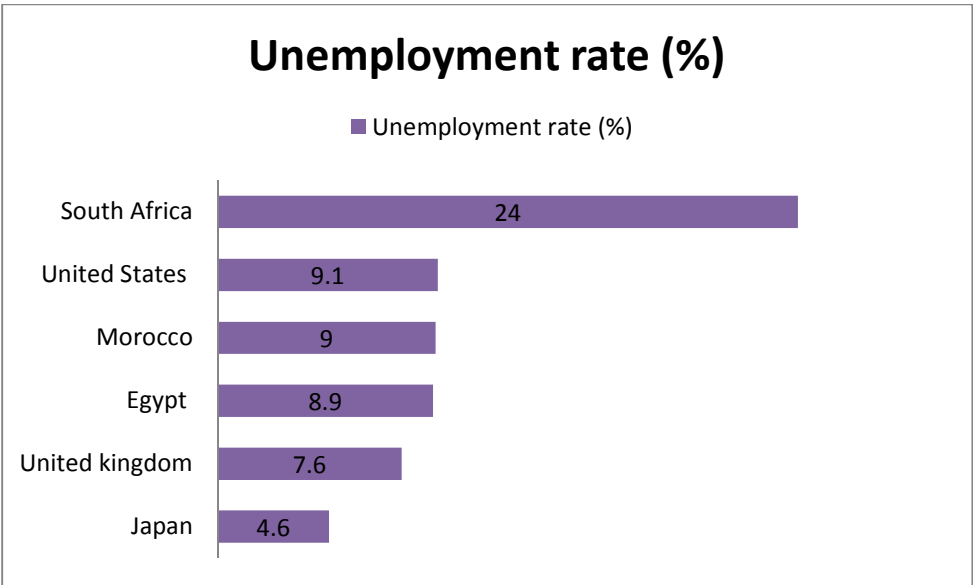
### **2.3.1 CONTRIBUTION TO SOUTH AFRICAN ECONOMY**

Rugani and Fatoki (2010), Monks (2011), Agyei-Mensah (2011) have indicated that SMEs are essential for social and economic development in South Africa due to the ability to increase competition and mobilise idle funds to more productive activities within the market economy.

**2.3.1.1 Employment Creation**

The provided definition of unemployment in South Africa is two folded. Unemployment is defined as those people between the ages of 15 to 65 unemployed, but currently searching for a job opportunity according to Statistics South Africa (2013). Winegardener (2010, p. 1) defines unemployment as, the economically active population group who have intention of getting employed even though there have not yet began the search for employment. SMEs are seen as the critical players in creating employment for the less educated, elderly, handicapped, unskilled, and the youth.

**Fig 2.1: Unemployment rates across selected countries**



Source: International Labour Organisation (2011).

Fig 2.1 shows that South Africa is among the nations with the highest unemployment levels worldwide. Regardless of a comparatively positive environment, South Africa faces a high unemployment level, which remains a major economic impediment facing the government (World Bank, 2013). According to Statistics South Africa (2013) the unemployment rate for the first quarter of 2013 amounted to 25.2%, this means about 4.6 million South Africans are unemployed. This increase of unemployed personal has been propelled by the economic recession that took place 2008-2009. After the recession, most businesses have not been able to bounce back to their normal operations and some are still cutting off labour.

Accordingly, statistics show that there is an increase in the number of SMEs that opened in the period between 2010 and 2012. This is so because many retrenched

experienced personnel went on to open their own small businesses. It is therefore safe to point out that SMEs absorb labour starting with those who are skilled and are in-between jobs. This is supported by Monks (2010) and Rungani and Fatoki (2010) who agree that SMEs have that ability to create new jobs in the shortest possible time and absorb the skilled and unskilled personnel in the labour market.

SMEs are believed to be the most efficient tool in generating employment in South Africa. This is in line with Small Business Project report propositions that, the SME sector is the major net employment creators compared to large firms in South Africa (Mahembe, 2011). This is also supported by the National Small Business Chamber (NSBC) which purports that the future of the South African economy and the solution to this alarming unemployment rate lies in the growth and sustenance of SMEs (Sage, 2012).

In addition Mahembe (2011) established that SMEs create more jobs than large firms because they do so using a smaller share of the capital stock. This is a result of SME preference for labour to capital. Large firms strive to be competitive by acquiring more capital stock than they do labour and ultimately just employ few highly skilled personnel. SMEs on the other hand have the capacity to absorb more labour because they are not very much capital intensive and therefore employ even the lowly skilled labour force. This is because the jobs created by SMEs, usually do not require very high qualifications (SAGE, 2012).

However, several studies conducted have a different view to SMEs capacity to create employment (Banerjee, Galiani, Levinsohn, McLaren & Woolard, 2008; Gabriel, 2005; Lloyd, 2010; Nenzhelele, 2009). The studies revealed that, only survivalist SMEs have the required employment capacity/base to contribute to the reduction of unemployment levels. They also observed that the primary net employers in South Africa were larger firms/organizations in operation rather than the SMEs. The large firms employed approximately 53% of all new job seekers in the labour market. Kongolo (2010) contends to this notion, he observed that SMEs are responsible for 52% of the 10% of existing jobs which are destroyed each year in South Africa.

Another perspective of the developed countries is that the small medium enterprise sector is extensively low labour productive because of lower income levels (De Rugy, 2005). De Rugy (2005) argued that, it's inconclusive to single out United Kingdom SMEs as the largest employers in developing countries because the SMEs are usually

subsidiaries of large firms. Therefore, there are no foundations for granting preferential treatment to SMEs in terms of financial, infrastructural and incubator assistance.

Regardless of the above mentioned studies, disputing the contribution of SMEs in terms of employment creation. Statistical evidence provided by government institutions in South Africa highlight the significance of SMEs in reducing unemployment levels. Statistics South Africa (2013) states that SMEs employ 66% of the currently employed population. The government has also established agencies to help growth of SMEs through institutions such as Small Enterprise Development Agency (SEDA).

The South African government target a 50% reduction in unemployment by 2020 and SMEs are seen as the vital tool in achieving this target. The government offers SME assistance, since government view this sector as the backbone of the economy, if the economy is to realise its full potential. This is consistent with Gabriel (2005), who points out that, SMEs in South Africa have a potential intermediate role to generate more and sustainable jobs for the majority poor population if given proper recognition, attention, resources, limited bureaucracy and beneficial government policies.

#### **2.3.1.2 Contribution Towards Efficient Markets**

An efficient market is when the market is in equilibrium due to the consumer choice variety and the ability to switch from one competitor product to the other (Winegardener, 2010). According to Agyei-Mensah (2011) Small Medium Enterprises (SMEs), are ever emerging hence offer new and improved products or services in the same markets as large firms do. SME existence encourages fierce competition within the business environment which results in pushing larger firms to engage themselves in serious marketing and advertising research in order to maintain their customer need satisfaction (Ntsika, 2013). In other words SMEs are producers of both competitor and complementary products.

The platform of SMEs to be in the same market with large firms creates a competitive market. This is because many product and service provider will be in the market and they will be competing for the same clients. This is supported by Ntsika (2012, p. 43) who states that, SMEs eliminate the monopoly concept from local markets by providing specialised products at competitive prices, increasing consumer variety and choice.

The increase in competition results in increased product quality. Large firms are forced to improve quality levels due to competition, consequently offering quality products at a

lower price to outwit smaller firms (Green & Martines-Solano, 2011). Price competitions also exist in such a market and the market becomes more efficient. It is also important to note that the improved market efficiency in price, quality and distribution will benefit the community of customers. The goods and services offered by SMEs are affordable and tailored to meet consumer needs. This helps in increasing the standards of living and ultimately alleviates poverty (Smit & Watkins, 2012).

However, several studies argue that, SMEs do not improve market efficiency (Abor & Quartey, 2010; De Rugy, 2005; Singh et al, 2008). The studies conclude SMEs drop out of business due to cut throat competition. This is a process where several SMEs produce the same type of product. Therefore, SMEs do not contribute to an efficient market system setup because SMEs cannot use price, quality and product differentiation as basis for competitive advantage.

Kongolo (2010) contended that SME owners are not innovative enough to introduce totally new products in the market. SME owners are not entrepreneurs, hence offering products which are already being produced by large firms only at cheaper prices and usually lower quality. Highlighting that consumer choice is not widened by the new entrance of an SME in the market because it's the same product being produced. Therefore, the studies did not acknowledge the notion that SMEs provide complementary and substitute goods into the market, which leads to an efficient market system.

Though several studies highlight that SMEs do not improve market efficiency, empirical evidence available states otherwise. Statistical evidence indicates that most SMEs operate the niche markets and mostly in rural setup. Fatoki (2014), Machirori (2012) and Rungani (2009) established that SMEs in South Africa operate in niche markets neglected by large firms. This supports that SMEs do offer consumer choice variety. The authors also point out that, SMEs improve market efficiency because they offer complementary and substitute goods to those of larger firms. Similarly, in a research conducted by the World Bank (2010), indicated a positive relationship between SME entrance into the market and market efficiency in South Africa.

### **2.3.1.3 Contribution Towards Income Distribution**

Inequality is defined as the gap which exists between the haves and have-nots. This is the manner in which assets, wealth, income and resources are distributed among

individuals, ethnic groups, race, and geographical setup in any nation (Social report, 2010). According to the Social report (2010) inequality can be defined from an economical and a sociological perspective. An economic opinion, inequality is the disparity of disposable income among low-income earning households with high-income earning households. The sociological perspective, inequality is the scarcity or lack of economic resources to some members of society due to different societal groups.

Excessive margins of income inequalities among and within racial groups in South Africa, is the new apartheid (Van Scheers, 2011). This is a strong reflection that South Africa suffers from gross inequalities which is supported by Asaf, Cato, Jawoko and Rosevear (2010, p. 6) who argue that, poverty and inequality continue to define South Africa regardless of the significant economic growth being experienced within the country. Asaf *et al.*, (2010, p. 6) note that there is a decrease in poverty in South Africa but unfortunately the distribution of income remains exceedingly high. The most recent data from Statistics South Africa (2013) indicate that there is a decrease percentage of the population in poverty, mostly attributed to social grants but inequality has stubbornly remained high. The South African Gini coefficient in 2012 was 0.65 (or 0.69, depending on definition), but either way it ranks higher than most in the world.

**Table 2.4 Country by Country Gini coefficient**

Country	Gini coefficient
Belarus	0.27
Mexico	0.52
United Kingdom	0.36
India	0.37
China	0.42
Thailand	0.54
Uganda	0.44
Kenya	0.48
South Africa	0.65

Source: World Bank 2012

The above table shows that developed countries have a lower Gini coefficient than developing nation. The Gini coefficient reduces the entire nation’s income distribution into a single number value between 0 and 1: the higher the number value, the greater

the degree of income inequality. Van Scheers (2011) indicated that a very small percentage of the South African adult population is earning more than a third of total personal income. According to Malan (2010) this is because, the absence of SMEs in the market stimulates monopoly economic conditions. Providing a business environment with few heavily capitalised large firms and numerous, lowly capitalist medium and micro firms. Resulting in inequality in income distribution because, we have very few powerful employees with huge income, whilst a lot of other employees remain getting income that is not sustainable.

The United Nations (2010, p. 3) states that, suggested government welfare structures seeking to address income disparities are insufficient in totality. The report concludes by suggesting that, SMEs are vital long-term economic instruments ready to be used as the nation moves forward in accomplishing the government objective of equal income distribution. Fatoki (2010) acknowledges the notion of SMEs being the critical medium in addressing the economic challenges of poverty alleviation, equitable income distribution and employment creation in South Africa. Machirori (2012) argues that contribution to income equality is through the increased number of SMEs operating within the business environment. According to the author, SMEs approximately constitute 80% of all business firms in South Africa. Hence, given their vast numbers, the SME sector either directly or indirectly influences the equitable distribution of income.

However, some studies disagree with the notion of SMEs contributing to income redistribution (Bannock, 2005; Berry, 2004). Bannock (2005), Berry (2004), Chang and Tharenou (2008) found that regardless of SME, large numbers, they neither positively nor negatively improve income equality. The authors argue that numbers do not offer increased wages and increased disposable income. Hence, there is no relationship between increased SME number and income distribution. Another perspective is that the SME sector is extensively low labour productive, which results in low income. This necessitates the availability of job opportunities, but which are not offering a decent salary to sustain households (Mahembe, 2011).

In the United States of America King and Zeithaml (2001) and in Slovakia Krajcovicova (2012) revealed that SMEs only contribute to equitable distribution of income in the developed countries rather than developing countries. SMEs in developed countries offered wages above the market wage rate, hence the salaries were competitive with

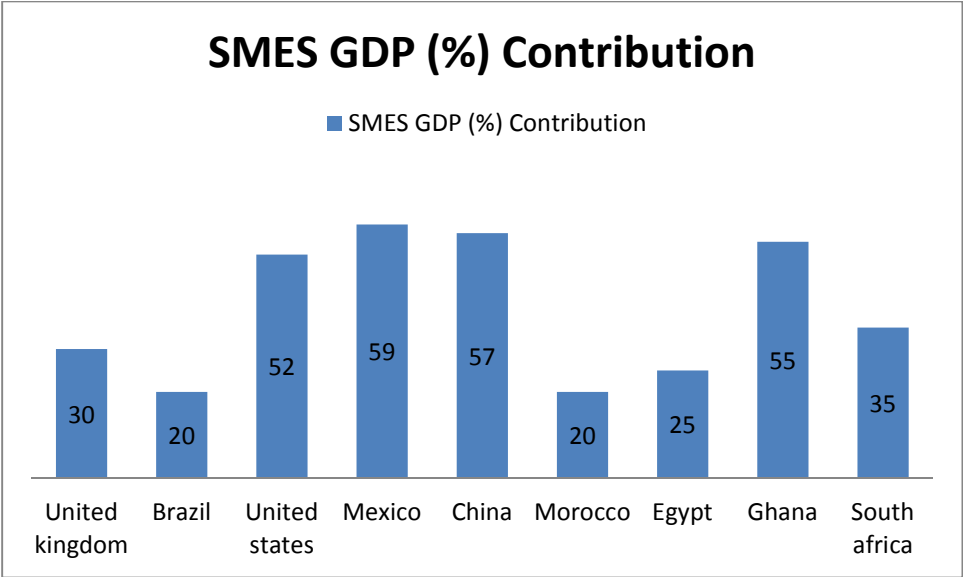
large firms. This results in the equitable distribution of income because there is not much difference in disposable income between individuals working in large and small firms in developed nations.

Generally the literature is inconclusive as to whether SMEs significantly contribute to redistribution of income. Hence, to some extent, the fact that SMEs contribute to the salaries and wages of the country means their contribution to income redistribution is of critical importance. Therefore, the development of the SME sector is important in achieving a desirable Gini-coefficient of 0.4 and reducing income inequality in South Africa. According to Preston (2008) SMEs create better paying jobs than those created by the small business sector because SMEs are more productive. This is also acknowledged by Nenzhelele (2009), who established that South African SMEs are more productive than the micro sector, which results in SMEs offering a higher income base *ceteris paribus*.

#### **2.3.1.4 Contribution Towards the Gross Domestic Product**

The Gross Domestic Product (GDP) is the key measure of economic production and can also be an indication of the value that an industry/sector adds to the factors of production. SMEs have the ability to restructure existing markets and create new ones because they are more entrepreneurial and are the testing laboratory for new ideas (Abor and Quartey, 2010). In addition, SMEs drive technological diffusion and challenge the existing methods of production. They also utilise a small share of the factors of production. These production techniques help increase the quantity of products offered to the market. Increasing the spending pattern of consumers whilst, improving GDP through consumption and net export variable. GDP IS calculated as follows:  $Y = C + I + G + (X - M)$  **GDP (Y)** is the sum of **consumption (C)**, **investment (I)**, **government spending (G)** and **net exports (X – M)**.

**Fig 2.2: Gross Domestic Product Rates across Selected Countries**



Source: Monks (2011)

The above table indicates that developing economies to be benefiting more from SME in regards to GDP levels than developed economies. In South Africa SMEs contribute more than 35% towards the national GDP (Fatoki & Garwe, 2010). The contribution to GDP of SMEs is achieved by the entry-exit process or the complementary process (Rungani, 2009). This is when large firms pave way for small firms so as to allow SMEs to fill in the niche markets. This process increases the productivity levels of industrial sector through restricting existing markets or creating new markets which resultantly leads to increased GDP. The entry-exit process helps firms to discover efficient and effective production techniques.

However, for SMEs to increase their contribution to the GDP they should operate at their full capacity and this is made possible if there are adequate resources for their operations (Monks, 2010). Therefore, some studies conducted dispute SME sector, as the major contributors to GDP (Banerjee *et al.*, 2008; Chang & Tharenou, 2008; Krajcovicova, 2012). The studies highlighted large firms as the major contributors to GDP, mostly in developed nations. On the other hand, these studies do acknowledge the importance of the SME sector in increasing the national output levels within developing and developed economies. In summation, though these studies have argued that SMEs are not the major contributors, substantial empirical evidence suggests that most studies have acknowledged the role played by SMEs in increasing GDP levels.

Irrespective of economic development phase of any country, it goes without saying that SMEs in Africa have played a significant role in the macro economy. However, SMEs encounter mutual challenges in respect to their survival and performance. Section 2.4 discusses these challenges.

## **2.4 CHALLENGES FACING SMES**

SMEs are considered the most important economic tool to boost economic growth in developing countries. In developed countries, SMEs have been the most significant tool in creating jobs, new products and spurring innovations resulting in an improved rate of economic growth. This shows that developing nations need not overlook the importance of SMEs. Though, considering economic situations in developing nations, there are several impediments which restrict SME growth and survival. These challenges include financial problems, management deficiencies, marketing problems and non-conducive legal environment among others. The following sections discuss about these problems.

### **2.4.1 Financial Problems**

For SMEs in developing countries to be sustainable and development to thrive, a great deal of innovation and merging of financial partners is required. This guarantees that, appropriate financial services and instruments are put in place for the benefit of SME owner/managers (Kongolo, 2010). For many decades, SMEs are continuously facing financial constraints as far as doing business is concerned (Martinez-Solano, 2011). A business environment with absent price and non-price barriers is what constitutes access to finance (World Bank, 2008).

SMEs are involuntarily excluded by financial institutions, despite demanding financial assistance. SMEs are regarded as un-bankable by financial institutions, but need financing to fund expansion, investments and capital structure. (Ecorys, 2012) identified these difficulties in regard to SMEs accessing funding from financial institutions:

- Collateral security required by financial institutions (SME loans are secured);
- Time frame of loan processing (approval usually takes several months);
- Poorly constructed business plans (stringent documentation);
- High interest rates; and

- Asymmetric information (lack of information on other sources of SME funding, SEDA, Small Business Partners).

According to Agyei-Mensah (2011) SMEs are failing to access long term loans and when they do, SMEs are constrained by the exorbitant costs of these loans. This has seen the majority of SMEs dependent on equity finance which is not sufficient to grow and sustain them. FinMark (2006) argues that the primary cause of SME failure is non-availability of external finance which is termed financial gap.

SMEs in South Africa encounter a series of challenges to acquire financial assistance from financial institutions. Bank credit applications handed in by SMEs are rejected and in addition, SMEs are then resorting to financing their assets by short term loans. For SMEs to provide sustainable employment and income, they require the financial muscle to realize the full potential and this is achieved by preparing a proper business plan to secure satisfactory and less costly loans (Naude & Havenga, 2004, p. 112). Collateral provided by SMEs when accessing funding is not sufficient to enable financial institutions to release funding. World Bank (2013) indicated that owners of SMEs lack collateral security in developing countries. This is supported by Rungani (2009) who states that SMEs commence their operation with zero or unacceptable collateral.

However, another perspective on financial challenge is that it is not the financial funding that lack in SMEs. Studies conducted have observed that ability of owner-managers in implementing proper financial management skills within the running of the business project is the major reason why SME fail not financial limitations (April, 2005; Ghebrit, 2004; Rogerson, 2008; Rungani, 2009; Fatoki, 2014). SME owners and managers have very limited financial management skills and inability to prepare financial statements affects the financial performance and risk profile of SMEs, according to (Fatoki, 2014; Van Scheers, 2011).

Improving financial assistance means improving the degree by which financial institution services are accessible to all business stakeholders at a fair price. However, for many decades, SMEs are continuously facing financial constraints as far as doing business is concerned (Martinez-Solano, 2011). Therefore, the generic view is that SME owner-managers do not match asset to funding, thus short-term assets and debts are matched with long-term funding while short term funding is matched with long term assets and debts. It is therefore important that SMEs are given the platform to grow by supporting them through funding policies and other relevant remedies.

## 2.4.2 Non-Conducive Legal Environment

SMEs play a catalytic role in employment creation, poverty alleviation and rapid industrialization. However, any successful entrepreneur that emerges in the SME sector has to overcome legal and inevitable bureaucratic hurdles in-order to launch his/her firm. This challenge of promoting SMEs is not exclusively South African. The global perspective on the matter is consensual that, reducing regulations is a necessary pre-condition (World Bank, 2013). Rules and regulations establish the “rules of the game”, hence influence investment decisions and opportunities available to economic actors.

South Africa is also suffering from red tape as indicated by Adcorp (2012). Studies conducted in South Africa acknowledge that, the main challenges to SME growth is the inflexible labour laws, stringent South African Revenue Services (SARS) and the Broad Based Black Economic Empowerment (BBBEE) inadequacies (Chimucheka, 2012; SME South Africa, 2012; Smit & Watkins, 2012). Labour regulations restrict SME growth because there is limited flexibility to adapt to ever changing business environment, competitive edge is lost and consequently the market value decreases (Smit et al., 2011). Darrol (2013) points out that, red tape cost the economy about R75 billion yearly and 6% of turnover is spent on non-productive activities due to red tape. The Small Business Project (SBP) (2012), indicate that 74% of SMEs agree that red tape restricts growth, is a non-productive cost, limits available funds for investment and consumes management productive time.

Some SMEs are successful enough to reach foreign markets. However, the global standards may be too high such that keeping up with them will mean more operational costs to the SME. Governments should therefore curb problems like these by supporting through subsidising as well as providing mentoring advice. In a research conducted by Darrol (2013), outlined solutions to the South African business environment with regard to the red tape:

- Property rights are clearly documented;
- SMEs, exporting or importing, interact with a streamlined customs administration that is efficient, simple and transparent;
- Relax financial institutions, regulations in debt or loan access through recognizing SME constraints by allowing available SME assets to be used as collateral;

- Bankruptcy legislation controls disproportional high penalties on the entrepreneur or the SME;
- South African government Rethink BEE;
- Increase government administrative efficiency in order to reduce red tape;
- Promote gender insensitive legislation by adopting an equal rule of law equally to both male and female; and
- Promote a stable political, business environment (reduce the crime rate and address corruption in government).

However, the case is not the same as in other developing economies. Government policies have been implemented to the benefit of SME owners. Morocco has implemented measures that seek to aid the nurturing of SMEs through their investment charter which stipulates that SMEs have right to invest, right to transfer profits and divestment proceeds are transferable. In Kenya the Single Business Permit (SBP) and the Investment Promotion Act (2004) are the main legislative acts with the purpose of facilitating and promoting SMEs. This policy helps reduce SME operating costs, multiple licensing was removed, and administrative process was simplified.

Despite the various indisputable contributions of a non-conducive business environment effect on SME survival and development. There is evidence enough to support the hypothesis that, conducive business environment does affect firm growth only to a limited extent in developed countries. This is mostly so because SMEs in United Kingdom, United States of America, Sweden and Russia do not complement large business, but rather compete against them (World Bank, 2010). In developed nations free market system is adopted where market forces determine demand and supply. The SMEs benefit from this system as they can compete directly with larger firms provided their products are of high quality. In summation, a non-conducive business environment, mostly affects SMEs in developing countries like South Africa compared to developed economies such as the United Kingdom.

### **2.4.3 Marketing Problems**

Marketing is defined as a management function for identifying, anticipating and satisfying the requirements of customers profitably (Cooper & Schindler, 2008). SME owners/managers must recognise marketing as a business development process which

leads to survival and sustainability. A great business idea must go hand in hand with a great marketing strategy if the firm is to be successful. Rungani (2009) claims that, in South Africa SMEs fail because of asymmetric information with regard to intelligence on market opportunities and business cycles. The author identified a gap between research and development strategies adopted by a small medium enterprise and large firm. SMEs penetrate local markets without concrete marketing strategies yet, in a free market, there are no silver-bullets or secrets of successful marketing than managers implementing one of the following marketing philosophies (Cant *et al.*, 2005; Bennet, 2014):

- **Product-oriented:** SME manager assumes the customer will buy because of product quality. The strategy uses total quality management as the tool to drive sales figures up. Customers are to purchase a product because of high quality.
- **Production-oriented:** SME manager concentrates on an efficient and effective production technique. The strategy implements productivity as the tool to drive sales figures up. Customers are to purchase a product because of low pricing.
- **Sales oriented:** SME manager focuses on selling skills rather than customer needs. The strategy uses brand awareness to drive sales figures up. Customers purchase product because of brand awareness and word of mouth referrals.
- **Marketing oriented:** SME manager puts customer needs at the centre. The strategy implements the customer knows best philosophy and that customer satisfaction drives sales figures up. Customers purchase product because its tailor made to suit their requirements.

Fatoki (2014) and Van Scheers (2011) are consistent with that, access to markets, internationally and locally has been one major constraint of SMEs. In South Africa, SMEs fail to penetrate local markets because there lack advertising funds, poor market trend analysis on niche opportunities and poor substitute goods. The international market is inaccessible due to the export barriers such as duty (quota tariffs), red tape, exchange rate (Rand currently weaker against other currencies) and extended distribution channels. These challenges results in SMEs producing the same type of product or service which exposes them to loss of market value should taste and preference change Rungani (2009).According to Smit and Watkins (2012) it is the

market related factors that exerts the most negative influence on a firm's success. The negative influence may emanate from factors like;

- Inappropriate market segmentation;
- Insufficient market needs analysis;
- Competitiveness;
- Poor location and inability to identify the target market;
- Increased competition; and
- A limited market size.

On the other hand, the reason of failure is that SME management adopts the reactive approach to a shift in market condition instead of implementing the proactive approach (Bennett, 2014; Bimbona, 2008; Cohen, 2006; Fatoki 2012; Senge, 2012). The proactive approach limits losses to a minimum and enables firm to be flexible with its marketing technique when market fluctuation present arise. The studies point out lack of managerial competencies in marketing and networking as the main causes of failure rather than a stable business environment (Cohen, 2006; Fatoki 2012; Senge, 2012).

Consistent with this argument is Kongolo (2010), who states that SME managers are not quick to adapt to changes within the market environment. This follows therefore, that most SMEs struggle to access markets, also because they lack market intelligence and information (Nenzhelele, 2009). This shows lack of market awareness and preparedness of managers as the cause of failure not market conditions in South African. According to Rungani and Fatoki (2010) the challenge is that they do not have necessary skilled personnel to market their business in the same way that large businesses do and neither do they possess much money to find a suitable location convenient for the target market.

#### **2.4.4 Access to Skills and Training**

SMEs in South Africa are gaining visibility as the chief players in the dynamics of international economies, drivers of innovation and employment creation. Innovation in skills development aids the ability to have competent personal in SMEs. SMEs are crucial for economic growth, but face continuing challenges in developing their human capital (Fatoki, 2014). Training and skills development is at its lowest in SMEs

compared with large enterprises, with SMEs engaging in 50% less training than large firms (Darrol, 2013). Workers in the SME sector are in urgent need of supplementary education and training, but they find it difficult to find formal learning support within the South African environment according to Martinez-Solano (2011).

The gap between large and small firms still exists, though policies and programs targeted at SMEs have been in existence for years. The Skills Development Act (1998) and the Skills Development Levy Act (1999) are some of the policies adopted to provide a platform for promoting skills development in South Africa. The purpose of these policies is, inter alia, to:

- Develop the technical and management skills of the SME workforce;
- Guarantee sufficient supply of relevant skills required for high SME performance in South Africa;
- Safeguard new entrants in the labour market through adequate training;
- Ensure uptake of learners in employment sector;
- Develop entrepreneurs; and
- Cultivate a culture of entrepreneurship learning in the country.

Most firms involve their employees in training and development sessions in order to increase firm productivity and the value they create for the firms. In SMEs there is high record of lowly skilled and lowly qualified workers and this makes the issue of training and development more important to SMEs. The lack of skills and training restricts the role played by SMEs in increasing the nation's GDP (Van Scheers, 2011). According to Green and Martinez-Solano (2011) SMEs, usually do not participate in workforce skills training because they lack the resources to do so, for instance, they do not have enough money to call upon an expert to do a workshop with workers. This leads to the lack of skills in terms of the general management of the firm, marketing, human resource management and even financial management. This has a negative effect on the growth and performance of SMEs in South Africa.

However, most studies conducted have provided recommendation for this challenge is for SMEs to be encouraged to spend resources on hiring qualified personnel or develop the existing structures to upgrade their skills and ability through incubation (Ghebrit,

2004; Fatoki, 2014; Afrifa, 2013; Rungani, 2009; Machirori, 2012). This will yield better dividends in the future because there will be experienced and qualified people to handle the dynamic business environment and even the growth of the firm. The South African government has established incubator centres to help nurture competent SME leaders. Shanduka Black Umbrellas, Nelsons Mandela bay incubator, Raizcorp Business incubator and The Innovation Hub are some of the incubators put in place to help train, educate and equip future business leaders. Incubators offer in-depth understanding of the contexts and issues related to running an SME, as well as an innovation framework in response to these contexts and issues. Section 2.5 will now examine the performance of SMEs in South Africa.

**2.5 SME PERFORMANCE**

The SME sector has attracted significant attention from policy makers in many countries, but still their performance has been weak. Rungani (2009) and Fatoki (2014), point out that SMEs encounter the highest rates of failure compared to large firms. SME failure is two folded, attributed to “failing to make a go for it” or “ceased to prevent further losses”. Agyei-Mensah (2011) laments about the fact that, SME failure is higher in developing economies than in developed economies. Consistent with Agyei-Mensah (2011) assertion those SMEs in developing economies have a low success rate, Herrington and Kew (2010), indicated that SMEs in South Africa survival rates are low and in 2011 an estimated 1.5% of SME was likely to survive.

**Table 2.5: SME failure rates within first 3 years of operation**

Country	SME Failure Rate %
Australia <sup>(a)</sup>	23%
China <sup>(b)</sup>	42%
United Kingdom <sup>(b)</sup>	22%
Botswana <sup>(c)</sup>	80%
South Africa <sup>(d)</sup>	75%

Source: (a) Ahmad and Seet (2009); (b) BPE (2012); (c) Temtime and Pansiri (2004:19); (d) Fatoki (2010).

Table 2.5 shows that the SME success rates are lower in developing economies than in advanced economies. The South African SMEs failure rates are among the highest in the world. The table also highlights the need of policy makers in developing economies to give more attention to the SME sector. It is essential to discuss how performance is measured. Hence, section 2.5.1 will give empirical evidence and discuss performance measures.

## **2.5.1 Measures of Performance**

Ahmad and Seet (2009) outlined the goal approach as the accurate measure of SME performance. The goal approach states that performance is measured using financial and non-financial measure. South African SMEs are advised to use a mix of financial and non-financial measures.

