

RETRENCHMENT IN THE INSURANCE INDUSTRY: THE SMALL BUSINESS DEVELOPMENT DIVIDEND

by

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submitted in accordance with the requirements

for the degree of

MASTER'S IN COMMERCE

in

BUSINESS MANAGEMENT

at the

UNIVERSITY OF SOUTH AFRICA

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MARCH 2018

DECLARATION

I declare that RETRENCHMENT IN THE INSURANCE INDUSTRY: THE SMALL BUSINESS DEVELOPMENT DIVIDEND is my own work and that all sources used or quoted have been indicated and acknowledged by means of complete references.

LB Louw

March 2018

ACKNOWLEDGEMENTS

I am sincerely grateful toward my family, my mother Barbara, father Wynand, and brother Wynand J. Without their continued support and understanding this project would not have been possible. They were the cheerleaders urging me on when the days grew long. In the same breath, I want to express my gratitude towards God. I am grateful for the talents and opportunities so mercifully provided by Him.

I am grateful to my supervisor, Prof. JW Strydom, whose expertise, understanding, generous guidance and support made it possible for me to work on and complete this project. It was a great pleasure to work with him as my mentor.

Many colleagues have informed and assisted with impromptu consultations, litres of coffee and shared insights. Thank you to Dr Elriza Esterhuyzen and Dr Thea Visser, fellow small business and entrepreneurship enthusiasts. Mr Herman Janse van Vuuren, research consultant and friend. Dr Marthi Pohl shared her knowledge and expertise generously throughout this project in her role as statistician. I have learned a great deal from her.

A note of thanks to Professor Nisha Sewdass and Professor Annemarie Davis, from the Office of Graduate Studies and Research at the University of South Africa for their continued support throughout this project.

This journey of learning would not be complete without the valuable inputs of Ms Jackie Viljoen, the language editor who assisted on this dissertation. I am grateful for her contribution.

I am sincerely grateful towards my fieldworkers, colleagues and friends who assisted in gathering questionnaires and contacting respondents for this study. Thank you to the 41 respondents who took time out of their busy schedules to share their stories and complete the questionnaire. I am truly grateful that you shared your stories and participated in this study.

ABSTRACT

The focus of this study was to investigate the employment difficulties faced by individuals who had been retrenched from the insurance industry during the years 2000 to 2013 in order to develop an understanding of the continuity in the specialist type of work after their retrenchment. The study also aimed to investigate the actual and perceived barriers that need to be addressed in the South African small business environment and the specific soft skills and business skills of small business owners and non-small business owners.

The research design of this exploratory study entailed a positivist research philosophy using a deductive research approach. This quantitative research was conducted by means of a survey questionnaire. A questionnaire was designed and used to determine the level of importance and the level of own skills for small business owners and non-small business owners respectively in terms of predetermined soft and business management skills. The answers provided on these questions were then analysed to determine whether there was a gap between the level of importance assigned to these skills and their own skill ratings. This research determined the barriers faced by small businesses in South Africa as well as the level of agreement regarding the predetermined actual and perceived barriers pertaining to the small business environment.

Notable findings of this study include that there was a distinct lack of continuity in the specialist type of work by the small business owner respondents in the insurance industry. There was a marked difference between the level of importance and own skill ratings assigned to the predetermined soft skills and business management skills with non-small business owner respondents mostly rating themselves as better skilled than small business owners did. However, the fact that these non-small business owner respondents did not start their own small businesses points towards higher risk aversion. This study also found that small businesses in South Africa are facing pronounced barriers within the small business environment.