### **2.5.1.1 Non-financial measures**

Business Directory (2014) defines non-financial measures as a quantitative measure of performance not expressed in monetary units. The ratios omit monetary metric in the denominator or numerator. Applying non-financial measures within South African SMEs strategy aids, to bookkeeping and provides data on customer needs or competitor strategy. Non-financial measures provide an indirect assessment of firm's intangible assets such human capital, customer satisfaction and loyalty which are determinants of high performance success. The non-financial measures are based on firm's goals, strategies and vision. Non-financial measures include market share, customer satisfaction, employee growth and purchase orders.

- **Customer satisfaction:** the percentage total in the market share, firm's consumers/customers reported to be content with the firm and its products. Customer satisfaction is also defined as the feeling of pleasure or disappointment of a customer after acquiring a certain product or service (Kotler, 2009). SMEs should adopt the customer satisfaction measure because, satisfied customers become loyal customers and the firm gains from operating margins, increased market value and competitive edge. Consistent with the above argument is Rungani (2009) who indicates that positive customer satisfaction promotes repeated purchases and brand awareness.
- **Employee growth:** the continuous increase of employees within a firm. There is a positive relationship between the number of employees and performance,

hence the more recruited workers the better the firm is performing (Nenzhelele, 2009). The non-financial measure of employee growth is an indicator that the specific SME is increasing productivity capacity.

- **Market share:** The percentage of sales, customers and returns earned by a firm from the total market or industry Nenzhelele (2009). The non-financial measure of market share indicates SME performance through market trend analysis. The SME management team needs to observe that, when market is growing faster than SME sales, then the firm is experiencing a decline in sales. This helps SME owner-managers or management to devote more attention to the marketing strategy to gain ground with the market (Machirori, 2012).
- **Delivery and purchase orders:** the delivery of goods and services as promised on time, right quantity, right quality and right place. Customer complaints about delivery issues mean that the SME management need to adjust the distribution channel either shorten or diversify, to increase customer satisfaction. Decreases in purchase orders indicate the need to increase brand awareness and promotional activities.

#### **2.5.1.2 Financial measures**

The subjective measure of an enterprise asset used to generate revenue. This is measuring firm's operations in monetary terms (Business Directory, 2014). Darrol (2013) indicates that financial measures of performance are attainable from the financial statements of the firm. Financial measures are mainly helpful in benchmarking firm's operations with rivalry firms in the industry. Non-financial measures are reflected in ratios such as return on assets, return on equity and also the sales growth and profitability growth.

- **Sales growth:** the increase in amount a firm gain from sales compared to a previous corresponding period. The annual increase in sales of sales over a specific time period (Investor Words, 2014). This performance measure indicates the ability of a firm to constantly meet, exceed and satisfy customers which are rewarded through increased sales. A decline in sales growth is an indication for SME management that price is high or the price does not match the quality. Therefore, total quality management is to be adopted within the firm's operational strategy.

- **Profitability growth:** a combination of growth and profit attained by a firm. It is the economic profitability and growth of free cash flows aimed at attracting the financing community through shareholder value creation (Business Directory, 2014). The excess of revenues over expenses in firm's business operations, over the financial period or the income accruing to a successful entrepreneur according to Investor Words (2014). The financial measure shows that for SME performance to be positive there is a need to weigh income accrued to expenses used. The balance between expenses and cash inflows should be maintained in such a way that at all times cash inflows outweigh cash outflows.
- **Return on equity (ROE):** Is a measure of profit that calculates how many Rands of profit a company generates from each spent Rand of shareholders' money. The net income proceeds as a percentage of shareholders' equity Investor Words (2014). ROE is a measure of efficiency, henceforth, the need for SME managers to use it as a measure of SME performance. The higher the ROE means the SME is increasing its ability of utilising funds effectively without needing much capital, owner-managers have a sound financial management background and the SME is moving along with the current industry trends. The formula for ROE is: **Return on Equity = Net Income/Shareholder's Equity**
- **Return on assets (ROA):** The efficiency with which the management team is using assets to generate earnings. The profitability percentage the firm is in relation to its total assets (Business Directory, 2014). SME owners need to apply this measure because the catalytic benchmark tool for comparison between competing firms Machirori and Fatoki (2012). The formula for return on assets is: **ROA= Net Profit After tax/ total assets**

There are various techniques in measuring performance, but all techniques should be applied in aggregation. In line with the above argument is the Financial Directory (2014) which states that a combination of techniques should be adopted by any firm in order to obtain a true measure of its performance level. Fatoki (2011) utilised the overall satisfaction with performance in comparison to other rivalry within the industry. Rauf (2007) and Fatoki (2014) used a five point likert scale to measure satisfaction with sales growth and profitability as the primary measure of SME performance.

The reasons to use a mix of financial and non-financial measure is because the owners/managers are reluctant to disclose financial statements hence financial

measure which use financial ratios are not applicable. The use of non-financial measure fills the gaps left out by the financial measures when financial statements are not disclosed to the public. The non-financial measures use five-point scales to measure sales and profitability growth without a direct need of financial statements. Consistent with the above argument are (Green & Martinez-Solano, 2011; Machirori, 2011) who propose that, non-financial measures avoid direct questions of sales and profit figures but infers performance through scales on the level of satisfaction with profitability and sales growth.

This research utilised the non-financial and financial techniques to measure SME performance. The questionnaire adopted the five-point likert scales, dichotomous and open ended questions to measure the performance of SMEs located in buffalo municipality. These measurement scales were adopted and modified from available literature (Machirori, 2012; Fatoki, 2014; Rungani, 2009).

Having outlined how performance measures and defined performance, it is now necessary for the researcher to discuss performance in relation to SMEs in South Africa. Section 2.5.2 will closely discuss the main causes of the weak performance of SMEs.

### **2.5.2 SME Performance in South Africa**

Performance is the efficiency with which a firm uses its assets from primary mode of business to generate returns (Investopedia, 2014). The ability of a firm to achieve specific firm objectives measured against the known benchmark (Business Dictionary, 2014). Fatoki and Garwe (2010) noted that there is weak performance, which is shutting down of business operation due to losses, bankruptcy or loss in market value. SMEs in South Africa fail to perform because of many economic and social challenges. Statistics show that more than 90% of SMEs are failing in their first 3 to 5 years of operation (Fatoki, 2012; Rungani, 2009; Statistics South Africa, 2013). Consequently, less than 15% SMEs will be in operation after 5 years

**Table 2.6: SME causes of failure**

Reasons of SME failure	Percentage Failure Rates
Failure to manage costs / anticipate rising costs	61%
Inexperienced management	50%
Poorly-designed business model (e.g. No business plan)	50%
Poor professional advice	21%
Poor marketing	37%
Lack of financial skill	27%
Insufficient capital or inadequate access to capital (borrowing)	49%

Adapted: (Statistics South Africa, 2013)

The above mentioned causes of failure in Fig 2.6 indicate that, owner-manager competency know-how, in every management function is the most important, if SME success (strongest performance) is to be achieved. Fig 2.6 indicates that there is asymmetric information between a manager’s understanding and the market condition. The imbalance overwhelms SME owners such that insolvency will be inevitable. Total closure of the business is a result of, the inability to pay maturing debts, poor planning and inefficiencies in executing management functions (Willemse, 2010). Many SME managers have been reported to be enthusiastic about their businesses when they get their first customers (Statistics South Africa, 2013). They tend to forget to carefully plan and care for their clients which leave them with barely a small fraction of the market.

Studies have highlighted inability to financial assistance as one of the main causes of SME failure (Fatoki, 2012; Gorgievski et al., 201; Rungani, 2009; Watson, 2011). Lack of funding was deemed the main cause preventing growth and survival of SMEs. Though, the authors concede that, given competent personnel to manage the limited funds available to SMEs. The SME sector will perform to its full economic potential

because when funds are available there is mismanagement of funds and poor budget allocation.

Furthermore, in support, Agyei-Mensah (2011) pointed out that, access to funding is not the cause of weak performance. The author states that, SMEs fail because the owner-managers do not know how to convince lenders and investors to lay off funds. The financial challenge does not end on the issue of inaccessibility of funds only, but it extends to the lack of financial know-how in managing the funds that are available to them.

The study by Willemse (2010) investigated 14 sources, of which eight ascribed to the notion that for SME failure is mainly attributed to the quality of management and six to a lack of access to finance. In most of these cases, SMEs fail to plan and this testifies to the high failure rate. Planning helps to ensure the viability of the proprietor(s) and their business through being able to identify and mitigate risks as well as releasing the business's financial need. This is critical if the success rate of SMEs has to increase. The need to manage growth, networking, prepare financial statements, operational efficiencies and proper business plan succession plan resulted in the reason to conduct this research to bridge the gap in the failure of SMEs after attaining the scarce funds.

Along these lines, Darrol (2013) point out that on a scale of 10 managerial incompetence rank the highest in terms of poor SME performance. The author has indicated that inadequate managerial skills, poor educational qualifications and training are the main cause of poor performance as these managers have no idea on how to run the SMEs. The inability of SME owners to do proper financial statements leads to inability to notice irregularities in the cash flows, revenues, profits and asset value this consequently leads to poor performance. Rungani (2009) and Fatoki (2014) state that lack of SME managers, educational and financial background is the main cause of SME failure in South Africa. Consistent with this is Chiliya *et al* (2012) who indicates that lack of education and training reduced success rate of SME because performance levels are heavily depended on skills inherent to the firm human capital.

On the other hand, The Small Business Project (2009) found that social issues were playing a pivotal role in South Africa. Social evils such as high crime rates are a cause of poor performance because SME do not afford security systems. Crime is resulting in loss of valuable goods, loss of lives, property destruction as indicated by the National crime statistics in South Africa. The statistics indicated that there were 70 041 business

burglaries in 2013, an increase of 5.1% from 2012, business robberies were 16 377 a 2.7% increase from 2012 and commercial crime (fraud and corruption) 91 569 4% increase from 2012. These figures show that, the higher the level of crime the weaker the business enterprise productivity and performance in South Africa. Consistent with this notion, is a research conducted by the World Bank (2010). The research concluded that, the investment climate in South Africa is one of the four main pillars in destroying SME growth, performance and productivity.

Bimbona (2008), Ecorys (2012) and Ngwenya (2012) dispute the above causes of weak performance and point out increased competition as the reason of SME failure. The authors observed that, given the large number of SMEs in operation. Approximately 65% to 70% of all business in South Africa are SMEs, hence inflexible competition characterises the business environment. Inflexible competition is a result of SME managers innovative and technical incompetency to offer a unique product. Green and Martinez-Solano (2011) argues that intense competition is the main cause of SME poor performance, yet it is unavoidable within the market.

Furthermore, globalisation has also infiltrated the local market, causing more and more SMEs to close down operations. Competition is also globalised through international rivalry which is consistent with who Darrol (2013) states that SME weak performance is increased by the international products through international trade. The globalization of markets has increased products and services rendered to customers, hence SMEs suffer because they cannot compete directly with multinational companies (World Bank, 2010).

Other studies reveal a lack of infrastructural development as the main cause of SME weak performance (Chimucheka, 2012; Cohen, 2006; Krajcovicova, 2012). The studies point out poor roads and business location as the main causes of SME failure. The poor infrastructure affects distribution of goods from producer to end user. This causes extra costs to SMEs in transport, storage, breakages and also fresh farm products may lose value. However, Kunene (2009) observed an inverse relationship between HIV/AIDs and SME performance. The author having outlined that South Africa has one of the highest rates globally with around 5.7 million individuals infected the disease. Health problems would directly affect firm performance since SME owners, are responsible for every management function within the business.

The empirical evidence discussed above point out the many causes of SME failure in South Africa. This shows that the SME sector has been neglected financially, infrastructure development, crime, health issues and protection from foreign firms. Regardless of all these causes of failure, literature suggests managerial incompetence's as the major reason for weak performance. The studies point out that, managers being the driving force of any firm. Their incompetency means there is poor planning, marketing, strategizing, advertising, and insufficient research and development. Consequently, results in SMEs performing below par compared to large firm who can recruit competent employees to provide the much need networking and technical expertise.

Regrettably, it's impossible to teach SME owners/managers to be successful than teach one to be a mathematician or an athlete. There is a fine line between success and failure partially because there is no definite magic formula to guarantee success for an SME. On the other hand, it's possible to equip our future managers with the necessary tools to differentiate between profitable and unprofitable business ideas. This is done by the manager's ability to analyse market trends, dealing with shifting economic conditions, to run an efficient business operation and maximising shareholders wealth (Chiliya, 2012; Kongolo, 2010). Therefore, section 2.6 will discuss some of the remedies for SME failure.

## **2.6 REMEDIES FOR SME FAILURE**

Challenges SMEs encounter result in high failure rates, statistics show that more than 90% of SMEs in South Africa are failing during the first year of operation Rungani and Fatoki (2010). The high failure rate can cause different losses in the nation varying from financial loss to emotional loss. Table 2.7 indicates the cost accrued within the economy due to closure of SME operation both to the individual and the nation. The table indicates that the most affected is the economy because it loses out on output, wealth creation, assets and cash flow are minimized.

**Table 2.7: Cost of SME failure**

Overall rank	Cost of SME failure, according to
1	Financial cost –to the owner
2	Financial cost – to staff (e.g. Loss of wages, superannuation)
3	Emotional cost – to the owner and their families
4	Financial cost – to unpaid creditors / suppliers
5	Economic cost – flow on effects in the economy because of reduced output, loss of wealth and assets

Source: Darrol (2013)

The financial cost incurred by the owner can be avoided if the owner-manager had been given prior mentoring on how to run a business. The ability to lead is inborn but the ability to deliver leadership performance has to be taught to the SME managers. Training programs provide necessary skills required by the owners, managers and employees for successfully conducting an SME practices Green and Martinez-Solano (2011). Business training programmes are management training areas which involve planning, marketing, finance and project management skills that deal with people such as communication, leadership and motivation Willemse (2010). The training helps managers to be well equipped in preparing financial books and handling of funds reducing financial loss.

The economic cost accrued by SME failure can be curbed by the government intervention. According to Nenzhelele (2009), SMEs need to be given the chance to grow and develop. In economies where the stock of capital is not regulated, large firms utilise almost all the capital stock and employing very few highly skilled employees who bargain for very high wages. Only a very small share of capital is left to be shared by many unemployed people who are then absorbed by the micro enterprise sector (Ndagu & Obuobi, 2010). This literally means that the capital stock is all used up and no room will be left for SMEs. It is therefore important that governments moderate the use of the

capital stock by setting regulatory standards so that the SME sector will have a share of the capital stock in the economy (Monks, 2010).

In order to minimise the emotional loss on individuals, government agencies should play a crucial role in helping entrepreneurs with drafting ideal, viable, sustainable and liquid business proposals so as to minimise failure. The agencies like Small Enterprise Development Agency (SEDA), Khula Enterprise Finance, the Umsobomvu Youth Fund, Small Enterprise Finance Agency (SEFA), Industrial Development Corporation (IDC) and Ntsika Enterprise Promotion Agency (NEPA). These organisations are there to provide incubators which act as the breeding ground of successful entrepreneurs. The incubators help increase the success rate of SMEs as indicated by Ndagu and Obuobi (2010), who state that the spiral of business failures have been greatly reduced for those businesses that did participate in incubation programs.

As follow up to the challenges that SMEs face, the government may also intervene to help by putting up support funding, duty tariffs, providing mentoring and consulting services and also protecting the SME sector by regulating foreign investment. The government can set up more incubators across the 10 provinces in the country to increase the development of competent entrepreneurs.

## **2.7 CHAPTER SUMMARY**

In this chapter the definition of SMEs was examined both on the international and local scene. The role SMEs are playing in the global and even the South African economy was outlined and justified. SMEs were said to have the ability to create and generate more decent job opportunities in a short period of time. They also possess the ability to distribute income more equally as they take their business to and employ people from remote areas. The chapter also highlighted that the economy enjoys SME contribution whilst the SMEs bear all the pain of unavoidable challenges.

Despite the various indisputable contributions made by SMEs, various challenges continue to minimize the benefit enjoyed by the economy. Challenges such as limited access to competent management skills, financial assistants, marketing skill and technological advancement hinder SME success progress. These challenges are assumed to cause SME failure, but to fully understand SME failure, the definition of the term was discussed. The SME failure rate is approximately 75%. On the other hand, the literature states that, SMEs in South Africa has a weak performance which

consequently leads to failure. Thus, there is the inseparability of SME failure and weak performance. Literature highlighted lack or weak managerial competencies, access to funding and social problems (crime) as the primary causes of SME weak performance.

However, the chapter ended by giving remedies for curbing the SME failure rate that is caused by the mentioned challenges. The major challenge affecting SME performance is the inability of SME managers to consistently prove their competent skills in various departments within the operation of the SME and this formulates the basis of focus for the next chapter. The next chapter will discuss the managerial competency applicability in SME operations and relevance to improve SME performance.

**CHAPTER 3:**  
**MANAGEMENTIAL COMPETENCIES FOR**  
**SMES**

## **3.1 INTRODUCTION**

Managerial competencies are a diversified area of research, study and a central theme to both human resources and strategic management literature. In the previous chapter, managerial competencies were identified as one of the major hurdles in increasing performance of SMEs in South Africa. Managerial failure means SMEs are not just encountering problems in-terms of obtaining financial assistance, but are struggling to appropriately use these funds and align respective competencies to achieve maximising value of the firm. As a function, managerial competencies are the lifeline of any business irrespective of size. Therefore, the efficient execution and practice of managerial competencies and managerial competency theories will increase the probability of a firm's success. Regardless of the popularity of managerial competencies, investigating the significance of managerial competencies remains a major challenge for further research studies. Henceforth, in this chapter the aim is to explore fully the concept of managerial competencies and its application in small and medium enterprises.

The initial sub-sections of the chapter will provide a definition of managerial competencies. Hereafter, modern theories that relate to managerial competencies in SMEs such as the human capital theory, the resource dependency theory and the iceberg theory are outlined. Existing literature on the association between management competencies and SME performance is reviewed. Then, the applications of managerial competency practices in SMEs are discussed and finally factors impeding the successful application of managerial competencies in SMEs are highlighted.

Section 3.2 below focuses on a degree of managerial competencies.

## **3.2 DEGREE OF MANAGERIAL COMPETENCIES**

### **3.2.1 DEFINITION OF MANAGERIAL COMPETENCIES**

The purpose of this study is to reveal on how managerial competencies being practiced impact SME performance. It is therefore necessary to analyse the concept of managerial competency. According to Boyatzis (2006), the assessment of managerial competencies is a great challenge to researchers. The multi-ethnic and the multidimensional idea of competency, provides complications in establishing the accurate definition of managerial competencies. Hence, it is challenging to define competencies and distinguish what constitutes an individual competent skill.

Managerial competencies are a cluster of correlated skills, attitudes and knowledge that affect ones job which links to performance on the job (Boyatzis, Golman, & Rhee, 2000; Kanungo & Menon, 2008; Mitchelmore & Rowley, 2010; Nieman & Nieuwenhuizen, 2009). (Darrol, 2013) defines the concept of managerial competencies as “A set of individual behaviours that must be adopted for the position that the tasks arising from this position competently mastered” as cited in Machirori (2012). Competency is also defined as, a set of behaviours that empower employees to exhibit effectiveness over a given performance task in their line of work (Darrol, 2013).

Managerial competency is a distinct characteristic, that which can be measured reliably to demonstrate significant distinction between effective and ineffective performance (Willemse, 2010). The definitions indicate that there is no agreed definition as to managerial competency. The common analysis of what constitutes management competency is the flexibility of a person to execute a task to the required extent and desired quality.

In regards to this study, a definition proposed by Hellriegel, Jackson and Slocum, (2008) was used as a basis for departure, namely: managerial competencies are a collection pool of knowledge, attitudes and skills that contribute to individual efficiency. Consistent with this definition is Henderson (2000) who describes a competency as a mix of knowledge and skills essential in effectively accomplishing a project. Therefore, a general consensus for the purpose of this study was on the notion that managerial competencies include Skills (acquired competencies), Knowledge (acquired mental processing skills) and Experience (skills acquired from repetition).

- **Skill:** these are capabilities acquired through practice. Individual ability or capacity acquired through systematic sustained effort. The ability can be expressed in preparing financial statements.
- **Knowledge:** understanding through learning. The contents people have to know in order to perform a task effectively and efficiently such as rule, policies or recruitment process. These are skills, facts or information derived through education or experience.
- **Experience:** Manager’s skill, practices and knowledge gained from direct observation, involvement, acquaintance or exposure and familiarity with a particular activity.

### **3.2.2 CLASSIFICATION OF MANAGERIAL COMPETENCIES**

The lack of mutual consensus on the definition of competency results in employee training and development problems. The organisational flaws make it challenging to detect the skills, understanding and traits essential to perform effectively and efficiently on any given job related tasks and responsibility. This argument over the theoretical ambiguity and complexity of required competencies emphasizes the necessity of a sound classification background of competencies. The classification of competencies improves practical understanding and conceptual background according to (Boyatzis *et al.*, 2000).

Existing literature reveals that competencies are classified into two classes, five competencies, four domains and three skill level (Cizel, Anafarta, & Sarvan, 2007; Kaufeld, 2006; Mühlbacher, 2007). Without agreement on the classification of competencies it is more challenging to examine what constitutes managers capabilities (Viitala, 2005). For the purpose of this study managerial competencies are categorised into three classes from functional, generic and cognitive.

#### **3.2.2.1 Functional Competencies**

Functional competencies are a mix of individual expertise, knowledge and capacity to perform a job task effectively (Mühlbacher, 2007). According to Boyatzis (2006), functional competencies refer to a set of professional proficiency and technical expertise. These deal with the technical aspects of the job, which are indispensable to carry out specific functional activity.

The focus of this competency class is to acquire proficiency in handling tools and machines within the firm's premises (Cizel *et al.*, 2007). The functional competency class is often the basis for the professional and apprenticeship programs. For the purpose of this study this class was tested using the ability to networking preparation and technical know-how of SME managers. However, the scope and application the functional competencies vary as per task specificity.

#### **3.2.2.2 Generic Management Competencies**

The second group of competencies, the generic management competencies is based on the more common skills and traits. Generic management competencies correlate to managerial positions irrespective of industry hierarchy, function of the job and the

nature of business (Viitala, 2005). The class combines non-firm specific and non-industry specific competencies. These include, among others knowledge and skills requirements for all managers to deal with day-to-day management activities.

Generic management competencies differ from functional competencies in that, the generic class is not concerned with the technical ability of the managers in operating tools and machines (Mühlbacher, 2007). It is possible to acquire generic competencies by attending training and development programs. The ability to perform better in this class of competency increases with the participation (prior managerial experience) and evolution in the manager's field of expertise or career. For the purpose of this study this class was tested using prior business experience, level of education and ability to prepare and interpreting financial statements of SME managers.

### **3.2.2.3 Cognitive Competencies**

Cognitive competencies include manager's proficiencies to identify, investigate and resolve any work related opportunity or problem. The cognitive competency skill revolves around the capacity of the management to solve any work related problems or opportunities more efficiently (Nahavandi, 2006). These meta-competencies are often dependent on one's personal traits. According to Martin and Staines (2008), this is because cognitive competencies are usually genetic and dependent on family characteristics. This class of competencies also includes social and personal competencies. Their main purpose is intended to establish and maintain healthy business relationships internally and externally with important business stakeholder's (Mühlbacher, 2007).

Competencies categorised under cognitive class include abilities to understand people because it focuses on people-to-people interaction. This can be achieved either at individual or group level. Though, it is dependent on cooperation and reciprocal business relationship (Viitala, 2005). For the purpose of this study this class was tested using innovation and communication skill.

### **3.2.3 THE FOUR PILLARS OF MANAGERIAL COMPETENCIES**

The major challenge is not in identifying competencies, but engaging in a process that would ensure buy-in from SME managers or owner-managers throughout the firm. This demands that individuals playing the management roles in SMEs must be able to apply the following pillars of managerial competency. The four pillars of managerial

competencies are leading and managing people, communicating effectively, knowing the organization and managing resources. The four pillars of managerial competencies are independent of each of the other, but form a unified whole. These four form the bases of all other managerial competencies. Hogan and Warrenfeltz (2003) contended that when developing professional competencies the widely accepted basis is leading and managing people, communicating effectively, knowing the organization and managing resources.

- **Knowing the organisation:** the management ability to develop an understanding of a firm's operational techniques and current policies to ensure specific units are aligned and productive (efficient and effective). The pillar deals with competencies correlated to a firm's vision, mission and strategic goals.
- **Managing resources:** manager's ability to use the tools and understand the production process in order to meet specific goals. The pillar deals with competencies correlated to a firm's skill in project management and performance assessment.
- **Communicating effectively:** management skill to foster smooth and provide satisfying interactions with stakeholders. The pillar deals with competencies correlated to a firm's manager's ability to listen, give feedback, effective presentation and supervision of written communication.
- **Leading and managing people:** the need to develop a skill in providing feedback and direction to the satisfaction of customers and employees. The ability to develop a collaborative environment promotes initiative and problem solving. The pillar deals with competencies correlated to a firm's team building, customer relations and performance evaluation.

The four pillars of managerial competencies help management in providing employees with a platform for skills development. The required skills of managers in each pillar category are separated into two levels. Level one skill, prioritises knowledge and understanding of basic procedures and concepts. Level two skills, requires experience and analytical thinking. The four managerial competencies pillars provide individual staff members the opportunity to prepare for a promotion into management or plan for professional progression. On the part of top management the pillars help in receiving feedback from subordinate's on how well they are practicing managerial skills. The

pillars are useful for communicating the firm's expectations of managers. There are essential an essential tool in hiring, orientation, professional development and writing position descriptions for managerial posts.

Following in section 3.3 below, is a discussion of the different managerial competency theories and how these theories help in management decision-making.

### **3.3 THEORIES ON MANAGERIAL COMPETENCIES AND SME PERFORMANCE**

This section gives an overview of the theories fundamental to management competency. The researcher also attempted to relate each of the three theories to managerial competencies, practice within the SME context. The theories discussed hereunder are the Human Capital Theory, Resource Dependency Theory and Iceberg Theory. The relevance of each theory in SMEs was also explored.

#### **3.3.1 Human Capital Theory**

The human capital theory was first postulated Schultz in 1961 and developed extensively by Becker in 1964. Schultz (1961) defined human capital as a stock of competences inherent in knowledge, capability and skill that are economically usable. Schultz proposed that the stock of competences is acquired through education, talents, IQ and practical experience. Becker (1964) equated human capital to physical means of production (factories and machines). Human capital states that the more an individual progresses with education the more competent he/she is. It is a means of production by which additional investment in human education yields additional output, this statement is supported by Lucas (1988), who states that in a perfect market, educational investment for employees significantly affects his/her level of productivity in the office.

Human capital can be substitutable, but is not transferable as physical factors of production (land, labour, capital). Accordingly consumption constitutes an investment in human capital. Consequently, entrepreneurs with higher specific human capital show high levels of performance than those with lower level specific human capital. This is defined as entrepreneurial human capital. The theory points out that knowledge, skills and competencies are a form of capital. Human capital theory equates the acquisition of skill and knowledge to the means of production.

The human capital argument is that SME managers implement certain actions and policies as far as their ability can carry them. According to Berry (2002) the way that firms practice certain behaviour and put up certain systems into action may depend on the skills, preferences and ability of the owners/managers and other employees available. The theory is based on the notion that there are levels of ability starting from the manager who does not have a clear understanding and then a competent manager. This is reflected in SME operation because the manager rejects the sophisticated business techniques because he/she is unable to comprehend their applicability and usefulness.

The transition from being unaware to becoming a competent manager is challenging. What needs to be explored and understood here is how managers have been trained and educated to handle new techniques (Nenzhelele, 2012). The ability in this manager is the flexibility and dynamism to handle new ideas and techniques (Nenzhelele, 2012). The competent manager is aware of the sound ways and practice that can help in the decision making and sustainability of the business. Viitala (2005) agrees that the manager is able to realize and put into practice the different types of practices according to the business life cycle. This argument satisfies the human capital ideology that human capital is substitutable but not transferable.

On the other hand the researcher criticises the human capital theory. The argument is based on that, the theory is an assumption that schooling increases productivity and can thus explain higher wages. This assumption is questionable because education only serves for signalling or selection factor in hiring employees. Another criticism of the theory is that unions regulate wages paid, for there do not take into account individual qualifications into consideration but type of industry.

### **Relevancy to SMEs**

Generally in South Africa, SME owners also conduct the managerial tasks in their firms and are naturally very unwilling to share the control of their enterprises. The business environment requires firms to be proactive and the dominant sense is that, SME growth is dependent on individual competence. Human capital signifies the quality of labour, which is one of four factors of production. It is not a question of the quantity of labour force, but rather the quality (competence). In many SMEs around South Africa and the globe at large, owners usually execute the managerial function due to the limited size of the firm and the financial implications.

Human capital is lacking, especially in SMEs compared to large enterprises. This is according to a research conducted by Balunywa (2003), who established that, SMEs' do not have indispensable human capital to run successful business operation. This was evidenced by lack of knowledge and experience in conducting certain activities / tasks in their firms. This is consistent with Senge (2012) who acknowledged that the competencies required of the managers are known, but there is evidence that some of the owner-managers that run these SMEs' are often uninspired, uneducated, inexperienced and not innovative.

The ability to perform satisfactorily over a given task is increased by human capital, hence, its relevancy to SMEs because they are in dire need of quality employees. Human capital involves the following educational qualifications, prior-managerial experience before starting an SME, related prior-industry experience and business knowledge. These consequently affect management performance as a manager's ability to perform is dependent on the human capital background.

Furthermore, human capital is an important influence in the post-failure earning capacity of SME owners/managers. Post-failure earning is income acquired after business operations failure by the entrepreneur. Blumberg and Letterie (2008), states that, post-failure earnings are the anticipated income of the entrepreneur after the failure of the business operation. This a signal to the bank of whether the SME owner-manager can eventually compensate his credit obligations even if the business fails. Highly educated business entrepreneurs reflected through human capital, are more likely to have a high post-failure earning capacity than less uneducated individuals (Fatoki, 2014). This suggests that the greater the level of managerial competency reflected through the human capital the greater the performance and survival rate of the SMEs.

### **3.3.2 Iceberg Theory**

Spencer and Spencer were the first to propose a model for the iceberg theory in the 1990s. Spencer and Spencer (1993), state that, only a small fraction of information is visible in every situation whereas the bulk of the information is hidden. The iceberg theory on competencies adopts the water iceberg idea to explain the concept of competencies. A water-iceberg has only one-tenth (1/10) of its volume above sea level with nine-tenth (9/10) under sea level. Just as the water iceberg are the managerial competencies as proposed in the iceberg theory. Correspondingly, an individual's

competency has some components which are visible (knowledge and skills) and behavioural components (attitude, traits, thinking styles) that are hidden.