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ABBREVIATIONS AND ACRONYMS

AHi	Afrikaanse Handelsinstituut
BBBEE	broad-based black economic empowerment
BEE	black economic empowerment
CIPC	Companies and Intellectual Property Commission
COID	Compensation for Occupational Injuries and Diseases
dti	Department of trade and industry
FSB	Financial Services Board
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
GNP	gross national product
IING	Insurance Institute of North Gauteng
ILDP	International Leadership Development Programme
Inc.	incorporated
INSETA	Insurance Sector Training Association
IoDSA	Institute of Directors in Southern Africa
MMI	MMI Holdings Limited
NPC	non-profit company
NQF	National Qualifications Framework
OECD	Organisation for Economic Cooperation and Development
OHS	occupational health and safety
(Pty) Ltd.	Proprietary Limited
ROQ	return on quality
SA	South African
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SBA	Small Business Administration
SEDA	Small Enterprises Development Agency
SEFA	Small Enterprise Finance Agency
SEWA	Self-Employed Women's Association
SIC	Standard Industrial Classification
SMEs	small and medium enterprises
SMME	small, medium and micro enterprises

SOE Ltd	state-owned enterprise limited
SOE	state-owned enterprise
SPSS	Statistical Package for the Social Sciences
Stats SA	Statistics South Africa
TQM	total quality management
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
VAT	value-added tax
WHO	World Health Organization

CHAPTER 1: INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Introduction

In this chapter, the background will be provided against which a sizeable portion of the productive workforce in the insurance industry in Gauteng, a province in South Africa went through a retrenchment process and workers accepted severance packages. The study will focus on the business decisions taken by a group of productive workers who were side-lined through retrenchments and the way they managed to cope and survive in a changing business environment.

The chapter commences with a brief background setting the scene against which the study was conducted. Thereafter the research problem is formulated. Figure 1.1 below illustrates the chapter outline.

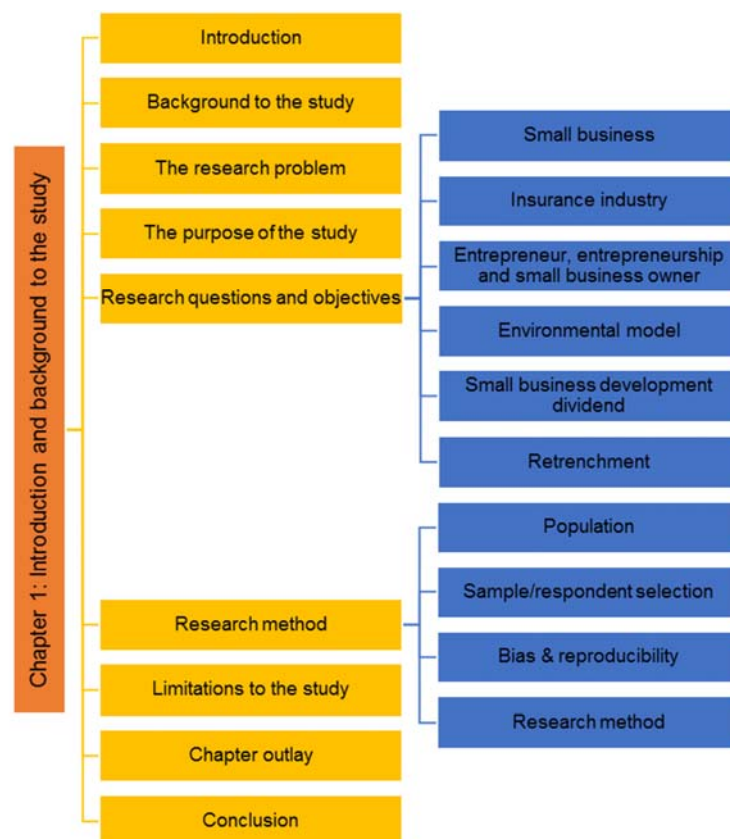


Figure 1.1 Chapter 1 overview

Source: Author's own composition (2015)