Spencer and Spencer (1993) agreed that, a competence is a distinct attribute of a person indirectly correlated with principle effective and superior performance on a given task or job activity. This is supported by (Costin, 2010) who states that competencies are not fixed and casually developed with effort and support. The iceberg model comprises of five competencies which are (Costin, 2010):

- **Motive:** thoughts that cause a particular action directed to ones-self not others.
- **Skill:** competences furnished through consistent practice, ability to do something well accomplished through technical skill.
- **Knowledge:** understanding acquired through learning in the area of work. Enhanced by education and experience
- **Traits:** the mental and physical attributes connected to a person's way of responding in certain situations (reaction time, mentoring, and good-listener).
- **Self-concept:** personal values, self-image, identity, confidence level. (Exercised through innovativeness and leadership).

Fig 3.1 Iceberg Model

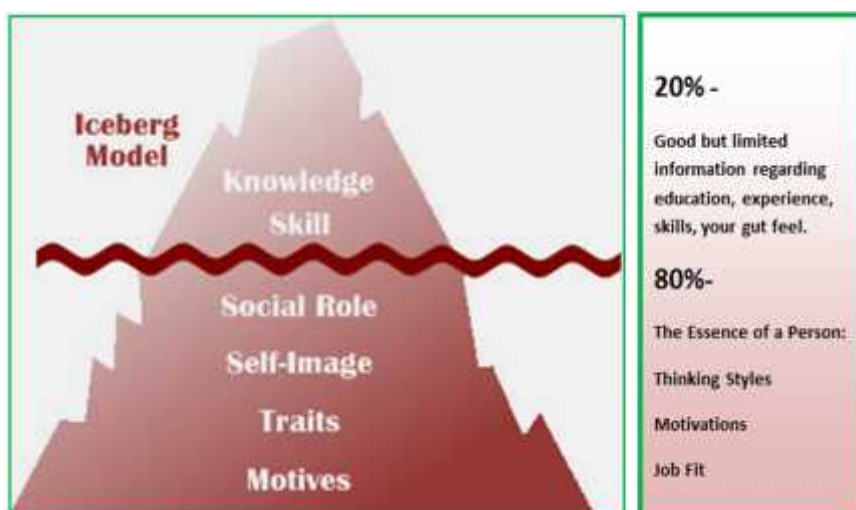


Fig 3.2: Iceberg Model: Spencer and Spencer (1993, p. 11)

The visible competencies are skills and knowledge while the other three traits, self-image and motives are invisible. Costin (2010) sinuates that the visible competencies sit

on top of the iceberg and are easily developed and enhanced through on the job-training and educational advancement.

The invisible, which take the form of the wave currents in a sea are inherent to an individual since they comprise the innermost part of a person's personality. Invisible competencies are difficult to develop and reform through on the job-training and education, but consultation, mentoring and conducive working environment may help according to Ashbaugh (2003).

The visible and invisible competencies were later categorised into soft and hard skills. Buhler (2010) proposed that soft skills are connected with behaviour needed for successful interpersonal interaction which is evaluated using the emotional quotient (EQ). Hard skills are intellectual in nature, thus the technical ability to perform through task oriented skills and professional knowledge and evaluated using intelligent quotient (IQ) as augmented by Buhler (2010). The skills refer to the technical level of performance (professional knowledge) and task oriented skills. Professional knowledge being attained information about a given subject over time. Task oriented skills are basic requirements for an individual to perform using technology during production process.

However, the iceberg theory has been criticized due to inability to clearly distinguish soft and hard skill (visible and invisible competencies). The available literature lacks exact definitions to categorise and itemise visible and invisible competencies.

### **Relevancy to SMEs**

Most SMEs require a complementary relationship between soft and hard skills in effective job performance. This is evidenced by SME employers focusing on applicant's soft skills such as personal traits in interviews rather than hard skills provided through a degree or diploma. Studies conducted as early as that of Spencer and Spencer (1993) contended that increased performance was not solely dependant on technical skills but also on the underlying characteristics of the individual. This is supported by Garcia-Teruel and Martinez-Solano (2011) who observed that, SME owners/managers end up improvising their own methods of getting things done (invisible competencies). This is because SMEs prefer the techniques of production to be relevant to their unstructured management hierarchy.

The iceberg theory is relevant to SMEs because the owners of these SMEs are usually the managers (Willemse, 2010). The iceberg theory is in line with the required change in attitude due to continuously changing business environment. Competent SME managers/owners need not only acquire professional knowledge or be proficient at task-oriented skills, but also be pro-sensitive to changes and adapt to the new opportunities and threats in the workplace (Fatoki, 2014). This is supported by Chang and Tharenou (2008) who established that, SMEs need consistent competent persons proactively recognising change within the business environment. This positions the firm in a greater competitive advantage through dynamic management process, strategic promptness and anticipation.

Buhler (2010) proposed that a mix of hard and soft skills (competencies) provides the basis for assessing SME employee development, anticipating resistance, involving employees in decision making, increasing productivity of employees and warrant clarity on behavioural expectations. A firm with a management team possessing a combination of hard and soft competencies. Establishes apposition were its leaders (owner-manager) are in a position to identify when it is appropriate for the SME to acquire credit necessary to achieve its aims and objectives (Costin, 2010).

Nenzhelele (2009) reveals that the visible managerial competencies (hard skills) are one major assessment criteria for banks to grant financial assistance. Access to capital is critical to SME performance. Typically, a bank or financial institution is interested in the hard and soft skills of the SME owner/manager. Studies by Zindiye (2008) and Martin and Staines (2008) positively link managerial competencies to start-up venture performance. The higher the level of the intellectual quotient (IQ), technical ability and professional knowledge exhibited by SME managers/owners of a start-up firm, the greater the feasibility and survival of the new SME. Hence, the more successful the managers/owners are in accessing credit.

This credit access criterion is far more important, especially when banks have insufficient knowledge (information asymmetry) about the borrowing owner-managers of the SME firm. From the bankers' or any financial institution point of view, the lack of visible competencies (hard skills) of SME owner-managers on new ventures decreases their legitimacy (Costin, 2010). Consequently, the hard skills (visible competencies) are used as a credit assessment criterion to fund new ventures.

### 3.3.3 Resource Dependency Theory

The resource dependency theory (RDT) was formalised in the early 1970s. Pfeffer and Salancik were the first to put forward the theory, examining dependency on the internal resources effect on firm performance. The theory postulates that for a start-up to survive it should locate in more profitable and controllable niches in which to do business. Pfeffer and Salancik, (1978) further elaborate the resource dependence approach as being members of the coalition in a constant state of change and these coalitions have some power over the firm's failure or survival. The resource dependency theory established three main conditions for firm success. These include firm self-sufficiency, anticipation of the acceptability of resource flows and operation benefits exceeding operation costs.

High performance and resources are co-related according to (Barney, 2007). The resource dependency theory claims that resources (assets, competencies, market-share, market-value) a firm enjoys should be totally controlled within to be valuable, rare, imperfectly imitable and not substitutable. These three resources should be available at all times during the life cycle of the firm. Resources can be organisational characteristics, processes, information and knowledge controlled by the company and its employees (Barney & Clark, 2010).

The theory is based on the notion that, firms survive by acquiring and maintaining resources from their environments (Afrifa, 2013). Rogerson (2008) highlights resource-dependence theory by asserting that the most firms dissolve due to resource insufficiency. Ahmad & Seet (2009, p. 1074) and Townsend, Busenitz and Arthurs (2010, p. 193) state that inadequate resources are among the main causes of small business high failure rates. Therefore, it is projected that SMEs will fail if they experience depletion of resources. In particular, Fatoki (2014) and Garcia-Teruel and Martinez-Solano (2011) confirm that the conversion of an idea into a successful firm requires that SME owners/managers to acquire resources. Consequently, the success or failure of a new SME is thus affected by its resource profile.

Resource dependency theory implies that businesses ultimately depend on resources for increased performance, meaning resources are the basis of performance. The probability of any firm realising full economic potential is dependent on internal resources. These resources include, among others, work effort, expertise, organizational networking connections, transparent production process and efficient

inter-department relationship (Botha & Musengi, 2012). According to Barney (2007), a firm will only succeed in the current business environment if it acquires the right mix of resources.

However, Barney and Clark (2010) established that additional resources are needed to promote firm growth to the next business cycle phase, especially during the growth phase. Townsend, Busenitz and Arthurs (2010) confirm this position. The authors state that, depriving any firm additional resources is positively related project failure. This implies that, acquiring resources and utilizing market opportunities does guarantee firm development. Therefore, any SME not acquiring and developing additional organizational resources will not realise the full economic utility over time. A firm cannot hold resources for utilisation on a corresponding opportunity for a long period. This is a result of the changing environment which accelerates depletion of these resources. Consequently, if firms hold similar resources for too long, a shortage of resources arises from lack of resource replenishment and augmentation.

The shortcomings of the resource dependency theory are grouped into cost, constraints and information. Gulati, Dialdin, and Wang (2005) argument a weakness of the resource dependence work which assumes an atomistic environment where information is accessible to all. This assumption is not accurate as information asymmetry is common in the business world. The theory basis firm success on market influence and control, but, the business environment is generated through a process of consistent attention and interpretation of market forces (Pfeffer & Salancik, 1978, p. 13). This means SME owners/manager behaviours are largely moulded by learning, selecting and processing information about the environment. The theory is inconclusive on whether it is based on management uncertainty or ensuring profitability and efficiency of firms.

### **Relevancy to SMEs**

The theory is applicable to SMEs since they do not want to incur the high costs of acquiring external assets (human skills, machinery and business premises). This is proven in a research conducted by (Rungani, 2009) who stated that SMEs prefer to utilise internal assets for sustained operations due to lack of external assistance from financial institutions. Resource dependency theory states that a firm can minimise effects of external parties by (Pfeffer & Salancik, 1978):

- Locating in more profitable and controllable niches.

- Internalising dependence effects by merging with other firms or through diversification.
- Establishing external linkages in order to manipulate exchange relationships

One major the reasons for high SME failure rates in South Africa is management's inability to strike a balance between assets and revenue projections (Rungani, 2009). Most SME managers lack the financial expertise to project future cash flows causing high indebtedness. This view is supported by De Klerk and Kroon (2008, p. 25) that SME failure is prone to occur due to high indebtedness signalled through the absence of resources and the presence of high debt. Internalising dependence through merging and diversification and locating in more profitable and controllable niches as provided by the resource dependency theory will help SME overcome high indebtedness.

The above mentioned strategies are precisely what SMEs require to increase likelihood of surviving. This shows that the theory is relevant to South African SMEs context. Generally, SME owners also conduct the managerial tasks in their firms and are naturally very unwilling to share the control of their enterprises. As a result, the owner-managers would prefer to finance the business operations and activities using those sources of finance that are less likely to dilute their control and ownership. Consequently, they generally prefer internal funding. For improved success the SME should base performance on internal resources (financing, assets, and management). This shows that resource dependency theory is applicable in SMEs.

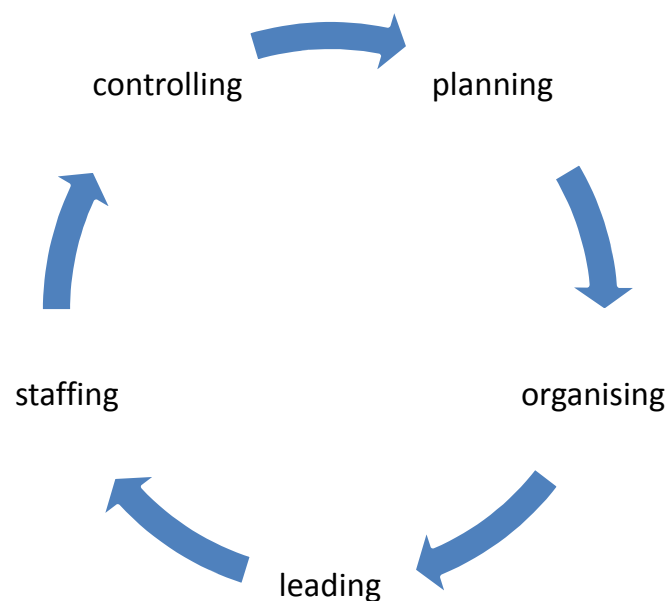
Section 3.4 below focuses on managing small and medium-sized enterprises.

### **3.4 MANAGING SMALL AND MEDIUM-SIZED ENTERPRISES**

Considering the business environment, management is the process of designing and maintaining an environment for individuals working on the group's in-order for them, to efficiently accomplish the specific aims (Wehrich, Cannice & Koontz, 2010). Management is the act of organising and coordinating activities in order to achieve defined objectives. Du Toit, Erasmus and Strydom, (2010) state that management is the process of combining human, financial, physical and information resources to achieve the objectives of an enterprise. The capacities of the manager to plan, organise, lead and control the operations of firm's resources according to (Schermerhorn, 2011; Smit, Cronje, Brevis & Vrba, 2011). Management is the merging of corporate policy and planning, controlling, organising and directing a company's resources. Botha and

Musengi (2012) confirm that management is the process of using firm's resources to maximise economic value in such a way that it accomplishes set goals and objectives. There are five basic management functions, thus, leading, planning, controlling, staffing and organizing (Hellriegel *et al.*, 2008). The primary concern within SMEs, is keeping the enterprise operating on a day-to-day basis and, therefore, strategic planning, organising, leadership, staffing and controlling should always be high on the agenda. Figure 3.1 depicts the four fundamental management tasks.

Fig 3.1 fundamental managerial functions



### 3.4.1 Planning

Planning is the basic management function of an enterprise. Planning involves formulating a detailed strategy to realize the optimum balance between demands and the available resources. It includes determining the future prospects of the business and guidelines on how those projections are to be reached (Du Toit *et al.*, 2010). Schermerhorn (2011) insinuates that, planning is a management process of establishing performance objectives and determining a path of action to accomplish those objectives or aims. Through planning, a manager identifies desired results and ways to achieve them. Planning is an attempt to anticipate for future contingencies, accordingly account for environmental complexities and dynamics. Moreover, a plan is a blueprint, a guide

for goal achievement. According to Wehrich, Cannice and Koontz (2010), planning is the responsibility of top-level managers and includes the following managerial functions

- Identifying a firm goal, aim, mission or objective to be achieved.
- Formulation or determining the policy, plan or methods to achieve them.
- Arranging required resources throughout the production process required.
- Guiding and executing necessary steps in their proper sequence.

SME owners/managers do not adequately plan their business operation long-term future through strategic planning. This is due to high levels of uncertainty and risk in accessing capital facing most SME operators. Regardless of high SME failure rates currently a disappointing 70% within the first five (5) years, most SME owners/managers consider strategic planning as either unnecessary or too hard to implement (Bennett, 2014; Chimucheka, 2012; Cohen, 2006; Krajcovicova, 2012). In the United States of America most decision-makers in SMEs are convinced that genuine entrepreneurs are not in need of formulating a business plan or simply do not plan (Krajcovicova, 2012). Instead, they assume that real entrepreneurs should make use of their limited time conducting operational activities than strategic planning. Additionally, prescribed planning is often considered as delimited to large firms, therefore, not transferable to the inevitabilities of the fast-moving and flexibly-structured SMEs (Krajcovicova, 2012). From an entrepreneur's perspective, three major objections against the use of strategic planning in SMEs are (Bennett, 2014)

- Strategic planning limits flexibility and innovativeness.
- Strategic management is too bureaucratic.
- It's preferable to use limited time for research and development rather than for planning firm expansion.

However, studies such as (Cohen 2006; Krajcovicova, 2012; Fatoki, 2014; Preston, 2008) have shown that SMEs who formulate strategies outperform their peers. Senge (2012) established that firms that ensure its management perform strategic planning to achieve superior financial results. Signifying that expenses associated with planning activities can be compensated financially. The hypothesis was confirmed empirically in several studies. For example, Krajcovicova, Caganova and Cambal (2012) who

revealed that, practicing strategic planning is positively correlated with any firms' performance (success). Along these lines, Darrol (2013) also observed that, the quality of planning rather than strategic planning per se is responsible for influencing firm success. In South African SMEs, strategic planning is not being implemented. The few SMEs that adopt a strategic planning often seem to use informal, sporadic, incremental and unstructured strategic plans. This is the cause of poor managerial competencies as planning is a component of competencies required in managers. After effective planning managers need to organise the resources.

### **3.4.2 Organising**

The ability to organise the organisational resources is the next step management should follow after planning. The organising function of managers requires classification of duties, decentralization of authority and accurate management of available resources for achievement of business goals (Hellriegel et al., 2008). Organising is the process of allocating responsibilities, resources and coordinating work activities. This is the first step in the implementation of the plan set by the management department (Schermerhorn, 2011). Organising includes developing a framework indicating how equipment, machinery, raw materials and human capital should be employed to achieve predetermined goals (Du Toit *et al*, 2010). The management, organizing philosophy is founded on the concepts of division of labour and specialization. Division of labour is assigning responsibilities to a specific individual. Every firm's management department has its own ambitions, missions and intentions. Organising is the management function implemented to accomplish the overall goals of the firm. Organisation harmonizes the distinct goals of the separate employees and overall firm's mission.

Organising is a very important aspect of the management process and it includes organisational structure. It allows an SME owner-managers achieve goals systematically. Planning is responsible for bridging the gap in SMEs between the exact point where there are to where there want to go (Nieman & Nieuwenhuizen, 2009). Weihrich, Cannice and Koontz (2010), organising helps firms to reap the benefit of specialization and the following:

- Efficient resource utilisation.
- Quality administration.
- Provides channels for firm diversification.

- Achieves efficient and effective inter-departmentalisation.
- Creates sustainable opportunities for new change.

According to Afrifa (2013), the firm structure of SMEs is a “one man can do it all”. The SME structure emphasises a one leader framework and all workers are accountable to the leader. In the SME structure, the owner takes responsibility of all business activities, taking charge of production, sales, marketing and others. Therefore compared to large businesses, SMEs employees can easily communicate with the business owner on a daily business. In large firms communication frequency is limited because of the protocols or lines of communication between the top management and the employees at group level. In addition, larger firms have formal structures which enable operations flow to work more effectively and efficiently.

In relation to South Africa, the SMEs observed were found not to have proper organisational structure (Cohen, 2006; Rungani, 2009). The SME owner/manager is the one who handles all management duties of marketing, operations and human resources. The one man can do it all philosophy applied in SMEs is the reason of their inefficiency (Pahad, 2008). This has led to SMEs performing below their economic value. While large enterprises business operations are divided into different levels for ease of operation, the SME owner is responsible for the whole operation of the business. This is because, owner-managers of the SMEs vested their delegated responsibilities and duties in family members. Trust is the reason why SME owners delegate duties to family members when the owner is absent (Hellriegel *et al*, 2008). The managers’ leading skills are the next step in management should follow after successfully organising.

### **3.4.3 Leading**

Leading is the managerial function of directing employees toward achieving organisational objectives. According to Du Toit *et al* (2010), leading involves supervising, motivating and monitoring the human capital of an organisation to enable them to realise the full economic value. The leading function comprises of teaching, guiding and supervising subordinates. This is the ability of management to develop employees to realise their full potential through coaching and directing employee skills. For a supervisor to be a successful in leading, it requires a great deal of time from the supervisors (Wehrich *et al*, 2010).

The day to day process performed by managers. It involves motivating subordinates, because leading influences employee morale, productivity, communication and job satisfaction. The leading principles are supervisors (Wehrich *et al*, 2010):

- Harmonising personal goals of employees and the goals of the firm.
- Integrity and consistency in oral and written messages.
- Supplement the informal communication channels with the formal channels.
- Accurately assess the employee reward structure.

SMEs can function successfully with only one line of management (Afrifa, 2013). The importance of leadership in SMEs is with regards to developing a strategic outlook and adapting to change. Fatoki (2014) observed that, SME owners need to have both leadership and management skills. The ability to delegate is considered as perhaps the most important for effective leadership. Delegation releases owner-manager from day-to-day operational duties to consider the longer-term SME future. Moreover, the strength of the firm lies in the owner-manager's willingness to create a conducive working environment for employees.

The major concern in SMEs is the ability to develop future leaders (Rungani, 2009). Current leaders in firms need to need help with selecting and identifying potential leaders of tomorrow. The "fast-tracking" of these individuals helps them to rapidly acquire the necessary leadership skills. Consequently, exposes these individuals in situations where they can acquire the experience and credibility to be accepted by subordinates.

However, studies conducted agree that there is the need for leadership development opportunities specifically tailored for SMEs in both developing and developed economies (April, 2005; Ghebrit, 2004; Krajcovicova, 2012; Smit & Smit, 2007). The platforms should be individual centred according to the particular requirements of the individual and the enterprise. Darrol (2013) proposed that, a practical course assisting the development of skills such as time management, delegation and team work is beneficial. It equips the owner-manager with the necessary skills to focus on long-term strategies than day to day operations. This process helps in recruiting future competent leader increasing the quality staffing resources available to SMEs.

### 3.4.4 Staffing

Staffing is the managerial function of recruiting and hiring workers. According to Du Toit et al., (2010), it is the managerial task of selecting, recruiting, orientation and training of workers. Staffing relates to the process of acquiring, positioning and retaining a workforce of sufficient quantity and quality to create positive impacts on the firm's effectiveness (Wehrich *et al*, 2010). Staffing function includes appraising employee performance, promotion when appropriate and employee development. The process also includes devising a compensation system which is fair. Staffing is an effective tool for the survival and success of SMEs (Hutchinson & Quintas, 2008). Staffing plays a critical role in firm performance and competitiveness.

The recruited employees within each firm have a unique value which allows the parent firm to gain a competitive edge. In many companies, staffing process is handled by the human resources department. This implies that staffing process is limited in SMEs since there is no organisational structure to incorporate human resources department. This is consistent with a similar study in Zimbabwe by Dumbu and Chidamoyo (2012), who observed that SMEs lack a systematic approach of recruitment and selection of employees. The authors established that, SME owners practise an informal process of selecting and hiring workers. The informal process involves employing employees on the basis of referrals or assistance from close friends, relatives and based on owner's personal judgement.

In SMEs, one major reason for low productivity is the inability to practice proper staffing function. SMEs cannot retain key staff and attract new staff. This is due to unqualified and inexperienced staff being recruited through the informal selection process (Rungani, 2009). SMEs located in South Africa consider the training on the job cost for them too high and are suspicious about the impact of training on the performance of the firm (Fatoki, 2014). In a research conducted by Fatoki (2014), most of SMEs managers/owner respondents revealed that, they consider working capacity not educational qualifications and experience. The major weakness of staffing is that it causes unnecessary employee absenteeism and abrupt resignation, according to Dumbu and Chidamoyo (2012).

### 3.4.5 Controlling

The managerial function of controlling involves reviewing set plans as circumstances shift. Nieman and Nieuwenhuizen (2009) state that, controlling is the flexibility of managers in ensuring that, the actual performance is in line with desired performance and being proactive (taking corrective action). Control means that management must consistently review whether the firm operations accomplish set goals. Therefore, course of action must constantly be monitored and revised to realise target benchmark. Controlling forces management to ensure that, activities and performance conform to the set plans for every department (Du Toit et al, 2010). The process of verifying all business operations occurs in conformities with the set plans, principles and instructions established. Features of control (Nieman & Nieuwenhuizen, 2009):

- **An end, function:** only takes effect once firm plans have been established.
- **A pervasive function:** adopted by all managers regardless of line of management.
- **Forward looking:** always made proactively and looks up to the future, so that follow-up can be made.
- **A dynamic process:** constant review mechanisms are required to keep up with the ever changing circumstances.
- **Correlated with planning:** control succeeds planning and planning presupposes controlling. Without planning then control function is meaningless.

Practicing successful control provides two basic purposes, facilitates coordination and helps in planning. Projected results from any business activity can be achieved, but, for accurate results, adequate control has to be practiced according to (Botha & Musengi, 2012). Applying control in SMEs ensures that at first try, the results achieved correspond with company objectives. This determines that, the business plan is on course and all employees working to the advantage of the firm or SME. Therefore, control ensures that organisational resources are utilised effectively and efficiently to accomplish the plans adopted.

Control is the last important task of the management in any firm. Effective control in SMEs is the ability to keep deviations from set benchmarks at a minimum level. This is facilitating the attainment of managers/owner's goals with little disturbances. Martin and

Staines (2008) revealed that, planning for the purpose of controlling was not practised in SMEs located in Ghana. This implies that SME managers/owners are not aware of the importance of planning today so there can correct any deviations from the set plans in the future. Mazzarol (2015) maintains that SME owners have full control of the business because they adopt the “I can do it all” philosophy. Moreover, lack of skilled personnel means that the owner cannot delegate and has to do the work single-handedly. Therefore, control is not practical as the owner cannot check deviation from set plans. This is because the owner - manager implements the system hence he/she will not be able to detect deficiencies in the system.

In relation to start-up firm control, to realise full potential, requires competent managers according to (Du Toit et al, 2010). The management team should be able to proactively respond to change, recognize when change is necessary, and comprehend the change management process (Hellriegel et al, 2008). This allows the management team to be able to learn and have the strategic anticipation of future business problems and opportunities.

Having discussed the key management functions and their applicability in SMEs, section 3.5 below outlines the relationship between managerial competencies and SME performance.

### **3.5 PERFORMANCE AND MANAGERIAL COMPETENCIES**

Theories underlined in this study posit that firm success factors associated with SME performance are of pecuniary and non-pecuniary factors. Empirically, SME performance is a multi-dimensional concept. Therefore, a statistical approach should be employed to examine the relationship between firm performance and managerial competency.

The relationship between managerial competencies and SME performance still remains an important issue within organisational literature. The available literature provides an explanation of isolated managerial competencies in relation to firm success. The success of any SME is determined by the ability to retain excellent (above average) employees while gradually eliminating or developing the average employees. The key competencies for SME success will be discussed in relation to economic development where the study was conducted. These include, among others leadership, communication, risk management, team development, decision making, technical

expertise, prior business experience, planning, strategizing, networking, innovativeness and interpreting financial statements.

Most empirical studies found out that observed managerial competencies positively impact on the performance of new SMEs (Fatoki, 2010; Chang & Tharenou, 2008; Rogerson, 2008; Ghebrit, 2004; Kanungo & Menon: 2005; Fatoki: 2014). The increased competitive environment requires companies to consistently hire competent managers. Managerial competencies typically are the skills necessary for an individual to perform his/her duties efficiently and effectively. An individual's competency is the key of an SME to realise both its mission and vision regardless of being in a developed or developing economy (Mahembe, 2011). Therefore, the main objective of any firm is to recruit the competent personnel and develop the performance of the existing employees further and further.

In a study conducted in Ghana by Martin and Staines (2008) the study investigated the importance of implementing a system of competent managers in manufacturing SMEs. Martins and Staines (2008) revealed that lack of prior managerial experience evidenced by poor skills, poorly constructed business plans was not correlated to SME success. The authors established that, difference in low performing and high performing SMEs is a result of innovation and on the job-training of the management teams. Still in Ghana, Abor and Quartey (2010) argued that well-constructed business plans and prior business experience was not an essential competency in manufacturing SMEs due to the technical aspect of the production process.

In a similar study conducted in Zimbabwe by Dumbu and Chidamoyo (2012). Dumbu *et al* recommended that, for SMEs to be successful the managers should be able to prepare for resistance, appreciate change and involve subordinates in decisions making. In their research the two authors measured managerial competencies using innovativeness, flexibility and networking. Dumbu and Chidamoyo (2012) indicated that there is a positive relationship between managerial competencies (innovativeness, team work, and networking) and performance of retail and manufacturing SMEs.

SMEs in Malaysia were also examined to observe the cause and effect relationship between managerial competencies and SME performance. Top performing SMEs hire workers with required skills (technical, strategizing, planning, management) and extra educational qualifications compared to the lower performing SMEs according to (Chang & Tharenou, 2008). The author's also established that higher skill levels support

innovativeness and a sophisticated production process. Consequently, resulting in increased quality products and increased sales level. The study revealed that there is a positive relationship between competencies and SME performance.

Along these lines, Krajcovicova (2012) and Senge (2012) investigate SME in Slovakia and United Kingdom respectively. They pointed out that poor educational background and insufficient training have the reduced management capacity to execute their duties efficiently and effectively. Concluding suggestion outlined by the researchers is that, managerial competencies (networking, preparation of financial statements, risk management) impacts SME owner/managers access to trade credit. Consequently inability to access credit will impact on SME performance. This accounts for one of the major challenges resulting in high SME failure rates in South Africa.

In a study conducted in Uganda, Bimbona (2008) outlined that key competencies involve innovativeness, networking and risk management of psychosocial resources (motives, attitudes, values). The study, however, indicated a negative relationship between teamwork competency and performance. The author revealed that despite competencies comprising of taught knowledge, competencies can also be learned within a favourable learning environment if SME performance is to increase.

In South Africa Cohen (2006) and Fatoki (2012) revealed that, managerial competencies are the main determinants of access to finance and as a result SME performance. This is confirmed by Rungani (2009) and Fatoki (2014) who found out that, no financial institution initiate or even consider extending funding to any SME without clear and feasible business objectives. Rogerson (2008) argues that, any firm without clear and focused objectives will not maximise shareholders value. The firm lacks direction on where to go, how to go there and what to do to get there. This implies that only SMEs with competent managers will perform well because of their management, business and technical skills. These skills provide a basis for developing a business idea into a successful organisation.

The capacity to manage dynamic business challenges demands accurate development of individual skills. The more skilled any workforce is, the greater the organisations chance of survival. Preston (2008) argues that managing successful SMEs requires the entrepreneur to handle complex mental tasks and think far beyond, general educational accumulated knowledge. Smit and Watkins (2015) agree that, the gap between large

and small firms is ever increasing by the day due to the critical unavailability of competent managers to lead SME survival in South Africa.

Rogerson (2008) and Pahad (2008) contended that adapting to challenges and gaps in the business world requires the development of better individual abilities. The individual abilities include, among others innovativeness propensity, strategic awareness and commercial orientation. The researchers added that despite competencies comprising of more than just taught knowledge. SMEs should link human capital resources with desired industry benchmarks. This enables the organization to tailor make its employee capabilities to meet desired industry benchmarks.

Research findings on managerial competencies play a crucial role in the economy (Pahad, 2008). They enable firms to accelerate growth because sixty five (65%) percent of the successful companies are instituting managerial competences as a way to increase performance (Gorgievski et al., 2011). Growth-oriented SMEs will employ strategic competencies to promote leadership behaviour and performance-oriented SMEs promote competencies that build organisational capabilities Bersin (2007).

However, in this study, emphasis on some of the necessary management competencies and their effect on performance are examined. The management competencies regarded to have an influence on growth and performances are grouped into three categories:

- **Technical skills:** the expertise in a specific field such as computers or accounting.
- **Business skills:** the ability to manage time and human capital successfully.
- **Human/personal skill:** the ability of performing a given task efficiently and effectively.

### 3.5.1 Business Skills

Business skill is the ability to manage time and human capital successfully. This is the ability or capacity acquired through systematic, deliberate and sustained effort. According to Weihrich, Cannice and Koontz (2010), these are a cluster of connected abilities, knowledge, skills and commitment that enable an individual to respond effectively in any organisational situation. These are management job functions carried out smoothly and adaptively, involving ideas or people (Lloyd, 2010). Business skills are

also known as management skills which identify specific qualities and proficiencies. These skills illustrate a person's future management potential. Business (management) skills are different from leadership characteristics. This is so because, given the correct mix of resources, business skills can be learned and developed with sufficient training (Lloyd, 2010). Competencies in the business/management skill category should demonstrate individual behaviour for effective management (Cizel *et al.*, 2007).

For the purpose of this study preparation and interpreting financial statements and communication skill were the adopted business skill competencies established. Communication is ability to write and speak effectively, using conventions proper to the situation. This is confidently stating your own opinions clearly and concisely by demonstrating openness and honesty. SME managers should be able to exercise a professional approach with their subordinates using all appropriate tools of communication. This essential for SME growth, this is consistent with Staines and Martin (2008) who established that the employees' ability to listen well during meetings and feedback sessions increases his/her output level. This is because the individual understands what he/she is supposed to do and reduces wastage of SME limited resources.

Preparing and interpreting financial statements is the ability of management to produce necessary books of accounts for firm accountability. The financial books include among them income statement, balance sheet, cash flow statement, trail balance and auditing the books. These financial books are crucial if an SME is gain access to funding from banks or government institutions. This was also confirmed in a study conducted by Adcorp (2012) that the ability to prepare and interpret financial statements enable a firm to increase its chances of accessing financial assistance. Capital inflow is crucial in funding the expansion and diversification, which ultimately lead to high performance of an SME.

However, studies carried out on the importance of managerial competencies also outlined the lack experience, poorly constructed business plans, omission of feasibility study and below average personal qualities on the part of the managers or owner-manager of the serving SMEs (Adcorp, 2012; Fatoki, 2012; Sekyewa, 2009). Hence, the ability to communicate these financial statements and firms objectives is assumed to have a positive relationship with SME performance.

Therefore the researcher proposed the following objective and hypothesis:

- To establish whether or not a significant association can be found between business/management skill (preparation and interpreting financial statements, leadership and communication skill) and SME performance.
- H<sub>20</sub>: There is no significant association between business/management skills and SME performance.

### 3.5.2 Human Skills

Human capital is the ability of performing a given task efficiently and effectively. Human skills are a measure of the economic value of an employee's skill set. A stock of knowledge, creativity and personal attributes embodied in an individual so as to produce economic value (Investopedia, 2013). These are individual competencies and are more specific than organisational competencies. According to Cizel *et al.*, (2007), competencies in the human skill category should be defined in a measurable behaviour to validate applicability and degree of expertise of the individual.

For the purpose of this study prior business experience and level of education were the identified human competencies applicable to SMEs. The concept of human skill competencies is that not all labour is equal and that employee quality can be improved by investing in them. Prior business experience is the accumulated knowledge and wisdom gained by working in a similar position or industry. Education and experience of an employee have an economic value for employers, the firm and the economy. Studies that have been done to date established start-up experience as an important source of entrepreneurial learning (Cohen, 2006; Chilya *et al.*, 2012; Fatoki, 2012; Fatoki 2014). These studies did not explain how prior business experience influences individual and firm performance.

Staines and Martin (2008) observed the role of human competence in SME success and established that the distinguishing feature of high performance growth and low performance growth SMEs is the knowledge, training and education of managers. On the other hand, Mazzarol (2015) augments that, most SME owner-managers are indistinguishable as far as knowledge and skills are concerned. This is observed through the Degrees, Diploma certificates and work experience of the investigated individuals.

The argument provided above indicates that there is an association between a manager's educational, prior business experience and SME performance. Henceforth

this study will test the strength of this association. Consequently the researcher provided the following objective and hypothesis:

- To establish whether or not a significant association of human capital (prior business experience, level of education) on SME performance.
- H3<sub>0</sub>: There is no statistically significant relationship between human skill practiced by managers or owner-manager and SME performance.

### **3.5.3 Technical Skills**

Technical skill is the expertise in a specific field. This is the knowledge and ability to challenge conventional practices in any firm. An individual is able to choose the appropriate mix of tools/technology and opportunities to determine applicability to improved performance of enterprise (Investopedia, 2013). Competencies in the technical/functional skill category are job specific competencies that drive proven high performance through quality results for a given responsibility. The competencies are often technical or operational in nature.

In the study at hand the researcher used technical know-how, networking, and innovation as the competencies to measure the technical ability of SME managers. Innovation is ability to challenge conventional practices by adapting traditional methods for new uses (Investopedia, 2013). It creates novel solutions to problems. Technical know-how demonstrates knowledge of techniques, skills, equipment, procedures and materials (Cizel *et al.*, 2007). An individual applies knowledge to identify issues and internal problems. Networking is a socioeconomic business activity by which SME managers link up with customers, suppliers, like-minded business people and act upon those business opportunities (Wehrich *et al.*, 2010).

The available literature stating that managerial competencies are mostly affected by lack of experience, educational qualification, skills attained is neither wholly accurate nor conclusive. Senge (2012) and Balunywa (2003) observed that the existing gap between the managerial competencies application and SME performance means that the networking, mentoring and innovativeness of SME managers are poor. The fact that the business world is constantly changing due to technological advancement is a true reflection that a manager's technical skill has a positive relationship with SME performance.

This research seeks to give evidence in the missing literature as supported by Mazzarol (2015) who argues that technical competencies are of paramount importance rather than the educational knowledge and prior industry experience. This means if SMEs management is to increase performance in complex tasks with a high level of accountability, there must have technical competencies. Consequently the researcher provided the following objective and hypothesis:

- To determine the impact of technical/functional skill (technical know-how, networking, innovation) on SME performance.
- H<sub>40</sub>: There is no statistically significant relationship between technical skill practised by managers or owner-manager and SME performance.

### **3.6 CONCLUSION**

Regardless of working in the field of health and safety, environmental management or quality, to accomplish set objectives it requires demonstration of good leadership. Good leadership is being competent, hence managerial competence is the ability to influence people and motivate them to contribute beyond expectations. This chapter examined the ability of SME managers/owners in establishing a successful firm. Various definitions proposed for managerial competencies were discussed and the definition to be adopted for the purpose of this research was clearly outlined. The empirical literature revealed that investment in human capital by SMEs is lower compared to large organisations. This negatively impacts SME success as competent management is a prerequisite. Furthermore the theories of managerial competencies and performance, such as resource dependency, iceberg and human capital were discussed and their relevancy to SMEs highlighted. The theories suggested that SMEs prefer to use internal resources from human skill, assets and financing. The theories also revealed that SME management lack necessary skills to perform their duties.

The existence of this gap suggests that there is a lack of managerial competencies in most SMEs in developing countries. Consequently, leads to weak performance and high failure rates. The linking of theories and SME success was based upon the limited literature available. The duties required of a manager were also discussed in this chapter. The managerial functions included controlling, leading, planning and organising. The relevance of managerial competencies to firm performance was also discussed. Literature on significance of managerial competence on firm performance

was also highlighted. The empirical literature is, however inconclusive as to whether the application of sound management competencies improves SME performance. Furthermore, limited studies have been conducted in South Africa to investigate the relationship of the managerial competencies variables and performance.

Given the inconclusiveness of the empirical literature on managerial competencies variables and their impact on SME performance, this study will merge all the variables. This study will also establish whether sound managerial competencies by SME managers promotes SME growth and chances of survival in related industry of operation. The next chapter will outline the research methodology to be used in achieving the aim of this study.

**CHAPTER FOUR:  
RESEARCH METHODOLOGY**

## **4.1 INTRODUCTION**

Research is a scientific and methodical search for relevant data on a specific subject. Dhawan (2010) states that, it is a process of defining and redefining problems, formulating hypothesis, gathering, organising and evaluation of data to make conclusions on results on whether there fit the formulated hypothesis. Gill and Johnson (2010) say that research involves discovering something new, while Dhawan (2010) insinuates that each research has a purpose. After having outlined the research problem, literature review on managerial competencies in the context of SMEs and building the research theories and constructs in the previous chapters. Therefore, this chapter focuses on how the research methodology and the execution of the research study. In order to produce replicable and reliable research results, the research followed the scientific principles based on empirical and systematically procedures. This is consistent with Rugg and Petre (2007), who state that, for research results to be valid and reliable the research methodology should apply scientific principles.

According to Kumar (2008), research methodology is a way to systematically solve the research problem. Thus, a researcher has to follow sequential steps when conducting a research study. An accurately proposed research methodology will produce reliable and objective results which are significant, especially to future informed decisions on a course of action. Therefore, this chapter discusses on the research methodology which will be employed in order to achieve the research objectives.

The methodology to be used must be of proven validity and reliability according to Burns and Burns (2008). Hence the validity and reliability will be discussed in the later sections, but, the first sections will discuss on the focus and scope of the study. There are many types of research therefor the following section will discuss the various research categories.

## **4.2 RESEARCH STRUCTURE**

The word “research” was derived from an old French word “cerchier” meaning find or search. Therefore, any researcher will conduct a research for three reasons, to exhaustively find solutions to current problems, to verify previous study’s results and to make recommendations innovatively (Rugg & Petre, 2007). Research is motivated by two things, understanding and applications, whether its art or science based. There are

various types of research. (Babbie, 2007; Burns & Burns, 2008; Dhawan, 2010) identify and discusses the following approaches to carrying a research:

- **Descriptive versus Analytical research:** Descriptive research is intended to determine, explain or identify the relationships that exist at present. The major purpose of descriptive research is to identify “what is” using surveys and fact-finding inquiries of different types (comparative and co-relational methods). While analytical research is intended to identify and isolate the elements of the research. Researcher concludes a critical analysis and evaluation of the material using. The major purpose is to establish “why it is that way or how it came to be” using multiple equation, regression analysis and grouping methods.
- **Exploratory versus Causal research:** Exploratory research is implemented when research problem is not explicitly defined. It is also used when the research problem is totally new and there is no literature to give background. Exploratory research may conclude that the problem does not actually exist and it cannot be used to generalise to the whole target population. Causal research has its purpose to determine whether one variable causes a certain effect in another variable. Causal research aims to identify the cause and effect relationship between independent variables and the dependent variable. However, causal research for it to be successful, there is obligatory to control the study in order to verify the cause and effect relationship.
- **Qualitative versus Quantitative research:** Qualitative research is in-depth research into the underlying opinions, motivations and reasons for a specific behaviour. It is used to uncover trends in thoughts using unstructured or semi-structured techniques (focus groups, interviews, observations) for a small group of respondents. While quantitative research is intended to quantify the problem, attitudes, opinions, behaviours or any other defined variables. Useful for generalisation because it's used in large sample frames of not less than 30 elements. It is a phenomena relating to or involving a quality that can be expressed in terms of quantity providing factual information on market share, performance, success or level of sales.
- **Other approaches to conducting research:** there are different research techniques varying from one or more of the above methods, based on research

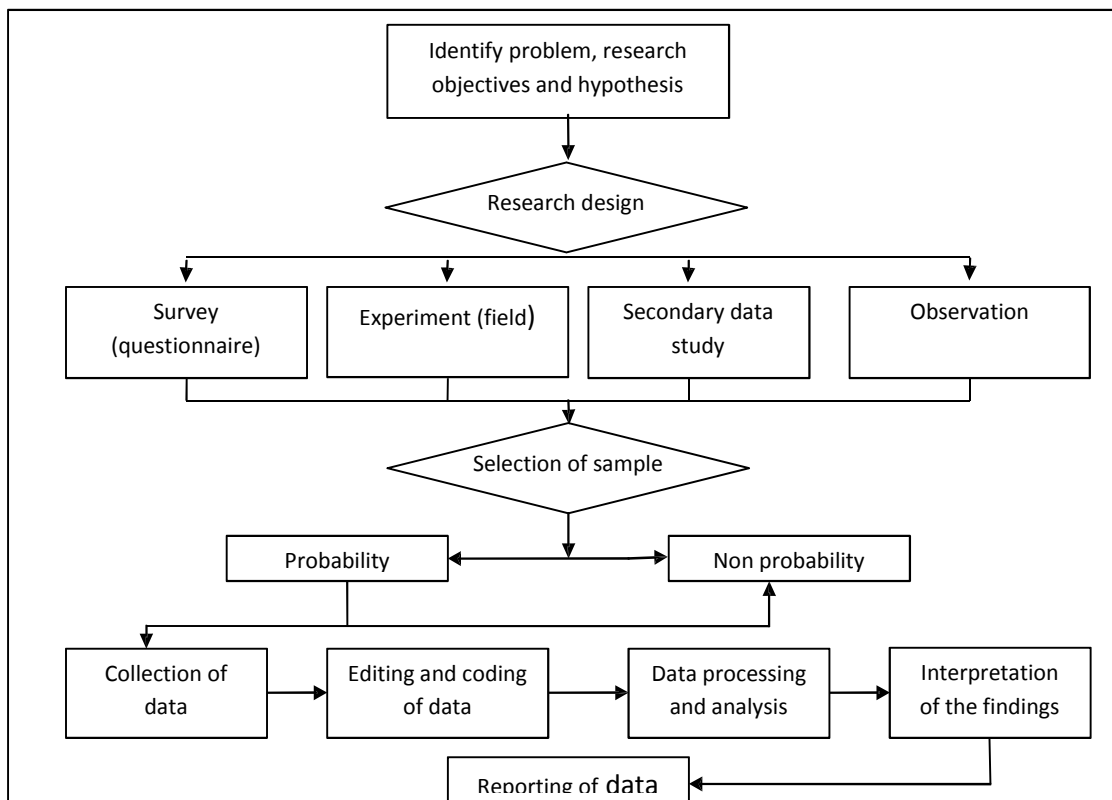
purpose, environment, resources and the time frame to achieve research objectives.

This research is intended to reveal the impact of practising sound managerial competencies on SME performance. Accordingly, this research is an applied, descriptive, causal, empirical and quantitative research. As a result, the mean, median, standard deviation and variance were used to summarise and explain the results of this study.

### 4.3. RESEARCH PROCESS

Research process is a systematic and objective collection, analysis and evaluation of information relating to how to solve a business problem or opportunity (Cant, Gerber-Nel, Nel & Kotze, 2005). A sequence of steps carried out to gather data based on a research design (Burns & Burns, 2008). Fig 4.1 shows the business research process that was implemented to collect data. The seven steps of research process were used to conduct this research and there are outlined below

**Fig 4.1 Steps in the business research process**



Source: adapted (Zikmund & Babin, 2012)

### **4.3.1 Step 1: Identify Problem, State Research Objectives and Hypothesis**

Step one (1) in conducting a research is, identifying the problem or gap which needs to be addressed. A problem is any question, uncertainty or difficulty proposed for solution. The first stage gives details on the focus of the study. According to Gill and Johnson (2010) the focus of the study simply refers to the reasons why a survey is carried out. The focus of the study outlines the limits of the study, including the elements of the sample. This primary aim of the study was to investigate the impact of managerial competencies on SME performance in the buffalo municipality. The other aims of the study were to examine whether SME managers or owner-manager possess sound managerial competencies to execute their managerial duties. Therefore, the empirical study seeks to add on existing literature by evaluating one of the most important internal issues, the benefit of executing sound managerial capability/competencies. The research seeks to clarify answers to the missing literature questions:

- To what extent are SME owners, owner-managers or managers competent?
- SME owner-managers ability to implement sound managerial competencies, improves SME success rate?
- Which managerial competencies are essential for SME success?

#### **4.3.1.2 Research Objectives**

Having identified the research problem as outlined above. The purpose of the research objective was to clarify the intended outcome of this research study. Research objectives clarify the research purpose in quantifiable terms, while outlining the aim of what the research study seeks to achieve. The research outlined general (primary) and specific (secondary) objectives so as to narrow the study, monitor information being collected, indicate variables to be measured establishing limits of the study and facilitate the methodology process. This study sought to critically analyse the impact of managerial competencies on performance of SMEs in the surveyed area (Buffalo Municipality).

#### **Primary Objective:**

- To investigate on the impact of managerial competencies on SMEs performance.

### **Secondary Objectives:**

- To establish whether or not a significant association can be found between management skill (preparing and interpreting financial statements, leadership and communication skill) and SME performance.
- To establish whether or not a significant association of human capital (prior business experience, level of education) on SME performance.
- To determine the impact of technical/functional skill (technical know-how, networking, innovation) on SME performance.
- To establish the managerial competencies possessed by SME owners/managers.

#### **4.3.1.3 Research Hypotheses**

Research hypothesis are derived after formulation of research questions and objectives. Research hypothesis as defined by Investopedia (2014), a statement formed by the researcher to speculate results of the research study. Babbie (2007) defined it as a statement that is suggested by knowledge or observation and has not yet been proved or disapproved. Research hypothesis help researchers by directing, guiding and identifying information that is relevant and the appropriate research technique.

The hypothesis set for any study should be tested (verifiable), valuable even if proven false, a prediction of consequences, neither too specific nor too general and are neither are there moral or ethical questions. This study is designed to assess the hypothesis that managerial competencies do impact on the performance of SMEs. The following primary hypothesis was formulated specifically for the research study:

**H<sub>0</sub>:** There is no statistically significant relationship between managerial competencies and SME performance.

#### **4.3.2 Step 2: Research Design**

Research design is the strategy or plan a researcher adopts to accomplish the research objectives. It is a detailed outline of how an investigation will be conducted. The research design how relevant information will be collected, the instruments that will be adopted and the intended means of analysing data collection according to (AIU, 2012). Burns and Burns (2008) state that, research design is a systematic plan to study a

scientific problem or opportunity which is defined the study type (descriptive, correlation, casual, exploratory), sub-type (research questions, hypothesis, and variables) and data collection methods as well as statistical analysis. The research methodology is seen as the 'blue print' on the road to carry out research (Burns & Burns, 2008, p. 47).

#### **4.3.2.1 Types of Research Design**

Research design that is appropriate is determined by the objectives of the research because the best research design is one which will help achieve the research objectives. This research is intended to reveal the impact of practising sound managerial competencies on SME performance. AIU (2012) argues that quantitative research implicates collecting data randomly from a large sample frame and requires a statistical summarisation. Accordingly, this research adopts a quantitative research design since data is being collected from 184 respondents. This study required statistical summarization on evaluating the impact of managerial competencies of SMEs. Consequently, the mean, median, standard deviation and variance will be used to summarise and explain the results of this study. Therefore, this study adopted the quantitative technique using descriptive and correlation research design.

- **Descriptive research:** descriptive research is intended to describe the current status of the identified variables (Babbie, 2007). Systematic collection of data which requires careful selection of elements to be investigated. The analysis of the gathered data provides the tests of the set hypothesis. According to Burns and Burns (2008, p. 82) descriptive research seeks to estimate as precisely as possible the nature of existing conditions or maybe the characteristics of the target population. In this study, the researcher used more of descriptive research. Here the researcher does not have control over the outcome of the study but is just able to draw inferences about respondents and the population they were drawn from.
- **Correlational research:** correlation research is intended to determine the relationship between two variables. The link between the dependent and independent variable using statistical data. Correlation also establishes the strength of the relationship between the two variables either positively nor negatively (Babbie, 2007). Its purpose is to identify which variables are connected. Correlation research design, intends to interpret the link existing

between or among facts. Often the process does not manipulate any variables in conducting the study.

### **4.3.3 Step 3: Data Collection Methods**

Step 3 was selecting the appropriate data collection method. The scientific research process elaborates on various methods of data collection, including the questionnaire to be adopted and the benefits for using this technique. Two methods are used in data collection. Primary and secondary data were consulted to gather reliable and valid data for the study.

- **SECONDARY DATA**

Secondary data is data that is readily available that has been collected historically by someone other than the researcher for some other purpose(s) (Cant *et al.*, 2008). According to Cooper and Schindler (2006, p. 58) secondary data is very useful in building research constructs and to provide a clear background on the problem at hand to make it more comprehensible. It is data is the readily available data that is gathered to shed more light on the research problem(s). Secondary data can be obtained from published or unpublished sources. This data could have been collected to answer other research problems or for other research purposes but may provide solutions to the research problem at hand (Cant, et al., 2008, p. 74).

In this study, the researcher made use of published international, national and government sources as well as journals, textbooks and commissioned reports. Also the official statistics from the Eastern Cape Development Corporation (ECDC), published data from Statistics South Africa were used in order to find out about the SMEs numerical information. Secondary data from unpublished sources such as records and dissertations, properly kept by the UFH library and other private offices were also used. However, secondary data should be put into application only after going through the tests of relevancy, time and up datedness (Cant *et al.*, 2008). Without proper evaluation, secondary sources will remain some literature that does not apply to the current problem. This is because the secondary data available will not have valid, reliable, sufficient data and might not answer fully what is required of the current problem of research. The researcher therefore may need to collect primary data from the field.

After consulting the secondary data, a gap was identified in the literature. The identified gap pertains to the impact of sound management competencies on the firm's

performance and on the success rate of SMEs in South Africa. Most research conducted focused on individual competencies, investigating the impact on immigrant-owned SMEs and literature indicated that the available studies were conducted only in Gauteng province. Therefore, no specific study has been conducted investigating the impact of managerial competencies on SME performance in the Eastern Cape. Therefore, this study seeks to give evidence in the missing literature. Henceforth, the primary data collection method was essential for secondary data was inconclusive.

#### **4.3.3.1 Basic Primary Data Collection Methods**

Primary data is information gathered after the researcher has gained an insight into the research problem after reviewing secondary data. This is exact information gathered from first-hand knowledge. In addition, this is information observed or gathered from the original source to solve a specific problem or take advantage of an opportunity (Cant *et al.*, 2008). Primary data collection can be accomplished through various techniques including observation, experiment and survey, according to (Gerber-Neil *et al.*, 2005, p. 88). Hence, primary data is information obtained verbally or in written form through experiments, investigations or survey to acquire data first hand instead of using published articles on the problem or opportunity.

Primary data collection is done to collect relevant information from the actual field in order to answer the research problem at hand. In other words, (McDaniel & Gates, 2001, p. 90), primary data collection is concerned with gathering original data to answer questions which are specifically connected to the research objectives and it is done when there is no readily available data to achieve the research objectives. Primary data is collected by going into the field and contact relevant respondents that can provide relevant information to the requirements of the study. Primary data collection can provide first-hand information and it addresses the specific problem at hand with current and relevant information. However, this can take a long time to collect and can be costly because respondents can be in faraway geographic locations and researcher may need field workers. The following are types of primary data collection techniques.

- **Observation:**

This primary data collection technique refers to the act of watching or noting the behaviour of elements (people, objects) of the research being conducted (Cant *et al.*, 2008). The elements being observed should be unaware that the research is being

conducted to increase accuracy and remove biased behaviour. However, for this empirical research, factual information from SMEs was required. Hence, observation technique is not applicable. The other reason also for not using observation is the data required for this study is collected from a large sample size hence observation of all elements is not feasible.

- **Experiment:**

The primary data collection technique involves an orderly procedure carried out with the aim of verifying, disproving, or establishing the validity of a set hypothesis in a research study (Cant *et al.*, 2008). Experiments are conducted through a laboratory process and sometimes in a field setup. It's a process where the independent variable is manipulated to observe its effect on the dependent variable through restricting control variable effects (extraneous variables). This research study investigates managerial competencies impact on SME performance. Hence, experimentation was not applied as the process does not provide desired results. Also experimentation is not possible to analyse either managerial competencies or SME performance.

- **Survey:**

The primary data collection method intends to gather data through interviewing people directly or indirectly based on verbal or written communication. This is conducted in a representative sample frame, from the target population (Babbie, 2007). Survey method is used to identify characteristics of the elements in the sample frame by measuring the why, where, when, how and what. A survey is made of a sample, data collection technique and questionnaire which is then analysed statistically. A method of investigation that is question based. Surveys are conducted to quantify factual information. The survey is the most used primary data collection method because:

- (a) Relatively cheap compared to other techniques
- (b) Increased validity and significance of results due to ability to cater for wider population locations through email, telephones or mail.
- (c) High accuracy in describing the characteristics of the elements in the population.

For these reasons outlined by Burns and Burns (2008) this empirical study will adopt the survey technique to gather primary data. There are various types of survey methods,

including mail, telephone, face to face interviews and self-administered surveys. Mail, telephone, face to face survey techniques have demerits which are highlighted below

- **Telephone** (not possible to control respondents, biased through inability to make judgement, excludes those without phones, costly)
- **Face to face interview** ( time consuming, respondents bias, difficult to investigate a scattered population frame, anonymity not maintained)
- **Mail** (low response rate, biased through self-selection, expensive panel sophistication develops)

Therefore, for these demerits identified by (Zikmund & Babin, 2007, p. 143), the study at hand used the self-administered questionnaire technique to gather data relevant to the study. A self-administered questionnaire utilises set questions handed out to respondent by the interviewer, but the respondent responds or answers the questions with no interviewer involvement. The researcher was only present to explain any ambiguities rather than ask questions himself. This technique was adopted for the following reasons:

- (a) Higher response rates in relation to mail, telephone, face to face survey methods.
- (b) Enables cost-effective analysis of data sources than telephone, mail, or face to face survey methods.
- (c) Anonymity of respondents to promote research ethics.
- (d) Possible to gather data from scattered populations
- (e) Great control (enabled researcher to have a higher control over how the information is collected).
- (f) Has been used by previous researchers such as (Chimucheka, 2012; Fatoki, 2014; Machirori, 2012; Rungani, 2009).
- (g) The instrument allows the respondent freedom and convenience.
- (h) It eliminates interviewer bias that can arise when the interviewer is constantly involved in the process of completing the questionnaire.

However, the following disadvantages can be attached to the self-administered questionnaire;

- There is risk of getting irrelevant answers as a result of comprehension complications.
- The questionnaire is required to be relatively shorter in order to encourage responsiveness, but this instead limits on the information to be collected.

#### **4.3.3.2 Research Instrument (questionnaire design and content)**

A research instrument refers to the means or tool which is used to gather data from research respondents (Cant, Nel & Kotze, 2005, p. 131). According to Brynard and Hanekom (2006, p. 410) a research instrument is a data gathering tool that asks questions in order to get answers that satisfy the research objectives. In this study, the researcher implemented a questionnaire as the research instrument. Calmorim and Calmorim (2007, p. 51) defines a questionnaire as a pre-formulated set of questions to which respondents answer and this is usually within some closely defined alternatives. The study employed the self-administered questionnaire to collect data. According to AIU (2012) a self-administered questionnaire is a form containing orderly formulated questions that the respondent gets to complete on his/her own without the help or assistance of the researcher or field worker.

- **QUESTIONNAIRE DESIGN AND CONTENT**

Brynard and Hanekom (2006, p. 87) point out that it is important to take caution when designing the questionnaire so as to counter the major problem of non-response which in turn might affect the quality of the research findings. Burns and Burns (2008, p. 199) agree that it is important to consider the appearance and layout of the questionnaire so that respondents can give honest and objective answers to the questions. The researcher will prepare the questionnaire based on the existing literature, measurement scales obtained from Ghebrit (2004), Fatoki (2014), Rungani (2009), Franco and Leita (2008) also by Machirori (2012).

Cooper & Schindler (2006, p. 362) point out that the questions in a questionnaire can be classified in two parts as closed-ended and open-ended questions.

## **I. Open ended questions**

An open ended question is usually unstructured statement in which the responded gives their opinion without any suggested answers (Dhawan, 2010). The questions usually require more than one word answers to provide the full explanation of what's being asked. Open-ended questions allow the respondents to provide information in their own words without using given leading responses by researcher. In giving their response the respondent is not influenced by pre-set responded and are very original and unique in their responses. Open-ended questions are very useful in exploratory research. However Investopedia (2013) states that open ended question are time consuming and more effort on the part of the responded. Therefore, since the research was not exploratory research and data was collected through managers that are usually busy the questionnaire adopted for this study did not use any open ended questions. These types of questions were not used because open-ended questions prove to be difficult in data coding and analysis.

## **II. Close-ended Questions**

Closed-ended questions require responded, answering provided question in one word or very short phrases. The researcher provides answers or potential answers were the responded chooses from. This type of question limits freedom of respondents, but increases accuracy, validity and coding of the data gathered. Commonly close-ended questions are in the form of multiple choice (either one or more answers), but also can be in scale format. The research used closed ended question format for the following reasons:

- ❖ Every answer can be given a value or statistical value, meaning there are easily analysed after coding.
- ❖ Closed-ended questions are more easily analysed (SPSS).
- ❖ Gathered data is valid (internal and external) for research purpose because the questions are specific to what is being researched upon.
- ❖ Sample size is 184 hence close-ended questions take less time to accomplish the task.
- ❖ To cater for less articulate or less literate respondents as answers are provided to aid their responding.

- ❖ Increases response rate due to limited explanation required from respondents.

The questions have pre-designed potential answers which respondent must choose from when giving information required. The research used closed ended questions in the form of dichotomous, multiple choice and likert scale question.

#### **a. Dichotomous questions**

Dichotomous questions are fixed questions which can only be answered in two indicated responses (Dhawan, 2010). The responses are either ‘A’OR ‘B’ and yes or no. There give responded a choice to choose from controlled answers. This type of question was used because

- ❖ Some questions have only two types of responses. For example, gender response is either male or female.
- ❖ Predetermined responses simply coding and data analysis.

Dichotomous questions used in the research were in the biography; section B and C as well as section D. Example question 1: Kindly indicate your selected response with an (X) in the most appropriate box.

✓ Gender

Male		Female	
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#### **b. Likert scale questions**

Likert scale is a sum of responses where a respondent indicates his opinion on level of agreement or disagreement. A good likert scale should have a balance to remove bias (Burns and Burns, 2008). This is a method of using psychometric testing to measure an individual’s opinion, beliefs and attitudes using scaled statement. There a different types of Likert scales, but for the study at hand a five-point Likert scale was used. The five-point likert scale was chosen because:

- ❖ Eliminates bias by providing various response ranges
- ❖ Best in assessing attitude and perception which are critical in this research in terms of managerial competencies

- ❖ Easy to produce graphs, charts and data coding

Likert scale questions used in the research were in section B, C and D as well as measuring satisfaction on SME performance. Example question 9: Kindly indicate your selected response with an (X) in the most appropriate box.

- ✓ Rank how the following human skills influence SME success on a 5-point semantic scale (1=strongly affected negatively, 2= affected negatively, 3=Not affected, 4=Affected positively, 5= strongly affected positively).

Applications	Options				
Knowledge of the business	1	2	3	4	5
Start-up experience	1	2	3	4	5
Managerial experience	1	2	3	4	5
Education	1	2	3	4	5

### c. Multiple choice questions

Multiple choice questions are a form of assessment where the respondent asked has to choose the best alternative from the possible choices provided. The question is designed in such a way that it has more than two alternative answers. However Brynard and Hanekom (2006) state that multiple choice questions can require the respondent to give more than one answer as the correct choice. Multiple choice question type was used in the data gathering process because:

- ❖ Non response is at its minimum because the questions are easy and take less time to complete
- ❖ Different response choices indicated in questionnaire provide diagnostic feedback
- ❖ Easy to code and analyse data gathered because of predetermined responses
- ❖ Increases validity

Multiple choice questions used in the research were in section B and D. Example question 8: Kindly indicate your selected response with an (X) in the most appropriate box.

✓ How long has your business been in operation?