1.2 Background to the study

As the history of South Africa evolved after 1994, the composition of the population changed with a return of an exiled group of people who were mostly trained in other parts of the world, but also with the influx of mostly unskilled immigrants. There was a steady outflow of skilled emigrants over time to other parts of the world. South Africa was always under pressure with the skill shortages in certain specialist areas of the economy. The major skills shortages experienced by South Africa are attributed to the loss of skilled employees without allowing for the immigration of similarly skilled foreigners (BusinessTech, 2014). Added to this conundrum was the high unemployment figure under the lower-skilled population of South Africa (Mthethwa, 2017). In 2017, the official unemployment rate in South Africa hit a 14-year high of 27.7% (Stats SA, 2017c) and the unions reported the loss of at least 67 000 jobs in the first quarter of 2016 (eNCA, 2016). Over 45 000 South Africans lost their jobs during 2015 (Le Cordeur, 2015c), and 36 000 in January 2014 alone (BusinessTech, 2014). Labour absorption of lowly skilled workers in the economy is dismal. For instance, in the farming section of the economy that was traditionally a place where lowly skilled workers could be employed, the labour absorption was negative (Mahlakoana, 2016). Negative labour absorption means that more people lost their jobs than were employed in the South African economy. Farmers started to move their agricultural activities to other African countries like Malawi, Mozambique, Kenya, Namibia and Uganda because the labour laws of those countries are considered friendlier, and profitability and viability through government incentives are seen as much better than in South Africa. Crime and land claims are other factors that are also mentioned for the outflow of South African farmers. Some farmers are moving even further afield to the Gaza province in the Middle East. The mass emigration of farmers started after 1994, with the total number of farmers in South Africa dropping from 180 000 to 40 000 (Bryer, 2014). Global Entrepreneurship Monitor (GEM) Consortium (2017) explains that, due to high youth unemployment rates and poverty, the youth of sub-Saharan Africa have among the highest willingness to emigrate in search of better education and employment opportunities.

The background provided regarding the outflow of citizens from South Africa as well as the job-losses that occurred inside South Africa due to changing labour laws such

as affirmative action and the poor economic growth over an extended period of time, contributes to the research problem which will be discussed in greater detail under the problem statement heading that follows.

1.3 The research problem

Transformation in the political and economic environment since 1994 has been an on-going process in the South African business and political-social environment with no immediate end in sight (Seekings, 2014). The regulations and legislation that encouraged economic transformation in South Africa include the:

- Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000;
- Basic Conditions of Employment Act 75 of 1997;
- Employment Equity Act 55 of 1998; and
- Broad-Based Black Economic Empowerment Act 53 of 2003 (Williams, 2015).

There were also numerous other industry-specific B-BBEE charters that affected the employment conditions, such as the Agri-BEE charter (Department of Agriculture, Forestry and Fisheries, 2012), financial sector charter (dti, 2012) and the information and communication technology (ICT) charter (Department of Telecommunications and Postal Service, 2016). As with all good intentions by government, there were also some unintended consequences. These changes resulted in the displacement of a part of the productive population and resultant job losses with scant future employment prospects in the public and to a lesser extent in the private sector (Gumede, 2017). These changes were also encountered in the South African insurance industry.

Although there were many advantages in the corrective action taken by government after 1994, the unintended consequences of this process of transformation are still felt in communities across South Africa. The above and other legislative changes not only resulted in a shortage of skilled middle management and the loss of specialist knowledge that was developed over decades, but also affected individuals who were skilled in a specific sector and who identified an uncertain future in the sector to consider their options to leave the specific sector. Added to this problem was the poor economic growth since 2008 in South Africa and increased layoffs with scant opportunity to re-enter the formal business sector (Colombo, 2014).

These unemployed individuals in the insurance industry considered various options. Some started their own businesses in the same business sector, whether in the formal or in the informal side of this sector, in order to survive and take care of their families. Others decided to opt for self-employment because they felt that the opportunities outside the industry exceeded those within corporate employment (Behrenz, Delander & Mansson, 2016).