Less than 2 years	3 to 5 years	6 to 10 years	More than 10 years

**4.3.3.3 Pilot study**

Pretesting is the testing of the questionnaire to the participants of the research being conducted to identify any irregularities. The process involves giving to 10% of the total number of the sample frame to fill in the pre-questionnaire to correct wording, sequence, instructions of the questions. This process allows respondents to indicate any difficulties inherent in the questionnaire. This study issued out 20 questionnaires (11%) for a pilot study. This was done to:

- ✓ Determine how much time each individual requires to complete the questionnaire
- ✓ To redesign the questionnaire in areas the respondents are having difficulties
- ✓ To save money and time (pretesting provided enough data to researcher on whether to proceed with the main research or not)
- ✓ Allows researcher to check for statistical and analytical procedures (Cronbach's alpha).

- **Questionnaire Distribution**

The questionnaire comprised of five sections. Section A focused on the demographic characteristics of the individuals. Section B focused on different types of human skill that SME managers/owners practise in their day to day operation of the firm. Section C had questions linked to management skill those managers possess which benefit SME performance. Section D focused on the technical skill of managers/owners of SME in relation to performance. Lastly, section D was an integral part of the questionnaire as it focused on the performance of SMEs. This section was to identify how SMEs perform

either strong or weak performers in their respective industries. The steps followed in the distribution of the questionnaire were:

- ❖ The questionnaire was prepared in simple English language to cater for the respondents qualifications.
- ❖ Ethical clearance was obtained from the Govan Mbeki research department at the University of Fort Hare. The ethical clearance certificate reference number issued is **RUN0111SMAD01**.
- ❖ The researcher did a pilot study of 30 questionnaires to pick out any irregularities reflected through unanswered questions.
- ❖ The questionnaire was again checked to remove all the irregularities identified in the pilot study.
- ❖ The researcher informed the participants of the research via email, personal visits and telephone calls for those accessible and the participants were willing to take part in the research.
- ❖ The researcher divided the Buffalo Municipality geographically in order to increase the validity of results. The researcher then performed random sampling in each stratum. The municipality was divided into four sub-strata's (groups) mainly East London, King Williams Town, Bisho and the townships of Mdantsane and Zwelitsha.
- ❖ The researcher handed out the questionnaire to the respondents and to ensure feedback, a combination of drop and collect same day service was used. Some questionnaires were dropped off at the premises of different SMEs to be collected on a three day interval spacing to allow respondents to answer the questionnaire comfortably and unbiased.
- ❖ After participants filled in the questionnaire, the researcher deduced the responses provided and data coding was performed.

#### **4.3.4 Step 4: Sample Design**

In research it is not feasible to collect data from the entire population due to time, budget and accessibility. Therefore, research uses a sample frame to gather data which

can be generalised to the whole population setup. The following sub-section will discuss the study unit, survey area, population and sampling method.

- **Study unit**

The study unit can also be referred to as the unit of analysis. According to Cant *et al.*, (2005), the study unit is the 'what' and/or 'who' is to be subjected to the conditions of the study and this can be individuals, groups of individuals, animals, entities and business enterprises. The unit of analysis in this study are SMEs in general because every business firm has to entertain the financial management function (formal or informal). In this study the managers, owners and senior employees will be the appropriate respondents. The SME firms selected for the purpose of evaluating the impact of managerial competencies only focused on SMEs which have been in existence for atleast a year.

#### **4.3.4.1 Survey Area**

The survey area is the geographic place under study and where respondents will be extracted from (Cooper & Schindler, 2006, p. 284). This research study at hand will be conducted in the Buffalo City Metropolitan. This area was chosen mainly because of the existence of a large number and variety of SMEs in the city. The municipality includes amongst others, East London, King Williams Town, Bhisho and the townships of Mdantsane and Zwelitsha. The researcher chose this area due to its proximity to the university and large number of SMEs in operation. The survey area was grouped into strata's according to geographical location using town or city boundaries as the guidelines. This was done because it's more representative of the target area (Buffalo Municipality). There is little possibility of any essential group of the population being completely excluded hence increasing validity. Using greater geographical concentration enables units from the different strata to be selected in such a way that all of them are localised in one data set increasing accuracy of data.

#### **4.3.4.2 Survey Population**

Burns and Burns (2008, p. 182) describe the survey population as the total number of entities that is of interest to the researcher from which the sample will be drawn for data collection. The population is believed to share the same characteristics and therefore can be represented by a subset in collecting data, especially when the population is big (McDaniel & Gates, 2001, p. 12). Basically, a population refers to a group of objects or

people which the researcher is interested in investigating or experimenting (Babbie, 2010, p. 199). The researcher contacted the Eastern Cape Development Corporation (ECDC) to obtain the total number of SMEs conducting business activities in the Buffalo City Municipality. The records obtained from the ECDC reveal that there are a total of 350 active and registered SMEs. The study at hand comprised of all registered SMEs in Buffalo City Municipality in Eastern Cape. The respondents for the study are the SME owners, managers and senior employees.

#### **4.3.4.3 Sampling Technique**

Churchill (2002) describes sampling as an important part of carrying out research because it makes the study more feasible and doable particularly in cases where population size is very big. Sampling, when done properly, gives a true representation of the population and data obtained can be inferred to the total population. According to Proctor (2009, p. 92) there are two sampling methods, namely probability sampling and non-probability sampling methods.

Non probability sampling happens when no possibility of chance can be attached to a population element for it to be selected as part of the sample (Proctor, 2009, p. 96). No calculation can be implemented to select the sample and therefore it should be used with caution. According to Small (2009) non probability sampling is mostly based on personal judgement and is mostly employed when the researcher is running out of time and has limited budget. However, this method is mostly applicable when the population is very small because it is prone to errors, especially when elements are chosen on personal judgement grounds (Cant *et al.*, 2003:165).

Probability sampling provides each element with a known non-zero chance of being selected to become part of the sample (Easterby-Smith, Thorpe & Jackson, 2008, p. 83). This method is usually used especially when sample results are to be used to estimate the population parameters. According to Hollensen (2007, p.745) this method is very appropriate where the representatives of the sample is of the essence to make inferences about the entire population. The bigger the number of sample size derived from the population, the more the value of the sampling error present.

In this study, the population is big with a total of 350 SMEs and a larger geographical area. Therefore, the researcher used the probability sampling methods because it limits the errors that arise as a result of selection and sampling bias. Probability sampling

technique provides elements being sampled that are representative of the larger population. This technique was also chosen because it is cost effective in recruiting respondents compared to non-probability technique. According to Burns and Burns (2008) there are three main types of probability sampling, which include systematic sampling, simple random sampling, and stratified sampling. The different types are briefly discussed below.

- ❖ **Systematic sampling:** involves selecting a starting point in a sample frame and then chose every nth item thereafter. Not fully random as this will provide a bias because of a recurring pattern in the pattern.
- ❖ **Stratified sampling:** the population is divided into subgroup and the sample frame reflects each group.
- ❖ **Stratified random sampling:** division of a population into smaller groups known as strata. The grouped subsets of the strata are then pooled to form a random sample.
- ❖ **Simple random sampling:** a sample in which every element has an equal chance of being selected. A means of a genuine random sample, but require a comprehensive sample frame.

The study at hand adopted the stratified random sampling technique. The stratified random sampling method was used to select sample elements. According to Yates, Moore and Starnes (2008) stratified random sampling is the process of selecting research participants from a large population after grouping participants. These results in a condition where all the elements have an equal chance of being selected and are selected independent of each other. According to Cooper and Schindler (2006) stratified random sampling can be used because it mitigates bias in selecting sample, it allows the inference of the sample statistics to the general population parameters, it is free of classification error and it makes data interpretation easy and straight forward.

The simple stratified random sampling technique was chosen as the best suited for the research at hand because it is more representative than other methods, less costly, validity, reliability and consistence in the data collection process. In addition, the researcher had a comprehensive sample frame obtained from the Eastern Cape Development Corporation (ECDC) of 350 SMEs. Therefor the population entities were precisely defined to choose an appropriate sample size since a list all the population

units were available. With the mentioned advantages the researcher thought that the stratified random sampling would be best for this study.

Table 4.1: Geographical sub-strata in the survey area (Buffalo Municipality)

STRATA	AREA	SMEs HANDDED QUESTIONNAIRE
Sub-strata A	East London	43%
Sub-strata B	King Williams Town	32%
Sub-strata C	Bhisho	14%
Sub-strata D	Mdantsane and Zwelitsha	11%

The researcher using the sample frame of SMEs applied random sampling from the outskirts of each defined strata (East London, King Williams Town, Bhisho and the townships of Mdantsane and Zwelitsha) moving towards the Central Business District (CBD). The researcher accompanied by two assistant fieldworkers distributed the questionnaires randomly using the main roads as a starting point. The co-fieldworkers were both fluent Xhosa speaking natives reducing the chances of misinterpreting any of the questions. The telephone numbers of respondents were obtained for those who could not give instant feedback. This was important so as to call them and come collect the questionnaires after an agreed three day interval. More time was spent in two strata's East London and King Williams' town because SMEs in these towns constitute almost 70% (123 SMEs) of the sample frame. Data was gathered for atleast five months from end-November 2014 to end-April2015.

#### 4.3.4.4 Sample Size

According to Kirkwood and Hubrecht (2010, p. 29) the sample size is very important in a survey, especially when the researcher wants to infer about the population. A sample frame should be representative of the target population. A sample size of more than 30 and less than 500 is the required standard for most research studies. The sample size is the number of elements or population units that are drawn from the target population using the procedure mention earlier. Yates *et a.*, (2008) explains that the sample size should be determined out of expedience where elements are included because they are readily available and convenient to carry survey on them and also by using a target variance for an estimate to be derived from the sample. According to Small (2009) very

large samples may take more time, money and other resources whilst very small samples may generate unreliable results.

Yates *et al.*, (2008) mention various strategies that can be utilised to determine the sample size. Firstly, a census can be used where all units of the population are put under study, especially when the sample is very small. Secondly, the sample size may depend on the one used for a similar study. Other studies have made use of some published sample size tables. The last and probably most common strategy is the use of formulae to calculate sample size. In this study, the researcher used the following:

- **Margin of error:** is the acceptable quantity of errors in the duration of the investigation. It permits researcher to assess results findings accuracy taking margin of error into account. It usually varies from three percent (3%) to seven percent (7%) in most research.
- **Confidence interval (CI):** this is a measure of reliability of an estimate. The confidence level is the anticipated uncertainty in the research process expected. **CI** ranges between ninety percent (90%) to one hundred percent (100%).
- **Response distribution:** the expected answer by respondents to a given question. (Raosoft, 2007).
- **Population:** the total number of elements the researcher is to choose from. For this research the population refers SMEs conducting business in the Buffalo City Municipality.

To improve accuracy the researcher used the Raosoft calculator. The Raosoft calculator was used in taking into account the margin of error of five per cent (5%), a confidence level of ninety five per cent (95%) and a response distribution of fifty per cent (50%). Using this calculator with a population of 350 SMEs the sample size amounted to 184 SMEs.

#### **4.3.6 Step 5: Data Preparation**

After data collection using a self-administered questionnaire the data preparation followed. Data preparation is the process of converting data into a readable format according to (Yates *et al.*, 2008). This is the manipulation of data into a suitable format for further analysis and processing. The process is also known as “garbage-in garbage-

out". The data preparation process was conducted using the following steps discussed below.

#### **4.3.5.1 Data Editing**

The first step after data has been collected is data editing. Data editing is done to improve accuracy, uniformity and completeness of collected information (Yates *et al.*, 2008). This process can be done in two phases, the first being field edit and the later central editing. The research at hand applied both field and central techniques. Field research is the editing data when respondents are still filling in the questionnaire so that there enter valid responses (Investopedia, 2013). The researcher ensured field editing was done through advising respondents to enter valid responses, avoiding multiple responses to the same question and appropriate placement of the (X). Central editing is data editing done after data has been collected by an expert editor (Investopedia, 2013). The researcher consulted a statistician who was to perform data analysis to also conduct central editing.

#### **4.3.5.2 Data Coding**

Data coding is the method used to classify responses in the questionnaire into meaningful and logical categories (Yates *et al.*, 2008). The process is essential for tabulation and data analysis. The study at hand used closed ended questions to elicit responses from participants, therefore logical coding of data was not difficult. Likert scale question data coding was given extra care so as to derive the same meaning on the concept of managerial competencies. The data coding process was done using SPSS software after each response had been assigned a symbol.

#### **4.3.5.3 Data Cleaning**

Data cleaning is the process of detecting and correcting incomplete, inaccurate or duplicate information from gathered data (Small, 2009). The process is conducted to increase data quality through checking for redundancy, misspellings, duplication of responses and contradictory values. The researcher ensured data cleaning was done through detecting missing values. There were 2 missing values after the data coding and the researcher used pair-wise deletion for treating the missing values.

- **Pair-wise deletion:** Pair-wise deletion was chosen in favour of list-wise deletion because list-wise deletion removes all the omitted values on any variable under

study. Pair-wise deletion only removes specific omitted values from analysis while the available data is included.

The study also sought to provide statistical analysis and to quantify the relationships between certain variables. Therefore, the next section will discuss the data analysis process.

#### **4.3.6 Step 6: DATA ANALYSIS**

Data analysis is the careful inspection, cleaning and modelling data in the quest to derive meaning out of it. Yates *et al.*, (2008) point out that data analysis can be done by running various statistical procedures and tests on the data so that the raw data can be converted into something which can be easily understood and interpreted. The derived information is compared with research hypotheses in order to prove whether they are true. It is important that the data is validated before it is analysed and this is done through editing, coding, cleaning and verification (Small, 2009). Data analysis for this study was done by the Statistics Department at the University of Fort Hare. The Statistical Package for Social Sciences V20 (SPSS) was utilised to analyse the data. The researcher employed descriptive statistics as well as inferential statistics to make inferences. These are discussed in the following sections.

##### **4.3.6.1 Measuring Variables**

- **Independent Variables**

Measuring the human capital variable education and experience were used. The education variable was tested based on the highest level of educational qualification. Prior business experience was measured as total imputed labour market experience. These questions are asked using a nominal question set-up as used by Ghebrit (2004), Fatoki (2014) and Rungani (2009).

Management skill was measured through leadership skill, financial statement preparation and interpretation. To test we used the four-item likert mentoring/leadership scale with a Cronbach's alpha of 0.91. The likert scale was adopted from Levenson, Van Der Stede and Cohen, (2006). The financial statement preparation and interpretation data rating in the questionnaire employed a 5-point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A technical/functional skill was measured through networking, innovativeness and technical know-how. The managerial networking competency being tested included interactions with customers, suppliers and competitors. To test networking involvement dichotomous questions (Yes or No) were utilised as in other studies carried by Mahembe (2011) and Laparche and Liu (2013) and Watson (2011). The dichotomous questions had a Cronbach's alpha of 0.82. Innovativeness tested using a five-point likert scale and semantic differential scale which had a Cronbach's alpha of 0.85. The scales were used by Fatoki (2010).

- **Dependent Variable**

The dependent variable being performance was measured using growth, number of employees, profitability and satisfaction on performance with set benchmarks. The study will employ a five-point Likert scales, dichotomous questions, open and closed-ended questions as well as multiple choice questions to measure the sales, number of the employee base, satisfactory levels of stakeholder and profitability ratios. Some of the questions included indirect statements such as "Are you are satisfied with the level of sales growth in your firm?" and "are you satisfied with the level of profitability in the last three years?" These measurement scales represent the financial and non-financial measures which are consistent with similar studies conducted by Leitao and Franco (2008) also by Machirori (2012).

#### **4.3.6.2 Descriptive Statistics**

According to (Small, 2009) descriptive statistics is a discipline of providing analysis of data which helps describe and summarise data in a meaningful way so that patterns are developed from the data. In other words large data volume is condensed into few summary measures. Descriptive statistics summarise a sample instead of the whole population and is not based on a probability theory. Burns and Burns (2008, p. 15) add that descriptive statistics is the collection, presentation, summarisation and description of data. However, descriptive statistics do not allow researcher to give conclusion on hypothesis set or beyond the data analysed.

Descriptive statistics permitted the researcher to simplify the enormous volume of data in a sensible method. The study at hand was a quantitative research, hence descriptive statics were essential in data analysis. In this study frequency distribution tables and graphs as well as mean scores and standard deviation were used for descriptive

statistics. This was useful in the questionnaire to describe the demographic characteristics and the ability to practice managerial competencies of respondents. Frequencies can be explained, specifically for research, as the total sum a certain response appears in the data (Cant *et al.*, 2008, p. 204). In other words, it is the total number a certain response appears in the questionnaire.

The measures of central tendency were also used to describe the data, thus the mean, median and mode. According to Cant *et al.*, (2008) the measure of central tendency is the point about which responses tend to cluster. The mean is the average number of observations in the questionnaire responses. While the median, is a response score exactly in the middle of set values. The standard deviation indicates how accurately the mean represents the data gathered. Calculated by, squaring the root of the variance around the mean.

#### **4.3.6.3 Inferential Statistics**

Statistical inference is a way of deducing conclusions from a data set that is subject to sampling variations and errors. Inferential statistics is the statistical procedure that is used in statistics. According to Gerber-Nel *et al.*, (2005, p. 231), it evaluates data gathered from a sample frame in relation to the target population. The objective of inferential statistics is to show whether the statistics of the sample are true estimates of the population parameters. AIU (2012) states that the, question answered by inferential statistics being, “are findings of a small group (sample frame) true in relation to a larger population?”

The researcher utilised inferential statistics in order to test the research hypotheses and subsequently answer the research problems. T-test, Analysis of Variance (ANOVA), Chi-square test, and simple regression analysis are some of the techniques that can be used to infer the findings to the larger population.

- **T-test**

T-test is used when comparing the means of two samples in relation to the data variation. The t-test procedure is there to measure the significant difference existing between two groups on some variable of interest (Investopedia, 2013). In the study at hand the t-test will evaluate the differences in the midpoint and mean scores. To measure the level of significance differences, if any among the variables. For example,

to determine if more years of experience yield better performance levels in SMEs and does gender increase performance levels.

- **Chi-square test**

This type of technique is used when researchers want to determine any significant difference between the expected and observed frequencies in counts of responses. The chi-squared test for independence was applied for testing relationships between variables. The statistic obtained from the chi-square test compares the categorized responses between two or more independent groups. A goodness-of-fit test evaluates differences in observed and expected frequencies of each category (SPSS, 2004).

- **Analysis of Variance test (ANOVA)**

This is a statistical model which analyses the differences between group means and their associated with variation among groups. Analysis of Variance is a statistical technique applied in research to test differences between two or more means (Investopedia, 2013). The analysis tests general rather than specific differences among means or in cases with more than two groups. The purpose of ANOVA is to determine whether the difference between observed means is due to chance or it's systematically different from those in other groups (Rugg & Petre, 2007). The ANOVA test was used in conjunction with the causality test to prove cause-and-effect relationship between managerial competencies and SME performance. That is, ANOVA test will be performed on the biographic information such as age of the owner/manager, level of education, employee numbers and turnover. The test is used to determine the impact of these factors on performance.

- **Simple regression analysis**

Simple regression analysis is a statistical process for estimating the relationships among and between variables (Rugg & Petre, 2007). It is a process of modeling and analysing several independent and the dependent variables. This helps the researcher to understand how the typical value of the dependent (criterion) variable changes in relation to any one of the independent variables. In the current study, the researcher defined the independent variable as the managerial competencies which, when practiced can influence the SME performance. SME performance was regarded as the dependent variable that was investigated to see if it was influenced by the execution of sound managerial competencies.

- **Statistical Package for Social Sciences (SPSS)**

The empirical study at hand applied SPSS software to analyse the data. It is an integrated set of modules used for analysing, manipulating and presenting gathered data. It is the most used software to perform quantitative analysis, hence the researcher adopted this software to aid reliability and validity of the analysis of data (Rugg and Petre, 2007). This is consistent with Small (2009) who states that, the statistical package for social science integrates all statistical features available and useful in quantitative data analysis.

#### **4.4 RELIABILITY**

According Babbie and Monton (2002, p. 81) reliability is the ability of an instrument to generate results that are consistent over time and are accurately representing the entire population under study. The instrument should stand the test to generate similar results if the research is replicated under similar conditions. The researcher ensured the reliability of the research instrument (questionnaire) through consulting the University's statistics department and the research supervisor. This was done to review the question wording, sequence, phrasing, structure. The open-ended questions were kept at minimum and the closed-ended question responses attached responses scales which increase validity of responses.

The reliability was also increased through a pilot study of the instrument. The questionnaire was pre-tested on 30 participants, which were later included in the final sample. This is consistent with Babbie and Monton (2002, p.18) who state that, instrument reliability can be enhanced by pretesting of the questionnaire, consulting experts in its development, keeping open-ended questions to a minimum as well as performing a thorough review of literature to develop the instrument.

The researcher also consulted a statistician to run the Cronbach's alpha of the instrument after the pilot study. Babbie and Monton (2002) propose that, Cronbach's alpha is used to measure how well distinct variables in a scale associates with the remaining variables. The technique is also applicable when measuring reliability of the research instrument. The higher the alpha value, the more reliable the generated scale is. The acceptable score of the Cronbach's alpha is 0.7 according to Cooper and Schindler (2006, p. 417). This is regardless of some researchers opting to use lower

thresholds in their studies. The results obtained from the questionnaire adopted for this study had the following Cronbach's results.

**Table 4.2 Cronbach's Results**

Variable	Number of measuring items	Cronbach's alpha
Human skill	12	0.814
Business skill	18	0.817
Technical skill	17	0.792
SME performance	9	0.821
Combination of variables	56	0.811

To further increase reliability, the researcher ensured research errors were kept at a minimum.

#### **4.4.1 Errors**

Errors occur when conducting research due to many factors. Kumar (2008, p. 373) describe errors as the difference between the values obtained from the sample and true values of the target population. There are response and non-response errors. The researcher obligation is to minimise the errors so as to promote reliability of data gathered according to (Cooper & Schindler, 2006, p. 332).

Gerber-Nel et al., (2005) defined response errors as, projected inaccuracies that can be generated by the respondent or researcher. Response errors occur when researcher inaccurately designs a measurement instrument, insufficient definition of research problem and invalid research questions. This type of errors can also be a result of respondents, intentionally or mistakenly providing inappropriate answers. Therefore, these errors are either intentional or unintentional, but result in inaccurate answers in the questionnaire.

Non-responses errors occur when the researcher fails to communicate with all elements from the sample frame. This can also be caused by research participant's inability to respond to the questionnaire even after they have been contacted by researcher (Gerber-Nel et al., 2005). According to Cant et al., (2008) this type of error occurs when, participants responding to the questionnaire have characteristics similar to those not

participating in the survey. To reduce the non-response errors that may occur in a survey. The research at hand applied the following steps to reduce errors while increasing reliability of research instrument (Babbie & Monton, 2002):

- ✓ Using a self-administered questionnaire.
- ✓ Direct consultation between respondents and researcher.
- ✓ Consistent contact with respondents during field work (telephone calls and visits to the respondents).
- ✓ Eliminated ambiguous, double barrel and sensitive questions from the questionnaire.
- ✓ The questionnaire was pre-tested.

The following sub-section 4.5 discusses the validity process.

## **4.5. VALIDITY**

Validity is the extent to which the scale item is a true reflection of the underlying variable it is measuring (Babbie & Monton, 2002). In other words, validity reflects on how accurate sample results can represent the population (Rao, 2002, p. 152). Validity can be improved by a statistician or a panel of experts in the research field to assess the research instrument. Cooper and Schindler (2006, p. 214) state that the assessment is done to pre-test and provide conceptual clarity the research instrument. This process is conducted using a self-administered questionnaire. Validity can be categorised in terms of internal and external validity.

### **4.5.1 Internal validity**

According to Cooper and Schindler (2003, p. 214) internal validity can be described as the extent to which an independent variable is manipulated to indicate whether there was a causal effect on two variables. Here the study made use of the Chi-Square test to investigate whether a relationship (or an association) exists between set variable. This was to reveal if managerial competencies (independent variable) caused any effect on firm performance (dependent variable). Internal validity is based on the notion that “was the research done right”, and to ensure this the researcher applied bivariate techniques such as chi-squared and simple regression analysis.

#### **4.5.2 External validity**

External validity according to Burns and Burns (2008) describes whether the cause and effect relationship found in the study can be generalised beyond the survey situation. This is the degree to which research findings of this study can be applicable to other time periods and other settings. According to Rugg and Petre (2007) if the research findings from the selected sample frame, are applicable to the larger population then the study has high external validity. To ensure external validity the researcher made use of a bigger sample (184 SMEs) to collect data which was selected through random sampling to mitigate selection bias.

#### **4.5.3 Content validity**

Content validity is also known as logical validity because it involves a panel which determines the degree of the items regarding sampling adequacy and representativeness of the measure. Content validity examines whether items omitted should be considered in the measurement. Content validity is a non-statistical technique of validity that systematically examines if the test content covers a representative sample of the target population (Babbie & Mouton, 2002). For the study at hand, an expert in the research field was consulted to review the items. The expert remarked that, the elements included in the study are representative of the behaviour domain.

#### **4.5.4 Construct validity**

Construct validity is the degree to which a test accurately measures what it purports to be measuring (Burns & Burns, 2008). There are three types of construct validity from convergent, discrimination and hypothesis testing. The research at hand implemented the hypothesis testing techniques. Hypothesis testing examines and produces evidence that the set research hypotheses investigating the relationship between the measured concept and other concepts are supported.

### **4.7 ETHICAL CONSIDERATION**

According to Burns and Burns (2008) researcher must conduct his research in an ethically sensitive manner. Research ethics are the rules and values written and unwritten, that demarcate parameters on the relationship between researcher and research participants (Rugg & Petre, 2007). Cone and foster (2008) state the following ethical values and standards:

- Assess the ethical acceptability of the research.
- Guarantee professional ethical conduct on researcher's part.
- The elements should voluntarily agree to participate.
- The researcher should not mislead or deceive participants.
- Respect the participant's right to voluntarily withdraw from participating in the study.
- Debrief the participant after the data collection has been completed.
- Maintain strict confidentiality of any information.

When carrying out an academic research, the researcher has to obtain ethical clearance from the institutional research department. For the purpose of this research an ethical clearance certificate was obtained from the Govan Mbeki research department. After obtaining the certificate (reference number: **RUN0111SMAD01**), it is consequently the researcher's responsibility to ensure that the research that is undertaken is ethically acceptable. For the purpose of this research, the above values and rules were observed throughout the research process. Special consideration was given to confidentiality; anonymity; fairness; honesty; protection from emotional and physical harm, willingness; and avoidance of deception and concealment (see questionnaire in appendix A).

#### **4.7 CHAPTER SUMMARY**

Tustin et al., (2005) states that, the methodology should be non-technical and easy to understand. With this in mind, this chapter discussed the possible approaches to the research methodology used in the study. The research was descriptive in nature and therefore applied a questionnaire as the research instrument. The questionnaire was designed bearing in mind the ethical rules and values while also monitoring reliability and validity issues of the instrument. A pilot study of 30 questionnaires was carried out and adjustments were made.

Furthermore, the chapter focused on data processing using the SPSS. The chi-squared, t-test and ANOVA were used to analyse data. The errors were minimised throughout the research process and it was highlighted with this chapter on ways to prevent errors.

This chapter basically provided a blue print on how the study at hand was carried out. It was explained in the chapter how the researcher planned for data collection, collected the data, analysed it and made conclusions.

The wholesome purpose of the chapter was to provide for the researcher a clear plan that makes the study more feasible as well as obtaining valid and reliable results. After the data was collected the data was sent for analysis and this formulates the basis of the next chapter. The next chapter will outline the results and focuses on responses provided by participants. Tables, pie charts and bar graphs will be used to aid the analysis of data. The hypothesis will be tested using the bivariate techniques to determine the relationship between managerial competencies and SME performance.

**CHAPTER 5:**  
**DATA ANALYSIS AND INTERPRETATION**  
**OF RESEARCH RESULTS**

## **5.1 INTRODUCTION**

In the preceding chapter, the research methodology implemented to achieve the objectives of this study was detailed, inclusive of the study population and sample, the research boundaries and scope, data collection method(s), and finally the data analysis criterion. This chapter is mainly centred on the analysis of the data that was collected for this study.

A research study becomes unified when its objectives are linked to the obtained findings. Thus, this chapter presents the analysis of the research findings, tests the proposed hypotheses and derive conclusions. The data analysis was conducted on question to question bases. Bar graphs, tables and pie charts were used to portray the analysed data and aid interpretation. The proposed study hypotheses were tested in this chapter and conclusions were made on either to reject or accept the null hypothesis. The relationship between managerial competencies and SME performance was analysed by employing linear regression and inferential statistics such as variance and ANOVA.

The first sections of the chapter highlight on the response rate, normality of data and the instrument reliability issue. Subsection 5.1.1 presents the study response rate, subsection 5.1.2 presents the reliability of the research instrument, and subsection 5.1.3 presents the normality of data. This is followed by the question to question analysis, the hypothesis testing subsection and then finally the chapter summary. The following subsection presents the questionnaire information.

## **5.2 Questionnaire information**

### **5.2.1 Response rate**

The study population consisted of 350 SMEs in all the main four geographical strata boundaries within the survey area as divided by the researcher. The population size of 350 was not feasible given the available resources so the researcher used the raosoft sample size calculator to calculate the sample size. The sample size was calculated at a confidence level of 95% and a margin of error of 5% and the recommended sample size obtained from the computation is 184. Thus, the researcher distributed 184 questionnaires to SMEs. Questionnaires were distributed to 184 respondents (sample elements), with the help of two field workers. Out of the possible 184 only 171 were

returned and qualified to be used for data analysis. Table 5.1 exhibits the summary of the response rate.

**Table 5.1: Response rate**

Category	Count	Percentage
Questionnaires distributed	184	100%
<b>Completed questionnaires</b>	<b>171</b>	<b>93%</b>
Uncompleted questionnaires	13	7%

171 questionnaires out of 184 were returned meeting completion requirements and qualified to be included for analysis. The response rate of 93% is adequate to get reliable data representative of the SME population.

**5.2.2 Reliability of the Instrument**

Reliability refers to the consistency of the measurement instrument. The Cronbach’s alpha coefficient is used as the test for the research instrument reliability (questionnaire). The questionnaire used in this study was divided into five sections from A to E. The first section A was on the demographics of the respondents, but the other sections from B to E, where in relation to the hypothesis being tested. All the questionnaire items on owner-managers’ business skill, technical skill and communication skill were tested for reliability using the Cronbach’s Alpha test as shown In Table 5.2. There were 56 variables in total and the overall yielded Cronbach’s Alpha value is 0.811 which indicates a pass in reliability test because it is above the 0.7 lower reliability limit.

**Table 5.2: Reliability test**

Cronbach's Alpha	N of Items
.811	56

**Table 5.3 Reliability Test Scores of managerial competencies, impact on SME performance**

<b>Variable</b>	<b>Number of measuring items</b>	<b>Cronbach's alpha</b>
Human skill	12	0.814
Business skill	18	0.817
Technical skill	17	0.792
SME performance	9	0.821
Combination of variables	56	0.811

### **5.2.3 Normal distribution of data**

Two tests can be employed to test for the normality of data, namely the Shapiro-Wilks test and the Kolmogorov-Smirnov test. According to Coakes (2013, p. 35), the Shapiro-Wilks test is used to test the normality of data from a sample less than 100 whilst the Kolmogorov-Smirnov test is applied when the data is from a sample greater than 100. In this study, the researcher used the Kolmogorov-Smirnov test because the sample size was 184 which is greater than 100. The Kolmogorov states that data assumes normality if the calculated value is greater than 0.05. The significance level in this study was greater than 0.05 and therefore normality was presumed and data analysis procedures were applied in order to make meaning out of the data.

## **5.3 EMPERICAL FINDINGS**

The following sub-sections reflect the outcomes of the descriptive statistical analysis performed on the data collected on handing out of the structured questionnaire during the survey among the 184 SMEs, comprising the sample, in East London, King Williams Town, Bhisho and the townships of Mdantsane and Zwelitsha. The researcher, in this section, presents a question by question summarised analysis. The logical arrangement of questionnaire sections was used in order not to miss any important question that might be answering some of the research objectives.

### **5.3.1 Section A: Demographical Data**

Section A is a set of seven questions seeking information about the respondents' and business basic background information such as demographics. This is important because it seeks to enhance the accuracy of information provided for by the

respondents and also some personal and business characteristics were necessary to the achievement of objectives.

**Question 1 Respondents’ Gender**

Gender of the respondents may be necessary to remove any sensitivity based on whether one is a male or female. The question simply acknowledges the participation of both male and female respondents in business operations.

**Table 5.4: Gender**

		GENDER			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	87	50.9	50.9	50.9
	Female	84	49.1	49.1	100.0
	Total	171	100.0	100.0	

The results in Table 5.3 depicts that there were more males than females who took part in this study. Women respondents were 84 out of total 171, only 3 respondents short to equal males. This is an indication of the growing empowerment for women to take part in business. OECD (2012) and Bhatti *et al.*, (2010) agree that there has been an increase in the participation of women in workforce and business due to many factors such as the increased economic incentive prioritising women’s employment.

**Question 2 Respondents’ Position in Business**

Respondents were asked to indicate their roles within the surveyed SMEs. The purpose of the question was to identify the duties performed by the SME owners as well as detect the relevant respondents to investigate on with regards to managerial competency. Positions of respondents in business were articulated to remove doubt on the respondents’ qualification so as to provide relevant information for the study.

**Table 5.5: Respondents' position in business**

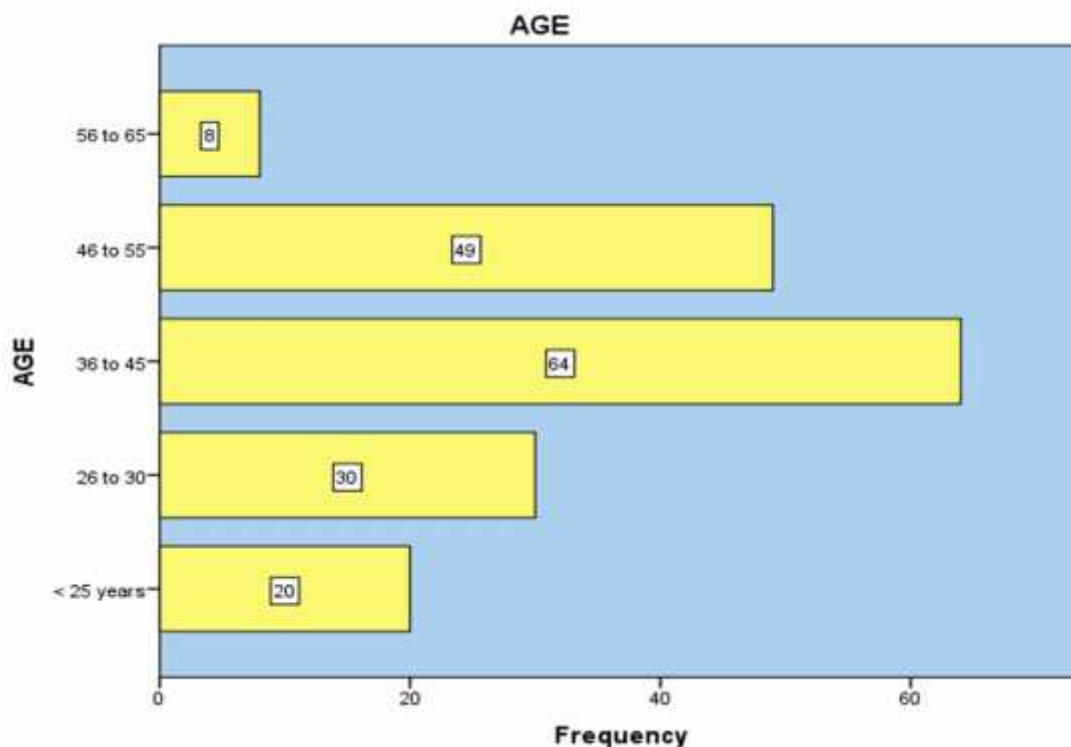
		Position in business			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	Owner	67	39.2	39.2	39.2
	Manager	83	48.5	48.5	87.7
	Owner manager	21	12.3	12.3	100.0
	Total	171	100.0	100.0	

Table 5.4 exhibits that the majority of the respondents are either managers or owners of their businesses with only 12.3% agreeing to be the owner and the manager concurrently. Mazzarol (2015) agrees that most SMEs are managed by their owners who are passionate about achievement and independence. On the other hand, Mazzarol (2015) also postulates that SME owners are too passionate and charismatic to manage the business. This therefore promotes the employment of a managerial expert which is confirmed by a 48.5% from the results to be managers. According to Chimucheka (2012) and Krajcovicova (2012), majority of SME owners are also managers providing eighty-six percent (86%) as owner-managers, while 14% as managed by paid professional managers. However, this is converse to the obtained findings of this study because the most interviewed respondents turned up to be managers who have been assigned to perform their job responsibilities on behalf of the owners.

**Question 3 Respondents' Age**

Age of respondent may help understand the experience and career motivation of the respondents. The question at hand intention was to detect the age distribution of the individuals who owned or managed the SMEs. The results obtained are in Figure 5.1 and it is notable that fewer respondents were aged below 25. It shows that, people start as early as 25 years or less (20 people out of 171) to be involved in business activities, though the numbers were few. The most probable reason could be that, those below the age of 25 are still attaining their educational qualifications.

**Figure 5.1: Age of respondent**



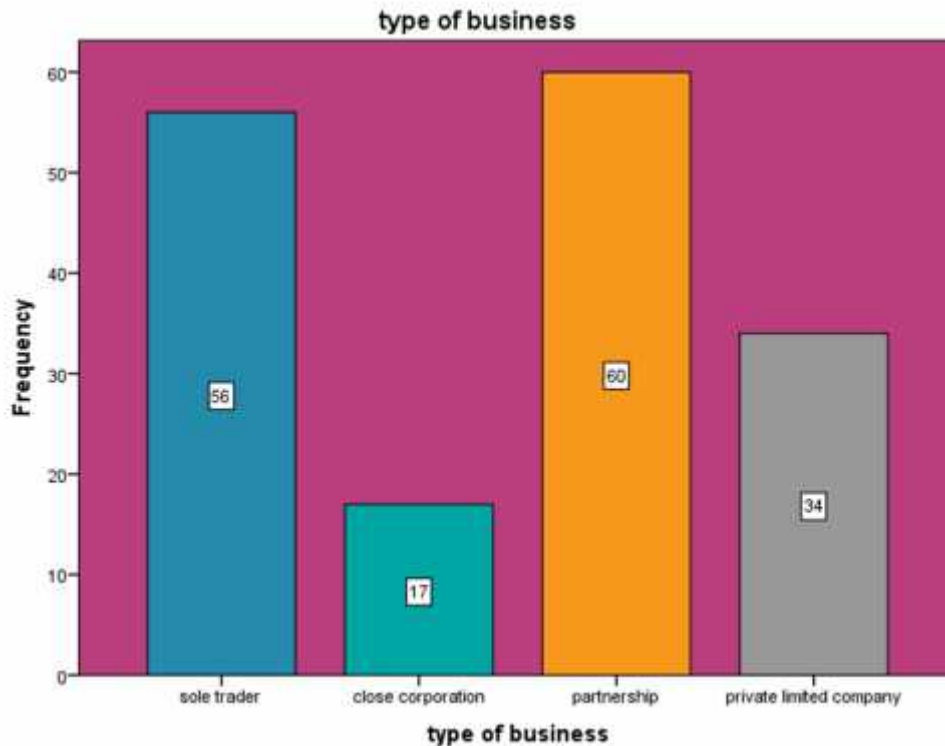
The Figure 5.1 reflects that, most of the respondents are in the middle age of 36 to 55 years, with only a small proportion aged 65 years or more. Woldie, Leighton and Adesua (2008) argue that most SME owner/managers usually have previous work and professional experience. These results showing most SME owners or managers being between the ages of 35 to 55 years are also consistent with the studies conducted by Fatoki (2014) and Rungani (2009). The authors pointed out that the majority of SME owners (47%0 are between the ages of 31 to 45 years. This implies that, most owner-managers could have pursued certain career options and got tired or started to desire more independence. This automatically puts most of them in the middle aged category (Chiliya & Roberts-Lombard, 2012).

#### **Question 4 Type of Business**

The respondents were asked whether their businesses operated formally as sole proprietorships, partnerships, close corporations or private limited companies. Figure 5.1 exhibits that most SMEs were operating as either sole proprietors or as partners. 17 and 34 SMEs are operating as close corporations and private limited companies respectively. According to Adisa, Abdulraheem and Mordi (2014) and Nyakundi *et al.*,

(2014) SMEs are usually capitalised by owner's contributions and input from friends and family and as such they become structured as sole proprietors or partners.

**Figure 5.2: Type of business**



The results indicate that 33% and 35% of SMEs are sole proprietor and partnership firms respectively. This shows that SME owners are hands on with their business day to day running activities. The findings could provide a perspective that, the existence of the majority of SMEs as sole trading and partnership businesses might be contributing to the fewer number of employees in these SMEs. Less SME firms are close corporations and private limited companies this could be the results of red tape with the registration process, minimum capital levels required and insufficient knowledge on part of SME owners on registering as a company or close corporation.

### **Question 5 Sector/Industry of Business**

A question like this is good for policy formulation by governments because they become aware of the challenges that hinder SMEs to venture into certain sectors of the economy that is if the results will suggest such a gap.

**Table 5.6: Sector/industry of business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retailing	60	35.1	35.1	35.1
	Construction	31	18.1	18.1	53.2
	Wholesaling	35	20.5	20.5	73.7
	Service	27	15.8	15.8	89.5
	Manufacturing	18	10.5	10.5	100.0
	Total	171	100.0	100.0	

In Table 5.5 it is shown that most of SMEs are into retailing (35%) and wholesaling (20.5%). The results also show a significant number of SMEs venturing into construction, service and manufacturing sectors. Philip (2015) agrees that more than 72.6% of SMEs are reported to be in the retailing and wholesaling sectors. However, through the economic empowerment boost for SMEs worldwide, Mazzarol (2015) argues that the number of SMEs venturing into capital intensive business like manufacturing and construction has been on the rise. The study provides evidence to indicate that, SMEs are poorly represented within the manufacturing (10.5%) sector. These findings are consistent with Machirori (2012), who pointed out that, SMEs engage more in retailing and wholesaling activities. The findings imply that, SMEs could be using retailing and wholesaling as the entry industries into the competitive market to later in branch into other industries. The other reason could be that, these two sectors require relatively cheap start-up capital cost and provide less bureaucracy.

### 5.3.2 Section B: Human Skill

- **To examine whether human skills possessed by SME owner-mangers impact on firm performance.**

#### Question 6 Level of Education

The research objectives highlight on the importance of human skill in enhancing SME growth and performance. This question attempts to find if the respondents, who are owners/managers, have gone through any formal educational/professional training. This question allowed the researcher to establish whether the level of educational qualification had an impact on firm performance. The results obtained are presented in Table 5.7.

**Table 5.7: Respondents' level of education**

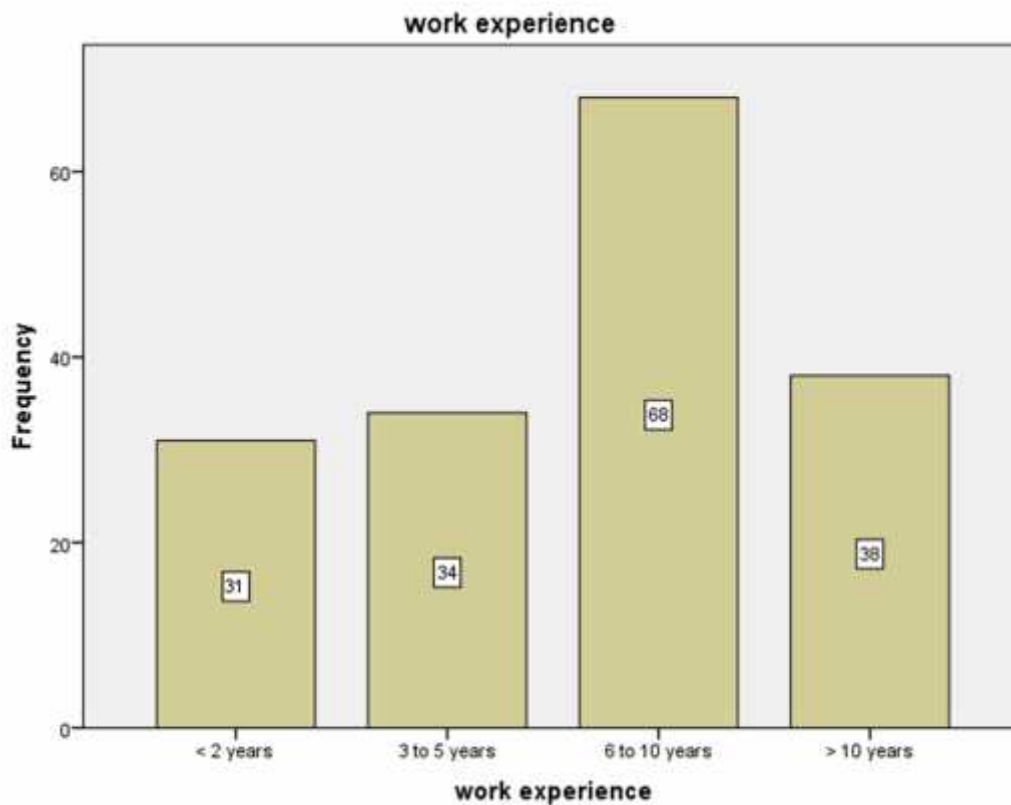
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Grade 12	18	10.5	10.5	10.5
Post matric certificate/diploma	33	19.3	19.3	29.8
Bachelor degree or higher	120	70.2	70.2	100.0
Total	171	100.0	100.0	

33 out of 171 respondents are shown to have attained a post matric diploma/certificate whilst only 18 have ended their formal education after completing their Grade 12. More than 70% of respondents indicated to have obtained a higher education degree or better. The reasons for fewer respondents without matric could be aligned to the free education policy up to matric level in South Africa. These results are opposed to those in studies by Kasseeah (2012) and Woldie *et al.*, (2008) where only 21% and 23% of respondents have attained a bachelor degree or better respectively. In all these cases education is deemed important in running the business effectively. The empirical findings reveal that majority of SME owners are well educated individuals who have opted for self-employment compared to formal employment. This could be a result of less formal jobs within the South African economy or just their preference. The study findings are consistent with the empirical findings of Krajcovicova (2012) and Fatoki (2014).

### **Question 7 Work Experience**

Question 7 required respondents to state whether they had worked prior to being SME owners or managers. The question enabled the researcher to establish if prior job experience could possibly result in increased SME performance. Those who indicated less than two years were considered to have less working experience while those who indicated more than ten years of working experience were considered as the most experienced respondents.

**Figure 5.3: Respondent prior work experience as manager**



The Figure 5.3 depicts that a higher proportion of the SME owner-managers (68/171) have between 6 to 10 years of work experience with 34 and 38 having 3 to 5 years and more than 10 years of work experience respectively. These results are consistent with the work by Pellissier and Nezhelele (2013) and Woldie *et al.*, (2008) where most of their respondents showed a work experience between 5 and 10 years. These findings also correspond to the above findings that most SME managers are aged between 35 to 55 years hence most could have worked for more than 5 years to gain experience. From the results, it can be concluded that most SME owners have had a fair share of being managers in other firms before venturing into their individual projects.

### **Question 8 Managerial Experience**

In this question the business skill of the SME owner-managers was tested by asking on a five-point Likert scale how their knowledge of business, start-up experience, managerial experience and educational qualification affect the performance of their business. The question was essential in identifying the impact of business skill competency in relation to SME performance.

**Table 5.8: Business skill**

		Knowledge of business	Start-up experience	Managerial experience	EDUCATION2
Strongly affected negatively	Count	11	17	19	8
Affected negatively	Count	4	13	16	27
Not affected	Count	35	26	54	31
Affected positively	Count	65	80	25	38
Strongly affected positively	Count	56	35	57	67
	Mean	3.88	3.60	3.50	3.75
	Std dev	1.095	1.186	1.334	1.255

According to Table 5.7, most of the SMEs agree that knowledge of the business positively affects performance as evidenced by a mean of 3.88, a frequency of 65 and 56 on the points of “affected positively” and “strongly affected positively” respectively showing consistent with the findings by Sehat and Fooman (2014) and Moorthy *et al.*, (2012).

The results also yielded a mean of 3.60 showing that the majority of respondents believe that start-up experience is important for SME performance. A frequency of 89 and 35 on the points of “affected positively” and “strongly affected positively” respectively indicate that 71% contended with the notion that start-up experience is crucial in improving SME performance. The findings were consistent with the results revealed in a study conducted by Dumbu and Chidamoyo (2012).

More managerial experience and high level of education were shown to be instrumental towards the enhancement of SME performance given that more than 50% of respondents on the two variables indicated their agreement. This could be a result of that, most of the interviewed had worked as managers before venturing into entrepreneurial projects. Adisa *et al.*, (2014) and Kasseeah (2012) also agree that prior managerial experience and a higher level of education do enhance the human capital to more productivity.

All in all, the results signify that knowledge of business, start-up experience, prior work experience and level of education are important as far as the human resource base of SMEs is concerned.

**Question 9 Area of Expertise**

This is a follow up question on the human skill seeking to know the respondents' area of specialty. The question required the respondent to indicate their area(s) of specialisation. The results are depicted in Table 5.9.

**Table 5.9: Respondent specialty**

	Yes	No
	Count	Count
General manager	97	74
Accountant or financial officer	55	116
IT specialist	18	153
Marketing manager	28	143
HR manager	28	143

The question was a multiple response one where the respondent was to indicate as many areas of expertise as they apply to them. 97 out of 171 respondents indicated their work as general managers. It is important to note that some managers indicated their expertise to be in accounting, information technology, marketing and human resource management. The most notable expertise lacking in SMEs is IT specialist as indicated by a yes count of only 18 respondents. Most SMEs indicated to have employed or require a general manager at the expense of IT specialist, marketing and human resource managers.

However, most of the SMEs indicated only one area of expertise which might show a little bit of inflexibility as a far as the effective execution of various tasks of the business is concerned. Hayton (2015) agrees that there is really some limited expertise in the various functions of management at SME level which consequently hamper their growth. The findings contended with Fatoki (2014) and Rungani (2009) that, SME owners tend to focus on managerial post neglecting the other managerial functions which help produce a balanced firm's performance.

- The no count for general management skills is 74 meaning that the SMEs under study generally say that there is a fair knowledge of skills on general management.

- Financial management skills scored a no count of 116 with a standard deviation of 1.4 meaning that most of the SMEs indicates the inadequacy of these financial management skills.
- Marketing management skills and human resource management skills also indicate lower means.
- The biggest deficit in skills is in Information technology with a no count of 153 and this could be because of also lack of technological infrastructure.

### 5.3.3 Section C: Business/Management Skill

- **To examine whether business/management skills possessed by SME owner-mangers impact on firm performance.**

#### Question 10 Financial Planning

The question sought information to test the respondents' ability to make financial budgets, cash flow statements, make use of investment appraisal techniques and carry out financial performance assessments. This was also a multiple response question and the results are presented in Table 5.10.

**Table 5.10: Financial planning**

		Count	Percent
Financial budget	Yes	95	55.6
	No	76	44.4
Doing cash flow statement	Yes	68	39.8
	No	103	60.2
Investment appraisal techniques	Yes	37	35.2
	No	134	64.8
Financial performance assessments	Yes	89	52.0
	No	82	48.0

Table 5.10 indicates that a significant number of SMEs indicated that they do prepare financial budgets (55.6%) and carry out financial performance assessments (52%). This shows that SMEs are employing the traditional financial statements such as trading profit and loss account. There is evidence of financial knowledge, but to a limited extent within SMEs provided by the 55.6% and 52% of financial budget and financial performance assessment respectively. The findings, however show an improvement in financial statement preparation form the time Fatoki (2012) conducted his study,

because the author indicated that 44.1% of the SMEs prepared financial budget and performance appraisal statements compared to the revealed 55.6% and 52% respectively.

However, employment, capital budgeting techniques and cash flow preparation prove to be rare. Qi (2010) reveals that the budgeting process may be complicated for SME owners and therefore end up only doing the basics of presenting a financial budget and performance report. This may explain the smaller number of SMEs in this study to be implementing investment appraisal techniques. The results are consistent with the findings revealed by Fatoki (2012) that, SMEs have limited knowledge in the fields of financial statement preparation and interpretation.

**Question 11**

This was another question aimed at evaluating the respondents’ ability to prepare important financial statements inclusive of income statement, balance sheet, cash flow statement and trial balance. The question was important in depicting the relationship between financial statement preparation and interpretation and SME performance. This was a basic test and the findings are depicted in Table 5.11.

**Table 5.11: Financial reporting**

		Count	Percent
Income statement	Yes	92	53.8
	No	79	46.2
Balance sheet	Yes	71	41.5
	No	100	58.5
Cash flow statement	Yes	87	50.9
	No	84	49.1
Trial balance	Yes	41	24.0
	No	130	76.0

The literature reveals that SMEs fail because they fail to account for their financial performance and progress. According to Chimucheka (2012) approximately 70% of SMEs fail during the first two years of starting operations. This was indicated to be a result of primarily entrepreneur’s lack of educational training and experience in preparing and analysing financial statements (income statement, balance sheet, changes in equity, cash flow statement).

However, Table 5.11 reveals that SMEs are aware of all the financial statements provided in this multi-responses question. Interestingly, more than 25% showed their awareness and employment of the four statements given in the question. The income statement and surprisingly cash flow statement yielded higher frequencies of response. Pricewaterhousecoopers (2012) and the South African Institute of Chartered Accountants (2014) support the development of the International Financial Reporting Standards for SMEs because of the gap that exists as a result of SME lack of skill to report their financial position. This shows that for increased SME performance, there is a need for continuous monitoring of the business plans which should not be viewed as a map.

**Question 12 Financial Statement Analysis and Interpretation**

After preparing financial statements, SMEs are tested in this question if they are able to analyse and interpret financial statements. The results depicted in Table 5.12 are an indication that SMEs are aware of the methods implemented in interpreting and analysing financial statements.

**Table 5.12: Financial analysis**

		Financial statement analysis	Ratio analysis	Inventory/stock analysis	Compare expenditure over time
Never	Count	11	25	13	0
Rarely	Count	4	8	15	17
Sometimes	Count	4	42	41	16
Regularly	Count	67	75	29	67
Always	Count	85	21	73	62
	Mean	4.23	3.35	3.78	4.07
	Std dev	1.070	1.205	1.290	0.949

All the respondents answered all the items that were presented on the Likert scale. Generally, all the respondents are indicative to the idea of carrying out financial analysis and comparing expenditure over time regularly with mean scores of 4.23 and 4.07 respectively skewing towards the “always” answer. Most respondents indicated that they regularly or always prepare the highlighted financial instruments.

The modal response for ratio analysis and inventory analysis, however, was 3 which mean that SMEs sometimes carry out ratio analysis and inventory analysis. Alayemi

(2015) and Qi (2010) agrees that SMEs are becoming aware of financial analysis, but still lack the human capital to do so or finance to consulting professionals.

### Question 13

In this question the researcher intends to achieve the research objective of SME owner-managers having the managerial competency in business skill to enhance business performance. The question tests on respondents' communication competency as one of the measures of business skill. Table 5.13 reveals the findings.

**Table 5.13: Communication skill**

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std dev.
	Count	Count	Count	Count	Count		
Regular information	0	9	4	62	96	4.43	0.782
Two way communication	0	11	42	63	55	3.95	0.909
Attending skills training problematic	9	23	54	67	18	3.36	1.016
Monthly info on evaluation	0	14	59	32	66	3.88	1.024
Promoting mouth to mouth	25	31	37	57	21	3.11	1.260
Autocratic communication	51	19	29	26	46	2.98	1.596

According to the Table 5.13 respondents were tested whether they provide regular information update, if two way form of communication is good, if they believe that attending skills training is challenging, promote mouth to mouth communication and if the autocratic communication style is best. The results depict that SMEs, owner/managers generally agree that good communication skills are important for the growth and success of their businesses. However, these results are inconsistent with available literature like Bosire and Nzaramba (2014) and Lekhanya (2015) who argues that SMEs do lack the communication skills necessary for business growth.

- The research findings provide evidence that most SME owner-managers agree that regular information update is necessary for improved SME performance. This is indicated by a mean score of 4.43. Regular information updates involves daily meetings and constant notification of any changes within the day to day running of the firm.

- Two-way communication is the up-down and down-up communication channel was outlined as significant by most respondents as a way to increase SME performance. This is evidenced by a mean score of 3.95.
- The autocratic communication channel is indicated as having a negative influence on performance. This is evidenced by a mean score of 2.98 being the lowest of all the other communication channels. This is converse to the literature that SME owner-managers prefer the “I can do it all” philosophy and dictatorship leadership style (Dumbu and Chidamoyo, 2012).

### 5.3.4 Section D: Technical Skills

- **To examine whether technical skills possessed by SME owner-mangers impact on firm performance.**

#### Question 14

Complementary to the communication skill is the concept of networking. Respondents were asked in this question to show if they maintain close relations with their suppliers, competitors and customers, attend business seminars and trade fairs, and maintain strong relations with government agencies.

**Table 5.14: Networking skill**

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std dev
	Count	Count	Count	Count	Count		
Close supplier relations	0	0	0	31	140	4.82	0.386
Close competitor relations	0	22	45	51	49	3.76	1.019
Close customer relations	0	0	3	41	127	4.73	0.486
Attend a business seminar	0	0	24	52	95	4.42	0.726
Attend trade fairs	0	15	24	47	85	4.18	0.980
Close relations with gov. agencies	0	0	17	63	91	4.43	0.669

The results as depicted in Table 5.14 indicated that all SMEs represented in this study do possess close relations with their suppliers with all the respondents answering “agree” and ”strongly agree”. This is supported by a mean score of 4.82 indicating that most SME managers do agree to maintain close relations with suppliers. This could be

so, to gain economies of scale through bargaining power, reduced transaction cost, reduced supplier-consumer channel.

The same positive trend is observed as far as relations with customers are concerned. Close networking with customers could prove beneficial in increasing SME performance through tailor made products, customer loyalty and increased market share. Most respondents agreed with the notion that close networking with customers is essential for increased SME performance. This is evidenced by a mean score of 4.73.

Networking with government, institutions providing business seminars and trade fairs also proved favourable among the respondents. The mean scores were 4.43, 4.42 and 4.18 respectively. However, more than 26% indicated to be unsure if they should be close to their competitors or not. According to Cooney (2012) SME awareness and involvement in networking activities was expected to increase owing the continuous training and enlightenment to fit competitive environments. This confirms the results on close relations that SMEs are maintaining with their suppliers and customers.

### **Question 15 Innovativeness**

Innovativeness and entrepreneurship is becoming more and more important as far as the competitiveness of SMEs is concerned. In this question the respondents were required to show their level of agreement with items that have to do with innovativeness.

Innovativeness was tested new lines of products research and development plans, first to introduce new products, initiate action for competitor which customer respond, aggressive posture maximise potential and brainstorming session. The findings highlighted that most SME owner-managers are unsure if aggressive posture maximize potential and brainstorming session would increase SME performance evidenced by a mean score of 3.57 and 3.59 respectively.

**Table 5.15: Innovation skill**

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree		
	Count	Count	Count	Count	Count	Mean	Std dev
New lines of products	0	21	49	35	66	3.85	1.072
Research & development plans	0	0	30	64	77	4.27	0.744
First to introduce new products	0	10	77	57	27	3.59	0.824
Initiate action for the competitor							
WC customer respond	0	16	52	65	38	3.73	0.913
Aggressive posture maximizes potential	14	10	41	68	38	3.62	1.138
Brainstorming session	16	25	33	39	58	3.57	1.337

A mean score of 3.85 with 4 and 5 agreement scores shows that SME managers subscribe to the notion that it is entrepreneurial to introduce new lines of products. In the same way, respondents agree that investment in research and development, being first to introduce new products, and initiating actions for competitors which customers respond to is innovative.

About 60% of the respondents believe that being radical and aggressive can maximize the innovative potential in them. In addition, brainstorming sessions were almost equally voted to be good and not good for the business. Laperche and Liu (2013) and OECD (2010) support the results that SMEs are more innovative than large businesses they, however, lack the appropriate resources to realise their full potential.

**Question 16**

This question sought for information that was helpful in the achievement of the objective to test SME owner/manager’s technical ability and how this affects SME performance. This question was significant in determining the relationship between technical know-how and SME performance.

**Table 5.16: Technological skill**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Strong emphasis on techno leadership	171	2	5	3.94	.980
Ability to operate machinery	171	3	5	4.37	.735
Computer literacy	171	2	5	4.60	.815
Delegating tasks to subordinates	171	3	5	4.35	.738
Use pastel software for fin statements	171	3	5	4.23	.730
Valid N (listwise)	171				

On this question the researcher's analysis focused on the minimum and maximum scores as well as the mean scores. Table 5.16 depicts that a strong emphasis on technology leadership is envisioned by most the owners-managers interviewed in this study (mean score = 3.98). The surveyed SMEs indicated the desire to delegate task/responsibilities to their subordinates as reflected by a standard deviation of 0.74 and mean scores 4.35. This was conversing to the literature available stating that most SME owner-managers did all the day to day running of the business with limited delegation (Cooney, 2012; Fatoki, 2014; Rungani, 2009).

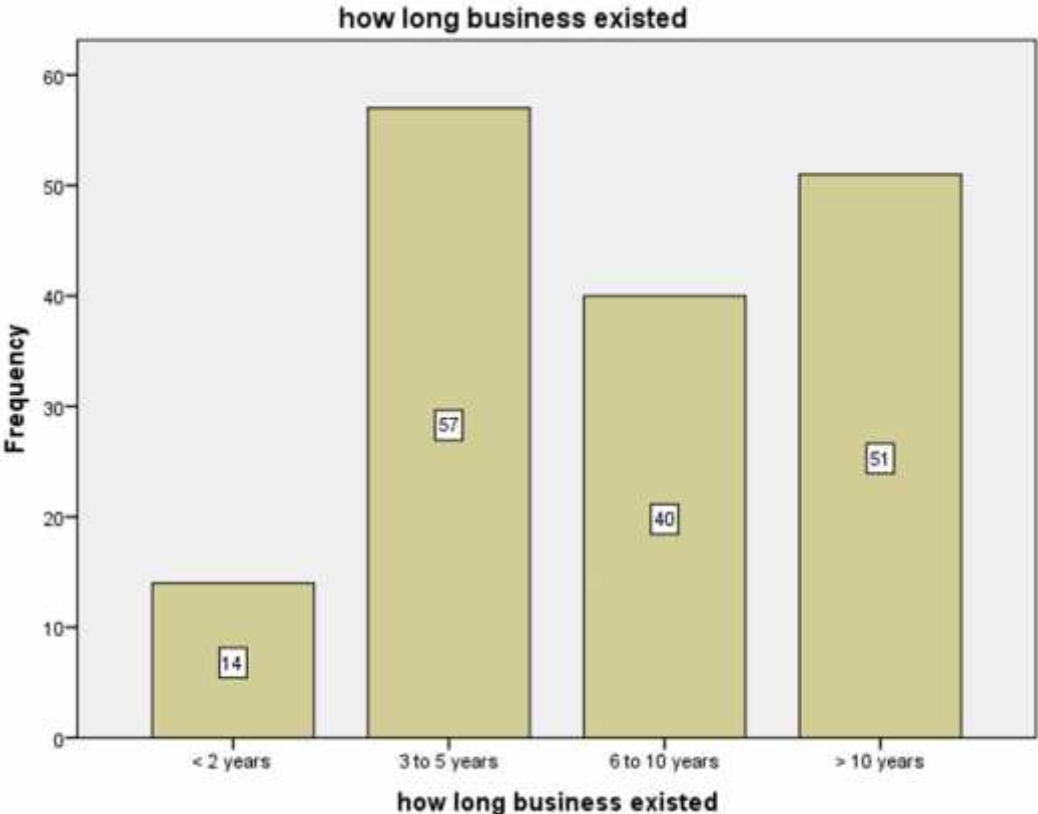
The respondents also agree that the ability to operate technologically enhanced machines work also hand in glove with being computer literate. A significant result was also obtained in that the majority of SMEs respondents agree to the employment of pastel software for the preparation of financial statements. Mahembe (2011) and Laparche and Liu (2013) emphasise that the 21<sup>st</sup> century business environment needs advancement in information technology so as to lay the ground for competitive advantage.

### 5.3.5 Section E: SME Performance

#### Question 17 Years of business operation

In this question the researcher wanted to know how long the SME has been in operation. A longer business life may be testimony to good management by the owner/manager whilst those in their start-up phase still await the test. The results obtained are condensed in Figure 5.4.

**Figure 5.4: Years of business operation**



The figure 5.4 depicts that most of the SMEs represented were already above 2 years of operations with 51 in count over 10 years in existence. Muller *et al.* (2014) and Cooney (2012) reveal that most SMEs do fail in the first year of operation and therefore a smaller number of SMEs less than 2 years old will be consistent. The research findings point out that SMEs that do not fail within the first two years have a high chance of maintaining operations to become survivalist SMEs. This is evidenced by most SMEs indicating in the questionnaire, to be between three to five years of operation. There is also a significant number of 51 over ten years of existence.

**Question 18 Total Asset Value**

Total asset value can be a measure used to define the size of the business. However, in this case the asset value was used for trend analysis to give an indication on the growth curve of SMEs. As a firm grows bigger and successful, it also invests in many sustainable assets. Table 5.16 actually shows that in 2011 almost 90% of SMEs had an asset value of between R10 000 and R50 000. A growing curve for most of the SMEs is indicated because in 2014 the trend is showing a proportion of over 85% of SMEs in the bracket of R51 000 to more than R200 000. Gibson and van der Vaart (2008)

emphasise that despite of growth in asset value, all these represented businesses still fit the SME definition.

**Table 5.17: Total asset value**

	< R10000	10000 to 50000	51000 to 100000	101000 to 200000	201000+
	Count	Count	Count	Count	Count
Total asset value 2011	59	70	4	8	5
Total asset value 2012	26	49	58	13	0
Total asset value 2013	0	62	49	45	8
Total asset value 2014	0	28	54	45	37

**Question 19 number of people employed by the SME**

This question definitely measures, to some extent, the size and consequently performance of a business.

**Figure 5.5: Number of employees in business**

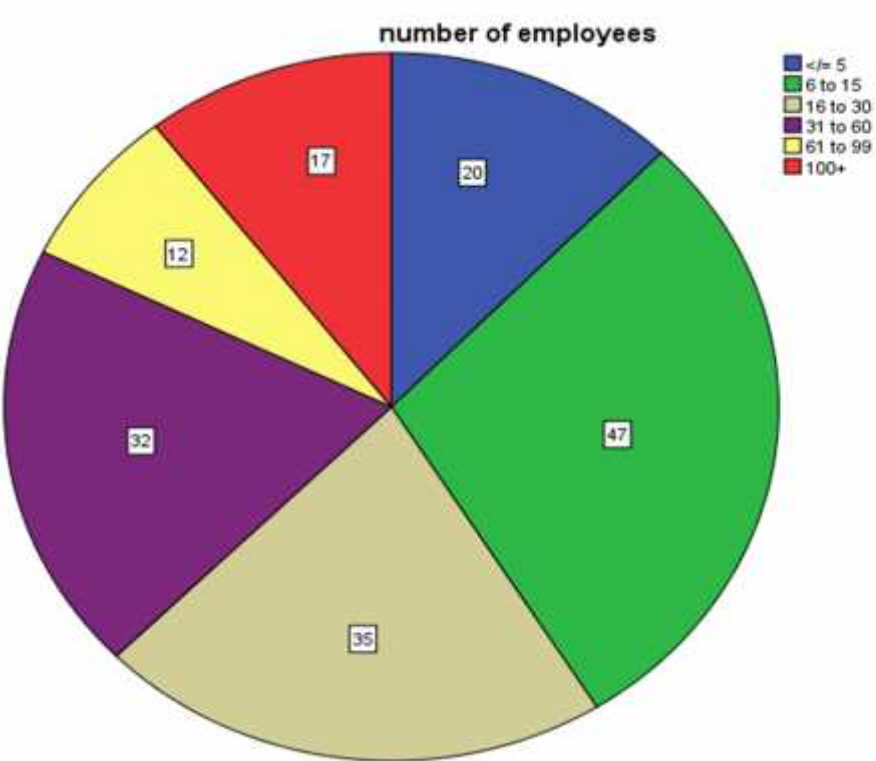


Figure 5.5 shows the results obtained on the number of employees an SME is employing. More than half of the represented SMEs still employ only up to 30

individuals with only 17 in count reaching out to more than 100 employees. According to Muller *et al.*, (2014) and Woldie *et al.*, (2008) SMEs struggle to hire professionals to help in management various tasks. This simply implies that SMEs equally struggle to hire many units of cheap labour because they do not possess the resources to do so. The fewer number of employees, however, may represent the potential still available for SMEs to develop.

**Question 20 Firm Performance**

This question was very important because its results were used in the testing of all the hypotheses set out for the achievement of objectives in this research study. The obtained findings are tabulated in Table 5.17 following.

**Table 5.18: Firm performance**

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std dev
	Count	Count	Count	Count	Count		
Sales growth	0	14	39	62	56	3.94	0.940
Profitability for past 3 years	0	10	32	78	51	3.99	0.851
Employment ratio	0	24	48	75	24	3.58	0.900
Overall performance	0	0	38	82	51	4.08	0.720
Performance compared to competitor	0	4	16	90	61	4.22	0.707

The respondents were asked whether they have experienced sales growth, increased profitability and enhanced performance of their businesses in the past three years. The results reveal that only a small number of SMEs have experienced sales shrink, reduced profitability and lower overall performance. Adisa *et al.* (2014) and Nyakundi *et al.* (2014) argue that the more established an SME becomes by the years it spent in operation, the better its overall performance and market share slice. The employment ratio is shown to be also higher showing increased productivity per unit labour employed. 88% of respondents flag that their businesses definitely perform better than their competitors.

**5.4. HYPOTHESES TESTING**

The hypotheses were divided according to the managerial competency being tested, namely the human skill competency, the business skill competency and the technical skill competency. Simple linear regression and the Pearson correlation coefficient were

used to test for any statistical significance in the relationships proposed by the null hypotheses.

**5.4.1 Hypotheses from managerial competency of human skill**

The human skill hypotheses were focused on the SME owner-manager’s prior work experience and level of education as measures of the quality of the human capital responsible for the carrying of many various vital tasks of the business. A set of two hypotheses was used to test the human skill and its relationship with SME performance. The first null hypothesis proposed that:

**H<sub>01</sub>: There is no statistically significant relationship between managers or owner-manager prior experience and SME performance.**

**Table 5.19: Work experience model summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.003 <sup>a</sup>	.000	.006	2.54338

a. Predictors: (Constant), work experience

The evidence provided in the Table 5.19 shows that only as little as 0.6 per cent of firm performance can be explained by the owner-manager prior work experience. The possibility is that it is by chance that work experience affects SME performance. However, a test of the relationship is further shown by the results of the ANOVA analysis in Table 5.20.

**Table 5.20: ANOVA on work experience**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.013	1	.013	.002	.964 <sup>b</sup>
	Residual	1093.226	169	6.469		
	Total	1093.240	170			

a. Dependent Variable: FIRMPERFORM

b. Predictors: (Constant), work experience

On the ANOVA table, of interest is the p-value (sig.) which shows statistical significance if  $p \leq 0.05$ . In this case the ANOVA analysis shows a p-value = 0.964 which is way greater than 0.05. This implies that there is no enough statistical evidence to reject the

proposition of the null hypothesis which stated the existence of no significant relationship between manager’s prior work experience and SME performance. It can therefore be concluded that:

**Conclusion 1 - There is no statistically significant relationship between owner-manager’s prior work experience and SME performance.**

This was a surprising conclusion given that there is vast literature such as work by Afrifa (2013), Shiryar, Shee and Stewart (2012) and Woldie *et al.*, (2008) which concluded that managerial skills, experience and talent is very vital for the growth and expansion of SMEs even though SMEs lack such talent. However, the conclusion in this study may be due to the fact that Moorthy *et al.*, (2012) motivated that SMEs performance is significantly affected by effective entrepreneurship and appropriate application of innovative technology. Managerial experience therefore affects firm performance, but as a drop in a pool of water.

The second null hypothesis stated that:

**H<sub>02</sub>: There is no statistically significant relationship between managers or owner-manager level of education and SME performance**

The researcher used the Pearson correlation coefficient to test this hypothesis and the results are presented in Table 5.21.

**Table 5.21: Correlation on level of education**

		Correlations	
		Highest educational qualification	FIRMPERFORM
Highest educational qualification	Pearson Correlation	1	.059
	Sig. (2-tailed)		.440
	N	171	171
FIRMPERFORM	Pearson Correlation	.059	1
	Sig. (2-tailed)	.440	
	N	171	171

The Pearson’s correlation coefficient ranges from -1 to +1 which shows that the relationship between the two variables may be positive or negative. In Table 5.21 the Pearson correlation coefficient is +0.059 which means that the level of education

positively affects SME firm performance. However, the relationship is close to zero, meaning that it is very weak. A further analysis is pivotal for the validation of the relationship. The p-value (sig) = 0.44 is greater than 0.05 and implies that there is inadequate statistical evidence to reject the null hypothesis. It can therefore be concluded that:

**Conclusion 2 - There is no statistically significant relationship between managers or owner-manager level of education and SME performance.**

The results agree with studies by Mazzarol (2014) and Chiliya and Roberts-Lombard (2012) that managers' level of education has a weak positive effect on SME performance. The findings also concur with Chiliya (2012) and Senge (2012) who revealed that level of education did not improve firm performance. This can be a result of lack of imaginative and innovative competencies required of SME employees are unknown, hence general educational qualification does not guarantee high SME performance. The difference is that among many competencies that are being tested as predictors of overall firm performance, level of education is not significant.

#### **5.4.2 Hypotheses from the Managerial Competency of Business Skill**

In order to capture the influence of sound business skill, the researcher focused on the respondents' ability to analyse and interpret financial statements, and respondents' communication skill. These two were analysed on the basis of how they influence SME performance and two hypotheses were formulated with the first one stating that;

**H<sub>03</sub>: There is no statistically significant relationship between managers or owner-manager ability to analyse and interpret financial statements and SME performance.**

Table 5.22 depicts the obtained results after running the Pearson's test of correlation. The researcher made use of the Pearson's correlation coefficient in order to test both the strength and direction of the relationship that exists between SME manager's ability to analyse and interpret financial statements and SME performance.

**Table 5.22: Correlation on financial analysis and interpretation**

Correlations			FINSTAT_ANALYSIS	FIRMPERFORM
FINSTAT_ANALYSIS	Pearson Correlation	1	.361**	
	Sig. (2-tailed)		.000	
	N	162		162
FIRMPERFORM	Pearson Correlation	.361**		1
	Sig. (2-tailed)	.000		
	N	162		171

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient shown in Table 5.22 is +0.361 which is a clear indication of the fact that the greater the ability of the manager to analyse and interpret financial statements, the greater the performance of the SME. In other words, there is a positive relationship between manager’s ability to analyse and interpret financial statements and SME performance. The p-value of 0.00 confirmed the significant strength of the relationship and provides evidence enough to reject the null hypothesis and conclude that:

**Conclusion 3 - There is a statistically significant relationship between managers or owner-manager ability to analyse and interpret financial statements and SME performance.**

Alayemi (2015), Kamange, Njeru and Tirimba (2014) and Afrifa (2013) agree that financial management abilities especially in reporting, analysis and interpretation are important as they enhance SME performance. Afrifa (2013) adds that a good trend record on financial wellness definitely attracts investors and SMEs will not struggle to raise finance as risk would have been downplayed. However, this ability to manage financial information will only come into play when the finance is available. Adisa *et al.*, (2014) portray access to finance as the major cause of SME failure, meaning that SME who can access sound capital investments can be able to grow with management only being a smaller piece of the cake.

The second hypothesis proposed that:

**H<sub>04</sub>: There is no statistically significant relationship between managers or owner-manager communication skill and SME performance.**

A simple linear regression test was run in order to test this hypothesis and the obtained results are depicted in Table 5.22.

**Table 5.23: Communication skill model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429 <sup>a</sup>	.184	.179	2.29796

a. Predictors: (Constant), communication

**Table 5.24: ANOVA for communication skill**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	200.813	1	200.813	38.028	.000 <sup>b</sup>
	Residual	892.426	169	5.281		
	Total	1093.240	170			

a. Dependent Variable: FIRMPERFORM

b. Predictors: (Constant), communication

Emanating from the model summary Table 5.23, it is evident that almost 18% of the variability in SME firm performance may be explained by the variability in managers' communication skills. The ANOVA Table 5.24 exhibits that the p-value at 95% confidence level is 0.00 which flags adequate statistical evidence to reject the null hypothesis and a conclusion can be made that:

**Conclusion 4 - There is a statistically significant relationship between managers or owner-manager communication skill and SME performance.**

Communication skill is important in successful management of SMEs. Lekhanya (2015) emphasise that effective internal communication and information management build up to enhanced marketing communications which in turn lead to sales growth, profitability and increased firm performance. Kamange *et al.*, (2014) also agree that good communication skills unifies the SME in oneness for the achievement of set goals and this helps the SME to be elusive in problem solving. The findings show that ability to inform/update subordinates, use two way communication channel and mouth referrals have a positive relationship with SME performance. Therefore, the findings contend with the available literature.

### 5.4.3 Hypotheses from the Managerial Competency of Technical Skill

The managerial, technical skill was hypothesized and tested by focusing on manager's technical know-how, innovativeness and networking abilities. Three hypotheses were formulated and the first one on technical know-how stated that:

**H<sub>05</sub>: There is no significant positive relationship between managers or owner-manager, technical know-how and SME performance.**

The technical know-how was based on some questions in the questionnaire that asked about managers' ability to operate machines, prepare financial statements using Pastel software, and adopt new technology. In testing the hypothesis, the researcher used linear regression and the results are presented in Table 5.25.

**Table 5.25: Technical know-how model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.086 <sup>a</sup>	.087	.062	2.53393

a. Predictors: (Constant), TECHKNOWHOW

**Table 5.26: ANOVA for technical know-how**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.128	1	8.128	1.266	.022 <sup>b</sup>
	Residual	1085.112	169	6.421		
	Total	1093.240	170			

a. Dependent Variable: FIRMPERFORM

b. Predictors: (Constant), TECHKNOWHOW

The model summary in Table 5.24 represents some variability in SME performance of 6.2% as an effect of managerial technical know-how. This definitely shows a positive relationship between the two. ANOVA analysis tested the strength of the relationship and a p-value of 0.022 which is less than 0.05. In statistical analysis this result shows sufficient statistical significance to reject the null hypothesis and therefore a conclusion can be made that:

**Conclusion 5 - There is a significant positive relationship between managers or owner-manager technical know-how and SME performance.**

Technical skill is the expertise in a specific field. This is the ability to handle, operate, maintain and use intellectual capacity to suit the ever changing business environment. The empirical findings suggest that technical know-how is important if SMEs are to realise their full economic potential (high performance). This is in line with the literature which states that the modern day business environment requires constant and consistent advancement of information technology to enhance performance (Mahembe, 2011; Laparche & Liu, 2013). This is consistent with the research findings as the null hypothesis stating that no significant relationship exists between technical know-how and performance was rejected.

The second hypothesis was testing managers’ innovativeness and SME performance. The null hypothesis assumed that:

**H<sub>06</sub>: There is a significant positive relationship between managers or owner-manager innovativeness and SME performance.**

Pearson’s correlation coefficient was employed to test this hypothesis and the results obtained are depicted in Table 5.27.

**Table 5.27: Pearson correlation on innovativeness**

		Correlations	
		INNOVATIVE	FIRMPERFOR M
INNOVATIVE	Pearson Correlation	1	.224**
	Sig. (2-tailed)		.003
	N	171	171
FIRMPERFORM	Pearson Correlation	.224**	1
	Sig. (2-tailed)	.003	
	N	171	171

\*\* . Correlation is significant at the 0.01 level (2-tailed).

In Table 5.27 the results reflect that there is a positive relationship between managerial innovativeness and SME performance with a Pearson value of +0.224. It implies that a positive enhancement of a manager’s innovative capacity may cause a certain increment in the performance of the SME. The strength of the relationship is also reflected by a p-value of 0.003 which is less than the 0.05 and this shows statistical significance in the relationship. The implication is that with enough statistical significant evidence, the null hypothesis is rejected and a conclusion can be made that:

**Conclusion 6 - There is a significant positive relationship between managers or owner-manager innovativeness and SME performance.**

Mohammed and Obeleagu-Nzelibe (2014) agree that the existence of sound innovation and entrepreneurial skills assist SMEs to be able to grow and develop. According to Abouzeedan (2011) innovation is one of the non-financial factors instrumental in competitive sustainability. The more a firm is able to innovate, the more it continues to survive in competitive environments. The conclusion made is also consistent with results obtained by Muller et al. (2014) and Cooney (2012). However, Kamange, Njeru and Tirimba (2014) argue that access to finance and managerial experience are the factors majorly affecting SME performance and growth. Being innovative becomes a bonus after the SME is established in strong financial base and effective management.

The final hypothesis testing owner-managers' technical skill was based on their networking abilities.

H<sub>07</sub>: There is a significant positive relationship between managers or owner-manager networking and SME performance.

**Table 5.28: Networking skill model summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.227 <sup>a</sup>	.052	.046	2.50670

a. Predictors: (Constant), NETWORKING

**Table 5.29: ANOVA on networking skill**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	56.294	1	56.294	8.959	.003 <sup>b</sup>
	Residual	1036.783	165	6.284		
	Total	1093.078	166			

a. Dependent Variable: FIRMPERFORM

b. Predictors: (Constant), NETWORKING

The model summary in Table 5.28 represents some variability in SME performance of 4.6% as an effect of managerial networking skill. This definitely shows a positive relationship between the two. ANOVA analysis tested the strength of the relationship and a p-value of 0.003 which is less than 0.05, a requirement for significant evidence in

any statistical test. This therefore implies that there is statistically significant enough evidence to reject the null hypothesis and conclude that:

**Conclusion 7 - There is a significant positive relationship between managers or owner-manager networking ability and SME performance.**

Networking is the managerial ability to maintain close relations with key stakeholders (customers, government, suppliers, and employees). The research findings indicated a positive relationship between SME performance and networking. Mohammed and Obeleagu-Nzelibe (2014) agree that the existence of sound, networking channels assists SMEs in gaining a competitive edge over industry rivals. According to Abouzeedan (2011) networking is a non-financial factor instrument adopted by high performing managers. Nyakundi *et al.*, (2014), Moorthy *et al.*, (2012) and Watson (2006) reports a positive relationship between networking and SME survival and growth. Networking enables SMEs to link and have relations with their suppliers, customers, competitors and even other business counterparts.

The conclusion made is also consistent with results obtained by Machirori (2012) and Cooney (2012). However, Fatoki (2012) and Dumbu and Chidamoyo (2012) argue that networking capacity of SME managers does not improve performance because its costly, time consuming and deviates firm focus on productivity. In support of this notion are Kamange *et al.*, (2013) who indicated that other factors like financial management skills are majorly affective of the performance of SMEs.

#### **5.4.4 Primary Hypothesis**

The researcher waited for the all the secondary hypotheses to be tested so that the primary can be tested. This is because all the aspects individually tested accumulate to the main hypotheses which states that:

**H<sub>0</sub>: There is no significant relationship between managerial competencies and SME performance.**

**Table 5.30: Managerial competencies model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.694 <sup>a</sup>	.481	.464	1.88997

a. Predictors: (Constant), NETWORKING, communication, FINSTAT\_ANALYSIS, INNOVATIVE, TECHKNOWHOW

Table 5.30 exhibits that 46.4% of the variability in SME performance can be explained by the managerial competencies proposed in this study, thus human skill, business skill and technical skill. This shows that managerial competencies may really have instrumental influence on SME performance. Table 5.31 is a further ANOVA test to prove the result.

**Table 5.31: ANOVA on managerial competencies**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	503.942	5	100.788	28.216	.001 <sup>b</sup>
	Residual	542.944	152	3.572		
	Total	1046.886	157			

a. Dependent Variable: FIRMPERFORM

b. Predictors: (Constant), NETWORKING, communication, FINSTAT\_ANALYSIS, INNOVATIVE, TECHKNOWHOW

The value of interest in Table 5.31 is the p-value (sig.) which provides evidence whether there is a significant relationship. In this case the p-value = 0.01 which is less than 0.05 and therefore statistically there is evidence to reject the null hypothesis and conclude that:

**Primary conclusion: There is a statistically significant relationship between managerial competencies and SME performance.**

The results imply that having sound human skills, business skills and technical skills in the arsenal assist SMEs to better their performance in terms of sales growth, innovativeness, profitability and competitive sustainability. Fatoki (2014) and Kamange *et al.* (2014) agree that sound managerial skills are really instrumental in the modern day business growth and performance. According to Mazarol (2015) having sound financial management skills, broad prior work experience (Pellisier & Nenzhelele, 2013), good communication competency (Lekhanya, 2015) and elusive entrepreneurial skill

(Cooney, 2012) all build towards effective management that is important for SME sustainability and growth.

## **5.5 CHAPTER SUMMARY**

The main purpose of this chapter was to present the empirical findings of the current study. The findings were in relation to the study question, the impact of managerial competencies on SME performance. The research results were outlined as per the findings gathered during data collection relative to the study objectives. The chapter began with identification of managerial competencies study variables which respondents cited as having a causal effect on SME performance. The researcher with the aid of the Statistics Department at the University of Fort Hare then deduced the responses into coded data using the mean scores, chi-square test, analysis of variance (ANOVA), test hypothesis and correlation.

The first section of findings was based on the demographic characteristics of respondents. The results suggest that, indicated that SME owners or owner-managers are almost equal given the findings showed 50.9% and 49.1% for male and female participants respectively. The respondents were also noted to be in the middle age group, thus between 35 to 55 years.

In relation to managerial competencies, impact on SME performance, findings reveal that SME owner-managers need excellent human skill, broad business dimensions and elusive technical abilities to be effective in their game. The study concluded that managers, networking capacity, technical knowhow experience, good communication skills, innovativeness and sound financial practices have significant predictive power on the potential growth of SMEs. However, prior working experience and educational qualification were found not to cause any significant positive relationship with SME performance.

The research also concluded that all the elements that sum up to managerial competencies are really important for the overall performance of SMEs. In the next and final chapter, the findings of this study are utilised in the formulation of recommendations necessary for continued assistance and development of SMEs.

**CHAPTER SIX:**  
**Conclusions and Recommendations**

## **6.1 INTRODUCTION**

As highlighted previously in this study, managerial competencies are viewed as the primary tool for SME success. This has led to intense competition in each industry recruiting skilled personnel. To survive in this turbulent environment, SMEs must seek competitive advantage over their rivals. As a result, SME owners have resorted to hiring competent personal to avoid cut throat competition. The preceding chapter mainly provided the findings obtained from the SME respondents on managerial competencies which stimulate ability to make sound decisions in financial management practices.

The study was conducted in four main geographical sub-strata's within the Buffalo Municipality. The Buffalo Municipality, which is currently second largest municipality in Eastern-Cape, South Africa allows for a comprehensive overview of the extent and practices of SMEs in urban and rural settings. Though the urban settings provided or dominate the rural settings on number of SMEs in operation.

The purposes of this study were (1) to establish the level and extent of SME manager's competent ability (2) investigate whether implementing sound managerial competencies, improve SME success rate (3) identify which managerial competencies are essential for SME success. It is in the light of these provided research aims that this chapter is focused on giving basic conclusions and recommendations. These conclusions and recommendations are made from the results obtained from SMEs in the Buffalo City Municipality. The chapter also provided some areas for further research.

The next section gives a summary of the literature, applied in carrying out this study.

## **6.2 LITERATURE REVIEW**

In the first chapter (Chapter 1) the researcher highlighted the research objectives and the according hypothesis to be tested. The chapter highlighted the increasingly dismal performance of SMEs. It was noted that 75% of SMEs close operation between the first three years of commencement (Fatoki, 2014). The reviewed literature at hand revealed that there is scarcity of competent personal within the SME sector. This is causing alarming high failure rates and inability to create long-term sustainable growth of the SME sector.

The propositions derived from the available literature enabled the researcher to gather data to empirically determine the validity and reliability of the proposed relationships

identified. This resulted in the formulation of research hypothesis to provide clarity and aid SMEs in understanding the managerial competence needs. The overview of chapter 2 is outlined below.

In chapter 2, it was revealed through the available literature that, SMEs in all sectors of the South African economy are very important. The important roles of the SME sector in the modern economy were explicitly explained in this chapter. An SME was defined on the basis of number of employees, balance sheet total and annual turnover. The definition, however, varies with economies. After defining the SME, it was now easy to identify their capabilities. Especially in that they create employment opportunities, enhance market efficiency and propagate income equality, economic-social goal (Smit and Watkins, 2012).

On the other hand, Agyei-Mensah (2011) argues that, only SMEs that have acquired competent personal will make valuable contributions towards the economy. However, SMEs face challenges, for example marketing difficulties, lack of skills and training, lack of capital and proper infrastructure. The overall performance of SMEs in South Africa was outlined. Highlighting that, the inability of SME managers to consistently prove their competent skills in various managerial functions was the major reason for poor performance. The overview of chapter 3 is discussed below.

In chapter three the literature was premised on the managerial competencies. The literature revealed that, there is theoretical consensus on the relevancy of managerial competencies, which has been summed up by assenting propositions of the Human Capital, Ice-berg and Resource Based theory. Managerial competencies are important in the success of the SMEs and therefore the researcher went on to find out how it is done.

While it is widely accepted that competencies increase performance of individuals, the question still remains whether there is a universally assenting combination of skills, knowledge and experience that constitutes a recognised individual competency. Thus the purpose of this research study was to identify the impact of managerial competencies on SME performance. Chapter four applied the principles enunciated in chapter three and is highlighted below.

In chapter 4 the research methodology was outlined. The methodology was non-technical and easy to understand. The methodology chapter examined aspects such as

research design, data analysis and data collection methods. The analysed data was gathered using a self-administered questionnaire. The questionnaire was prepared bearing in mind ethical rules and values. The wholesome purpose of the chapter was to clearly provide a set path to the researcher on how to conduct the study at hand. The results of the collected data was analysed in chapter 5 which is discussed briefly below.

Chapter five focussed on data analysis, which was conducted using SPSS. The data was analysed on a question to question bases of the total sample frame. The resulting gathered data enabled the researcher to derive certain conclusions on the formulated hypothesis. The hypothesis were either accepted or rejected based on the statistical outcome of the results. This forms the discussion in the section to follow.

The literature review helped to formulate objectives and hypotheses and the hypotheses tested are highlighted in the following section.

### 6.3 HYPOTHESES TESTING CONCLUSIONS

This section focuses on the hypothesis tested and conclusions drawn upon those hypothesis results. The usable sample for the current study was 162 respondents out of the 184 selected sample frames. The questionnaire was used to collect data from the SMEs in the survey area. The researcher then deduced the responses into coded data using the mean scores, chi-square test, analysis of variance (ANOVA), test hypothesis and correlation. The data analysis enabled the researcher to draw conclusions on the formulated hypothesis with regards to managerial competencies. The table below indicates the derived conclusions from the question to question analysis:

**Table 6.1: Hypothesis testing results**

<b>HYPOTHESIS TESTED</b>	<b>RESULTS</b>
There is no statistically significant relationship between managers or owner-manager prior experience and SME performance	<b>Do Not Reject</b>
There is no statistically significant relationship between managers or owner-manager level of education and SME performance.	<b>Do Not Reject</b>
There is no statistically significant relationship between managers or owner-manager ability to analyse and interpret financial statements and SME performance	<b>Rejected</b>
There is no statistically significant relationship between managers or	<b>Rejected</b>

owner-manager communication skill and SME performance	
There is no significant positive relationship between managers or owner-manager technical know-how and SME performance	<b>Rejected</b>
There is a significant positive relationship between managers or owner-manager innovativeness and SME performance	<b>Rejected</b>
There is no significant positive relationship between managers or owner-manager networking and SME performance	<b>Rejected</b>

The primary hypothesis of this study was that:

- **Managerial competencies do not impact on the performance of SMEs.**

### **6.3.2 THE COMPLEMENTING HYPOTHESES**

#### **6.3.2.1 There is no statistically significant relationship between human skill (level of education and prior business experience) practised by managers or owner-manager and SME performance.**

This hypothesis was tested by looking at the managerial expertise, situation analysis and the abundance/shortfall of prior working experience in section B of the research instrument (questionnaire). The mean obtained was an average of 2.71 which is closer to 3 (unsure), and this means that SMEs do agree to some extent that the mentioned skill factors do impact on firm performance. Educational qualification is important in running day to day business operation, but it does not necessarily guarantee high performance. The SMEs with highly qualified owners did not necessarily perform better compared to those without educational qualifications or lower levels of education. This can be concluded that those without a higher educational background opted to hire qualified persons. The recruited manager later proved competent in their areas of expertise increasing performance levels compared to “I can do all” philosophy adopted by other owner-managers.

Two groups of responses were compared and analysed using the chi-square test. The result showed a p-value of 0.964 and 0.44 for educational qualification level and prior business experience respectively, which shows that there is statistical evidence to reject the null hypothesis. A conclusion can therefore be made that SME owners/managers do not possess the necessary educational qualifications and gaining managerial experience in other firms does not guarantee high SME performance. This means that

the unemployment of sound SME management practices can be attached to irrelevant managerial experience and the lack relevant educational qualifications in specific fields like entrepreneurship, risk management, marketing, financial management and human resource management.

After the analysis of the empirical findings, the researcher discovered that SMEs, major setbacks include lack of skills and training and inadequate resources. Under skills and training, most SMEs indicated to possess more of a general educational qualification than expertise, in specific areas (marketing, human resources, and accounting). The results also indicated a lower level of educational qualification and few workshops/seminar attendances. The Government has set some institutions as remedial action to train and help SMEs. However, SMEs seemed not aware or not making use of such services as Business Partners and Khula.

#### **6.3.2.2 There is no significant association between the management skills (communication and interpretation and analysis of financial statements) and SME performance.**

The researcher tested for this hypothesis by using the results provided in section C of the questionnaire. The question to question analysis conducted in chapter 5 was with regards to financial budgeting, financial statement preparation and analysis and communication skill. The correlation results indicated a +0.361 for financial statement analysis and linear regression adjusted R Square of 0.179 for communication skill which is an indication that there is enough statistical evidence to reject the null hypothesis. The null hypotheses are therefore rejected and a conclusion can be made that management skills measured through communication and financial statement preparation have an impact on SME performance.

Reasons can be pointed out to the motivational effect enhanced by clear cut goals expected from subordinates having been well communicated in advance. The ability to prepare and analyse financial statement promotes performance based benchmarking. Financial statement analysis enables owner - managers to either detect or implement change to departments within the business structures which are not performing well. Well communicated financial statements can also aid in accessing funding from banks or other financial institutions increasing the capital base of SMEs. In addition, very few SMEs indicated to be preparing all the important financial statements and analysing

them for decision making. All these inefficiencies and ineffectiveness are caused by the unavailability of competent personnel in those specific departments.

The relationship between management skill and performance was tested by the first secondary hypothesis of the study which stated that, there is no significant association between business/management skills and SME performance. Observing from the research findings, in chapter 5, the results specify that SMEs who recruits persons with a high management skill benefit from increased performance. This implies those who recruit personnel who lack management competence, skill result in poor SME performance and eventual failure of the firm in the long-run. This is supported by Fatoki (2014) who examined ability to prepare proper financial books and communicate them to financial institutions. The author revealed that it was poorly thought out business plans, inability to communicate and unfurnished financial statements which were responsible for SME poor performance.

### **6.3.2.3 There is no statistically significant relationship between technical skill (technical know-how, innovativeness and networking) practiced by managers or owner-manager and SME performance.**

In testing this hypothesis the SMEs' technical ability (competency) was analysed and these included networking capabilities, technical know-how and innovativeness of the owner-managers. Statements concerning possible managerial competencies were provided in the questionnaire section D. Most of SME participants (the respondents) interviewed indicated to agree that technical skill do affect firm performance as evidenced by a mean of 3.34. The p-values for technical know-how, innovativeness and networking were 0.022, 0.003 and 0.003 respectively. These p-values are less than 0.05 and were accompanied by 0.98 values of standard error and this proves that just a few of the SME study participants disagreed to technical skills positive impact on SME performance. All this is enough evidence to reject the null hypothesis and conclude that technical skills do impact on SME performance positively.

Reasons can be attributed to the fact that even after attainment of the scarce financial funds available SME owner-managers encounter numerous crises at different phases of the firm's/SMEs progression/development. The dynamic business environment characterised by rapid technological shifts causes growth on certain sectors and plummet conditions in other sectors. In retrospect to the scenario any SME not using incubators to yield competent leaders is committing corporate suicide. Therefore, the

ability to be innovative in procuring new product ideas and distribution channels while networking with relevant stakeholders in the business environment is critical for SME success. The ability to use the latest technology is also beneficial in SME operations as revealed in the study that there is a positive relationship between technology and performance.

It was discovered that the technical skill management practices that SMEs implement were influenced by the availability of skills in specialised areas, availability of appropriate factor resources and the accessibility of funds to sponsor operations. The results of this study showed that, SMEs do not properly inform, research, educate or train their employees on modern technology thereby do not perform well. In addition, very few SMEs indicated the need to be innovative, partake in research and development schemes or involve subordinates in decision making. All these inefficiencies and ineffectiveness of SME sector can be restricted to minimum levels if SME owner-managers partake in research and development, embrace technology and maintain close networking with key stakeholders in the environment.

The research conclusions highlighted the following contributions provided by this current study:

#### **6.3.2.4 Research Contributions**

- ✓ Demonstrating that, ability to mobilise relevant business stakeholders or supportive market elements to offer either appropriate knowledge or any form of assistance to start-up firms will enable the SME sector to maximise its economic contributions in South Africa.
- ✓ Highlighting the need to recruit competent managerial personnel could contribute to an increased success rate of SMEs.
- ✓ Advertising the relevant competent skills required by survivalist SMEs promotes growth and long-term sustainability of the SME sector.
- ✓ Demonstrating the importance of human, technical and management skills are crucial as an overarching framework for long term success of SMEs.
- ✓ Signifying how the lack of certain crucial resources essential for the business day-to-day operation could contribute to the failure of vast SME firms.

## 6.4 ACHIEVEMENTS OF STATED OBJECTIVES

The achievement of the research objectives section focuses on measuring the research study against the formulated objectives derived in chapter one. The main aim of the current was to establish the impact of managerial competencies on SME performance in the Buffalo Municipality. The study objectives were outlined as follows:

- To establish whether or not a significant association can be found between management skill (preparing and interpreting financial statements, leadership and communication skill) and SME performance.
- To establish whether or not a significant association can be found between human capital (prior business experience, level of education) and SME performance.
- To determine the impact of technical/functional skill (technical know-how, networking, innovation) on SME performance.
- To establish the managerial competencies possessed by SME owners/managers.
- To make conclusions and recommendations on the impact of managerial competencies on SME performance.

The stated objectives of the research study were achieved through revisiting the literature available (journals, internet, dissertations, and books). This is evidenced by the provided data in chapter two and three of this study. Chapter two provided the much significant literature data on SME performance and economic benefit. Chapter three of the study reviewed literature on managerial competencies theories, applicability in SMEs, managerial functions in SMEs and relationship between competencies and performance. Revisiting the literature enabled the research to design a suitable questionnaire which is reliable and valid in gathering primary data to achieve the main objectives of the study.

In addition, the above derived research objectives were further elaborated and achieved in the preceding chapter four and five of this study. Chapter four highlighted the methodology to be adopted for the current study. The methodology chapter guided the research and two fieldworkers on sample design, research instrument, selecting the appropriate research type and collection methods. Chapter five of the study pronounced

the research results, analysis and interpretation. Chapter six provided the conclusions and recommendations in the study area. The six chapters provided the guidelines, methodology, secondary data, data interpretation and analysis which proved useful to the researcher in achieving the set objectives.

## **6.5 DO THE RESEARCH FINDINGS CORRESPOND WITH ANY OF THE THEORIES**

Overall, the study at hand looked at managerial competencies, impact on SME performance. The study found out that indeed performance was correlated with managerial competencies. Most respondents agreed with the notion that regardless of the level of education it was the managerial competencies that proved significant in improving firm performance. This was in line with a research conducted by Musoke (2007 and Martins and Staines (2008) who contended with this notion. This reveals that the outcomes of this research do correspond with the stated managerial competency theories of Resource Dependence and Human Capital Theory.

The two theories base their ideology on that; firm performance can only be improved given the strength of internal resources. The theories argue that sustained high firm performance is a function of how well owner-managers shape their business around unique resources which cannot be substituted such as managerial competencies. This means the outcomes of the research do correspond to the two theories used as the bases for this study.

However the iceberg theory did not fully correspond to the research outcomes. The iceberg theory states that there are hidden and visible competencies were the visible constitute 20% (skill and knowledge) and the invisible 80% (traits, motive, and self-concept). The outcomes only corresponded with the visible competencies which were skills and knowledge. The hidden competencies were not fully uncovered because the research focused on performance, which is mainly measured through employee base, financial capital and asset indicated in the financial statements. The invisible competencies were only present on deciding the firm structure in terms of opting to be a sole trader, company, partnership. The invisible competencies (traits, motive) did not however directly influence performance.

Following is a discussion on the recommendations in section 6.6.

## **6.6 RECOMMENDATIONS**

In this section recommendations are made to the SMEs, the Government, financial institutions, large businesses and the community. The recommendations given to each of these economic players are based on the empirical findings of this study and the conclusions made on the research hypothesis.

Based on the research findings, the following targeted recommendations can be offered to SME owner-managers specifically those located in Buffalo Municipality though applicable to other related SME firms nation-wide

### **6.6.1 Owner-Managers**

The findings of the study at hand have revealed significant implications for the management of SMEs. The owner-managers should clearly understand and adopt the appropriate management functions (planning, organising, staffing, leading, controlling), discussed in this study. This should be implemented in every department to increase firm performance, which can be achieved through the following outlined specific recommendations:

- a. The owners of the surveyed SMEs need to immediately consider appropriate employee training programs for their personal. This should be done at all levels of management hierarchy to positively impact on productivity (performance) favourably.
- b. With the current government policy of “national service program” deemed counterproductive by most business intellectuals. The surveyed SMEs should introduce flexible incentive platforms to motivate their employees. This will prove beneficial in the long-run as performance is positively linked to motivate subordinates.
- c. Most of these SMEs are not locally and internationally competitive. There is need for the owner-managers to adopt market analysis, customer feedback and satisfaction and be agents of change when providing their products and services to the market. Most SMEs are just offering same type of product to the market resulting in cut-throat competition. Hence need to practice market analysis through employing competent, innovative personal qualified for the task.
- d. The SME sector has been outlined as an impoverished sector in terms of technology. The study agreed to the notion of limited technical know-how within

the various SME industry sectors. As revealed from the findings that, technology is considered as the first most important factor in increasing productivity. Therefore, it's only fair to recommend that SMEs in operation invest in modern technology and train employees on handling the available technology as they go hand in hand.

- e. The owner-managers of SME in the Buffalo Municipality are encouraged to practice Management by Objectives (MBO). This is a management technique where the manager together with the subordinates set agreed targets and work harmoniously to achieve these goals in a specific time period. This technique is very applicable to SMEs as the research revealed that most SME owner-managers are hands on within the business operations. There is limited room for outsiders in the surveyed SMEs. Hence, implementing MBO would increase performance through synergy of efforts, clearly underlined aims, planning permits proactive approach in-case of unforeseen market risk. The "I can do it all" philosophy adopted by SME owners would suit this MBO technique. Therefore, this recommendation will easily be incorporated within the day-to-day running of the firm.
- f. According to the results obtained in this study, SMEs did not recruit suitable personnel to handle their finance functions. Also the study noted that SMEs put more attention to what is happening internally than the outside environment. A recommendation is that SME management should hire a competent personal to perform environmental scanning analysis. Environmental scanning aids in gathering relevant information on business surroundings while discovering threats and opportunities present in the market. This requires competent personnel in the stated field. Hence, the process is conducted simultaneously with recruiting qualified person or hiring the relevant companies to perform the duty for SMEs.

The general recommendations with regard to the nationwide and international SME sector are discussed below.

### **6.6.2 SMEs**

The SME sector is the backbone of the South African economy. Therefore, there is need to increase the performance of the SME in order to attain maximum utility of this sector. The research findings highlighted that performance of SMEs was limited due to mangers incompetence and other external variables. The following recommendations

are provided to the SME sector as a whole to increase the success rate currently at twenty-five per cent (25 %).

- **Financial statement preparation:** The research findings revealed that most SMEs do not prepare sound financial statements and are unable to analyse them for decision making. Therefore, it is recommended that SME owner-managers may resort to consulting with experts and professional organizations, especially in those areas their personnel are not good at. A little sacrifice may benefit the SMEs in the long-run through increased growth rate. In addition, the already existing personnel should be encouraged to attend on-going learning programs like workshops, seminars and conferences. The research findings revealed that less than 30% of SMEs attend these extra learning programs. These programs provide a platform to develop technical skills and business understanding while improving individual competency.
- **Encourage partnership and joint ventures:** The study at hand reveals that most SMEs are sole trader businesses. This may be restricting SME growth as a synergy of ideas generally results in increased performance. SME owners do their businesses in isolation. There is need of synergy among SME participants through merging finances, skills, technical knowhow, ideas and other resources. This will provide the much needed robust resource base which is critically lacking among SME participants. In that way they can expand/diversify their operations and create better employment opportunities in their areas and access international markets.
- **Networking:** The study outlined that SMEs were in isolation within the South African business environment. There is need for SMEs to be encouraged to network so that ideas and information can be shared eliminating information asymmetry. Networking is done either horizontally or vertically, which provides SMEs avenues to gain through reduced transaction costs, access relevant market information, acquiring quality suppliers or buyers and increased chances of obtaining funding from relevant institutions. Through networking SME owners can build business relations which may improve SME performance.

- **Educated employees:** The findings of the research highlighted that most SME owner-managers do not have a high level of educational qualification, yet education is positively related to performance. Improvement of performance may be done through setting of performance standards and making evaluations at several certain periods of time. Achieving success may require SMEs to choose for themselves policies and strategies that fit their unique and incorporate into their daily operations. Furthermore, an educated employee may be able to analyse the value of selecting one option from another. This reduces transaction cost and resource depletion embedded in worthless business ideas or channels.
- **Incubators:** The study noted the absence of competent personal within the SME structures. There are incubators that SME owners can go and gain entrepreneurial advice, skill and technical know-how. Incubators such as Chemin, Nelson Mandela bay, Innovation Hub and Raizcorp business incubators provide supportive drive to entrepreneurs. The spiral of SME failures has been greatly reduced for those businesses that did participate in incubation programs. Regular training sessions, workshops and short courses can be used as a tool to develop SME managers and owners. The new enacted SME legislation or new business practices and operational tools could be shared at such sessions within the incubation institutions centres.

### 6.6.3 Government

The modern governments appreciate the role that SMEs play in the economy because they (SMEs) help government achieve goals of unemployment, income equality and poverty mitigation. South African government is, thereby, recommended to make sure that SMEs support institutions are effective and efficient through monitoring and evaluation.

- **Enhancing the entrepreneurial spirit:** What the research has highlighted through limited innovative channels in SME operations. Indicates that, the government institutions are not in a position to enhance entrepreneurship or entrepreneurial spirit. The prominence on “entrepreneurship” as a school subject should start at a premature stage. However, this should be as early as in primary school, since the majority of the SME owner-managers in this study had an education at or below matriculation level. This will promote the production of

competent individuals who have mastered the art of entrepreneurship. The subject should be compulsory for all, if the government is to realize any benefits in the long run through successful SME growth.

- **Improve awareness of government support institutions:** The research findings noted ignorance of SME owner-managers part about attending seminars, workshops or accessing any government support services. Most SMEs are not listed on the Johannesburg Stock Exchange (JSE) hence cannot raise capital with ease. Thus, the need of government institutions such as Khula, SEDA, Ntsika to pitch up and support the government vision. However, these institutions are making limited progress in providing help because SME owners are still unaware of these organisations. Continuous analysis may be needed to initiate other support institutions and nationwide advertisement of these institutions will provide much needed access to funding and management training workshops.

The government may also help SMEs by subsidising for them and providing loan guarantees. Another recommendation to the government may be to loosen business legalities and commercial laws on SMEs. This can be achieved through reduced taxation or zero taxation within the first three years of commencement, since most SMEs fail within this period.

#### **6.6.4 Large Businesses**

SMEs in South Africa usually do not complement the large businesses, but set up as competitors who offer substitutes. The research has highlighted that most SMEs are operating in the same line of business as large firms. In the end SMEs are outwitted by large-spending companies. It is therefore recommended that larger businesses may also step in to support SME growth through sponsoring or acquiring SMEs. This can be done through horizontal or vertical integration, which can be a source for their future innovation and factory requirements (Murthy, 2012). Another way of supporting SMEs is the formulation of synergies with SMEs, using the franchise system to accommodate the start-up firms through training and development, financial assistance and total quality management. Franchise system helps SMEs sustain and stand competition because a franchise is accompanied by brand loyal customers, quality product, financial support, trained employees, constant performance monitoring and auditing of financial statements.

### **6.6.5 The Community**

The community is usually the one that benefits from business activities through getting employment and products that satisfy their needs. In this case the communities are recommended to help SMEs grow through loyalty and reliability as customers/clients. The study also recommends that the communities may help by not boycotting offerings from SMEs especially when they make mistakes because they create job opportunities for the people in the communities.

However, remedies are needed outside the recommendations made by this study. Section 6.7 outlines the limitation and delimitations encountered in conducting the research study.

### **6.7 LIMITATIONS AND DELIMITATIONS OF THE STUDY**

The limitations of this study include the fact that the researcher used a sample and not a census. A sample is not a total representation of the population and therefore some errors due to sampling errors might be present. The researcher had to use a sample to collect data because of the constraint of time and the budget. Other limitations attached to the research study include the ignorance of SME owners or owner-manager to answer questionnaires, unavailability of proper financial records/books and illiteracy among respondents. This may have caused unreliable data collected because some SME owners or owner-manager were not educated enough to understand the questions proposed within the questionnaire.

Some delimitation to the study was that, the research was done in the Buffalo City Municipality and this is only one part of the Eastern Cape. The researcher chose the Buffalo City Municipality region because of its proximity to the researcher and that the study be carried out in the time budgeted. In carrying out the research the researcher used less of qualitative methods because they are not effective when collecting data from a large number of respondents.

This study may not have answered all the questions about SME performance and their managerial functions, and therefore, points for further research are suggested in the next section.

## **6.8 AREAS OF FURTHER RESEARCH**

This study was based on the idea that managerial competencies influence SME performance either positively or negatively. The results have indicated that management competencies determine 57% of the level of performance of SMEs in the Buffalo Municipality. This, therefore, does not explain 100% of the pure business performance. Other studies maybe executed to analyse the remaining proportion as to what causes SMEs to perform well.

There is immediate need to introduce or research on the necessary and relevant programs that SME owner-mangers should study or practice to improve their management competencies since the study noted a positive relationship between SME performance and amazement competencies.

The provided data was collected using a cross-sectional technique, hence a future research on a similar topic could adopt a longitudinal method in conducting the research. Extended search may be carried out on how SMEs can also improve as far as marketing and human resources management is concerned because it is one of the major challenges that stunt SME growth. The same research topic could be investigated on failed SMEs to get a balanced assessment of managerial competence impact on performance.

## **6.9 SUMMARY**

SMEs operate in a very competitive market environment and to be sustainable, SMEs need to gain competitive advantage over their industry rivals. For this aim, firms that recruit competent persons, that quickly make decisions and formulate strategies enjoy competitive benefits. The secret to a sustainable management team is the ability to strike a balance between “selling” and “telling”. Available literature has neglected this area of study prompting the researcher to attempt to make a contribution to this field in the management of SMEs. The current study aim was to establish the extent of managerial competencies, impact on SME performance.

The main findings of the study highlighted that human, technical and management skills are determinants of SME performance. The findings were consistent with the Human Capital and Resource Dependence theories. The theories state that, for a firm to enjoy a competitive advantage, it's only achievable, when the firm enjoys or has full control of unique resource which cannot be substituted. These resources are referred to as

managerial competencies. The research sought to add insight into the existing body of knowledge concerning SME performance in South Africa.

The research has raised awareness about the need to recruit competent personnel to achieve sustainable success in SMEs. The assessment is based on the idea that prevention is better than cure. Having outlined the relevant competencies required to improve SME performance, the research study has equipped entrepreneurs on the causes of weak and strong SME performance before actually venturing into business. Therefore, preventive action should be adopted by start-up firms by focusing on the relevant competencies such as marketing skill, accounting skill, technical know-how, communication capability and environmental scanning. These competencies can be implemented simultaneously with management by objective technique.

This chapter outlined the conclusions, recommendations, achievement of objectives, areas of further study as well linking findings to relevant theories. The study discovered that to improve performance, SMEs should network their firms with key stakeholders within their market environment. Furthermore, the SMEs are recommended to approach incubator training sessions to develop their entrepreneurial skills. However, the research was conducted on surviving SMEs hence a recommendation for further study was to investigate the failed SMEs and reveal what contributed to their failure/closure. Just as in the medical science field, there investigate both the sick and healthy patients to have a balanced assessment of the situation. Unless studies conducted and policy makers begin to take interest in failed SMEs, our understanding of SME failure will be insufficient. Hence, need to investigate the failed SMEs to provide a balanced argument on the causes of SMEs success (strong performance) in South Africa.

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## APPENDIX 1: QUESTIONNAIRE



**University of Fort Hare**  
*Together in Excellence*

Dear respondent, the questionnaire that follows, designed by the researcher Bryan Tarwirei Madya, is an important instrument for the completion of a research survey required for the fulfilment of a **MASTERS DEGREE** in Business Management at the University of Fort Hare. The study investigates the **IMPACT OF MANAGERIAL COMPETENCIES ON THE PERFORMANCE OF SMEs** in the Buffalo City metropolitan.

The data collected at the hand of this questionnaire will be analysed and the recommendations based on the research findings will be implemented to assist SMEs in adopting sound financial management practices to, ultimately, improve their financial performance. Therefore, it would be appreciated if you complete the questionnaire as honestly and objectively as possible. The responses given in this questionnaire will be treated with great care and all data will be treated confidentially and not be used for any other purposes. Your corporation is greatly appreciated.

If you have queries concerning the questionnaire, please contact the researcher and/or the supervisor, whose contact details are set out below:

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**\*\*\*Thank you in advance for your cooperation\*\*\***

## **SECTION A: DEMOGRAPHICAL INFORMATION**

The questions in this section address the demographic characteristics of the respondent as well as selected business's information. Kindly indicate your selected response with an (X) in the most appropriate box.

1. Gender

Male		Female	
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2. What is your position in the business?

Owner		Manager	
Owner- manager		Other (Please specify) _____	

3. Indicate your age group.

Younger than 26 years	26 to 35	36 to 45	46 to 55	56 to 65	Older than 65 years

4. Which type of a business entity do you have?

Sole trader		Close corporation	
Partnership		Private limited company	

5. In which sector/industry does the business firm operate?

Retailing		Construction	
Wholesaling		Service	
Manufacturing		Other (Please specify): _____	

## **SECTION B: HUMAN SKILL**

6. Please indicate your highest educational qualification achieved?

Grade 11 or below		Grade 12	
Post-matric certificate/diploma		Bachelor degree or higher	
Other (Please specify): _____			

7. Do you have any prior working experience as a manager?

Less than 2 years	3 to 5 years	6 to 10 years	More than 10 years

8. Rank how the following human skills influence SME success on a 5-point semantic scale (1=strongly affected negatively, 2= affected negatively, 3=Not affected , 4=Affected positively, 5= strongly affected positively).

Applications	Options				
Knowledge of the business	1	2	3	4	5
Start-up experience	1	2	3	4	5
Managerial experience	1	2	3	4	5
Education	1	2	3	4	5

9. Please indicate the expertise/positions that you have in the business firm? (You may indicate as many as you want)

General manager		IT specialist	
Accountant/financial officer		Marketing Manager	
Bookkeeper		HR Manager	
Other (Please specify): _____			

## **SECTION B: BUSINESS SKILLS (communication, financial statements)**

This section addresses the availability of specific skills/expertise in the business firm. Kindly indicate your preferred response by an (X) in the most appropriate box.

10. Which of the following financial practises is applied by your business before engaging in large expenditure or capital decisions? Mark the appropriate options with an X.

Preparing financial budgets		Doing cash-flow projections	
Investment appraisal techniques (IRR, NPV or PBP)		Financial performance assessments	
Other (Please specify): _____			

11. Please indicate the financial statements that you prepare when evaluating your financials. Mark the appropriate option with an X.

Income statement		Cash flow statement	
Balance sheet		Trial balance	

**12.** Does your business apply the following financial applications? Use the following scale (1 = Never, 2 = Rarely; 3 = Sometimes, 4 = Regularly, 5 = Always).

Applications	Options				
	1	2	3	4	5
Financial statement analysis	1	2	3	4	5
Ratio analysis	1	2	3	4	5
Inventory/stock analysis	1	2	3	4	5
Comparisons of expenditure over time	1	2	3	4	5

**13.** Please rank the following communication channels on a 5-point semantic scale in terms of their relevance to increase SME performance and application in to your business.

Regularly informing subordinates of what is expected of them	Strongly disagree	1	2	3	4	5	Strongly agree
Using a two way channel of communication (up-down down-up feedback process)	Strongly disagree	1	2	3	4	5	Strongly agree
The attendance of skills training programmes is problematic	Strongly disagree	1	2	3	4	5	Strongly agree
Monthly informing subordinates on their progress( evaluation)	Strongly disagree	1	2	3	4	5	Strongly agree
Promoting mouth to mouth referrals	Strongly disagree	1	2	3	4	5	Strongly agree
Using an autocratic communication system (up-down)	Strongly disagree	1	2	3	4	5	Strongly agree
	Strongly disagree	1	2	3	4	5	Strongly agree

### **SECTION C: TECHNICAL SKILLS** (networking, innovation, technical know-how)

**14.** Please rank the following networking on a 5-point semantic scale in terms of their relevance to increasing overall performance and application in to your business.

Managers should maintain close relationships with suppliers	Strongly disagree	1	2	3	4	5	Strongly agree
Managers should maintain close relationships with competitors	Strongly disagree	1	2	3	4	5	Strongly agree
Managers should maintain close relationships with customers	Strongly disagree	1	2	3	4	5	Strongly agree
Managers should attend business seminars	Strongly disagree	1	2	3	4	5	Strongly agree
Managers should attend trade fairs	Strongly disagree	1	2	3	4	5	Strongly agree
Managers should maintain close relationships with government agencies (SEDA, SEFA, and Business Partners)	Strongly disagree	1	2	3	4	5	Strongly agree

15. Please rank the following innovative channels on a 5-point semantic scale in terms of their relevance and application in to your business.

I have introduced new lines of products/services in the past 3 years	Strongly disagree	1	2	3	4	5	Strongly agree
I favour a strong emphasis on research and development plans	Strongly disagree	1	2	3	4	5	Strongly agree
My firm has a tendency of being ahead in introducing new products/services	Strongly disagree	1	2	3	4	5	Strongly agree
The firm initiates actions to competitors, for which customers respond	Strongly disagree	1	2	3	4	5	Strongly agree
Adopting aggressive posture maximises the probability of exploring potential opportunities	Strongly disagree	1	2	3	4	5	Strongly agree
Brainstorming session involving all members of the firm	Strongly disagree	1	2	3	4	5	Strongly agree

16. Please rank the following technical skills on a 5-point semantic scale in terms of their relevance to performance and application in to your business.

I favour a strong emphasis on technological leadership	Strongly disagree	1	2	3	4	5	Strongly agree
Ability to operate the machinery within the company premises	Strongly disagree	1	2	3	4	5	Strongly agree
Computer literacy is essential	Strongly disagree	1	2	3	4	5	Strongly agree
Delegating tasks to subordinates	Strongly disagree	1	2	3	4	5	Strongly agree
Using pastel software to prepare your financial statements	Strongly disagree	1	2	3	4	5	Strongly agree

## **SECTION E: SME PERFORMANCE**

17. For how long has the business firm been in existence?

Less than 2 years	3 to 5 years	6 to 10 years	More than 10 years

**18.** Indicate the total rand value of your company assets.

<b>RANDS VALUE</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Below 10 000				
10 000 – 50 000				
51 000 – 100 000				
101 000 – 200 000				
201 000 +				

**19.** Indicate the number of employees employed by your business

5 and below		31 to 60	
6 to 15		61 to 99	
16 to 30		100 and above	

**20.** Please rank the following statements on a 5-point semantic scale in terms of their relevance and application in the performance of your business.

You are satisfied with the sales growth of your business in the last three years?	Strongly disagree	1	2	3	4	5	Strongly agree
You are satisfied with the profitability growth of your business in the last three years?	Strongly disagree	1	2	3	4	5	Strongly agree
You are satisfied with the current employment ratio	Strongly disagree	1	2	3	4	5	Strongly agree
You are satisfied with the overall performance of your firm?	Strongly disagree	1	2	3	4	5	Strongly agree
You are satisfied with the performance of your firm compared to the performance of your competitors?	Strongly disagree	1	2	3	4	5	Strongly agree

In your own opinion, what do you think must be done to help your business to outperform rivalry firms?

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**Thank you for your co-operation!!!!!!!!!!!!!!!!!!!!!!**



**University of Fort Hare**  
*Together in Excellence*

**ETHICAL CLEARANCE CERTIFICATE**  
**REC-270710-028-RA Level 01**

Certificate Reference Number: RUN0111SMAD01

Project title: **The impact of managerial competencies on the performance of SMEs in the Buffalo City Municipality.**

Nature of Project: Masters

Principal Researcher: Bryan Madya

Supervisor: Miss EC Rungani  
Co-supervisor:

On behalf of the University of Fort Hare's Research Ethics Committee (UREC) I hereby give ethical approval in respect of the undertakings contained in the above-mentioned project and research instrument(s). Should any other instruments be used, these require separate authorization. The Researcher may therefore commence with the research as from the date of this certificate, using the reference number indicated above.

Please note that the UREC must be informed immediately of

- Any material change in the conditions or undertakings mentioned in the document
- Any material breaches of ethical undertakings or events that impact upon the ethical conduct of the research

The Principal Researcher must report to the UREC in the prescribed format, where applicable, annually, and at the end of the project, in respect of ethical compliance.

**Special conditions:** Research that includes children as per the official regulations of the act must take the following into account:

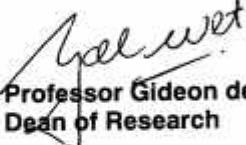
Note: The UREC is aware of the provisions of s71 of the National Health Act 61 of 2003 and that matters pertaining to obtaining the Minister's consent are under discussion and remain unresolved. Nonetheless, as was decided at a meeting between the National Health Research Ethics Committee and stakeholders on 6 June 2013, university ethics committees may continue to grant ethical clearance for research involving children without the Minister's consent, provided that the prescripts of the previous rules have been met. This certificate is granted in terms of this agreement.

The UREC retains the right to

- Withdraw or amend this Ethical Clearance Certificate if
  - Any unethical principal or practices are revealed or suspected
  - Relevant information has been withheld or misrepresented
  - Regulatory changes of whatsoever nature so require
  - The conditions contained in the Certificate have not been adhered to
- Request access to any information or data at any time during the course or after completion of the project.
- In addition to the need to comply with the highest level of ethical conduct principle investigators must report back annually as an evaluation and monitoring mechanism on the progress being made by the research. Such a report must be sent to the Dean of Research's office

The Ethics Committee wished you well in your research.

Yours sincerely

  
**Professor Gideon de Wet**  
**Dean of Research**

12 November 2014