Both government and the private sector realised that entrepreneurship and new business venture creation are crucial for job creation, and promised to support new businesses and entrepreneurs (Crampton, 2016). These support efforts include the following institutions:

- the Industrial Development Corporation;
- Enterprise Investment Programme;
- Black Business Supplier Development Programme;
- National Youth Development Agency;
- National Empowerment Fund;
- Small Enterprise Development Agency (SEDA);
- Small Enterprise Financing Agency (SEFA) (Crampton, 2016).

However, in practice, not all small business owners were able or willing to make use of these initiatives due to various reasons. One of these reasons is that the administrative effort to get funding is quite daunting (Rao, 2013). Another reason is that the process of application takes an inordinate amount of time. Time is usually quite precious for entrepreneurs, especially since they do not have the funds to keep the business going indefinitely (Rao, 2013). Volery, Mueller and von Siemens (2015) explain that successful small business owners, whose business show continued growth, spend the majority of their time on the exploration of new opportunities and the exploitation of these opportunities. This presents a challenge when small business owners need to deal with a great number of administrative tasks.

The focus of this study was on those people that left the insurance industry during this time of change in employment practices in Gauteng, a province in South Africa, during the period 2000 to 2013. Geographically, Gauteng covers only 1.5% of the surface area South Africa but 22.4% of the population resides in this province. This amounts to a population estimate of 11 191 700 people (Statistics South Africa [Stats SA], 2014b). Esterhuyzen (2017) summarizes the economic importance of

Gauteng by describing it as the South African province with the most active businesses. The research question therefore wanted to ascertain what happened to this group of insurance workers who had left or had been retrenched over a specific tumultuous period of time in the industry. The aim of the research was to track their progress and to provide research evidence about the adaptability of workers to commence with entrepreneurial actions after this massive intervention in their productive work–life situation and to determine if a small business dividend occurred in the process.

1.4 The purpose of the study

The purpose of this study was to conduct exploratory research on the small business initiatives undertaken by people who had been retrenched or who had taken severance packages from the insurance industry in Gauteng during a time of political and economic change in South Africa. Of the issues that were researched, were to track the actions of these workers regarding finding alternative employment and to consider the business sector where they furthered their careers. In other words, the research tried to determine whether there was a small business dividend by these retrenched workers when they opted to start their own small business. The research also focused on the entry barriers encountered by this group of respondents in starting their own businesses.

Investigating the effect of legislation, retrenchment and other environmental factors on small businesses and entrepreneurs in South Africa since 1994 (and especially for the specific industry from which they originated), was warranted since small, medium and micro-enterprises (SMMEs) comprise 97.5% of all types of businesses in South Africa (Strydom & Nieuwenhuizen, 2007). This is supported by the GEM Consortium (2016) who indicates that there are over 2 million small businesses in South Africa, contributing towards 21% of the gross domestic product (GDP) before taxes and subsidies. As such, this study provides further evidence about the actual and perceived barriers to entry and what retrenched workers or unemployed people can do to survive and grow in a challenging business landscape.

In terms of the financial sector specifically, there was an overall increase in the number of people employed in this sector in the period between 2000 and 2013. This increase was from 1 021 000 to 2 037 000 employed people (Stats SA, 2009a;

Stats SA, 2014a). However, during this period there were times of significant decrease in employment numbers in this industry. During the 2002 to 2003 period, employment in the financial industry decreased by 10 000 (Stats SA, 2009a). From 2007, Statistics SA conducted quarterly labour surveys instead of bi-annual labour force surveys. In the third quarter of 2008, employment in this sector decreased by 55 000, thereby constituting the greatest loss of jobs of all the sectors for this quarter (Stats SA, 2008). Employment decreased by 15 000 in the second quarter of 2009 (Stats SA, 2009b) and by 28 000 in the third quarter of 2009 (Stats SA, 2009c). The first quarter of 2010 once again saw the greatest number of job losses from the finance sector with 126 000 jobs lost (Stats SA, 2010a) and another 98 000 jobs were lost in this sector in the third quarter of 2010 (Stats SA 2010b). The year 2010 was finished off with 31 000 job losses in the financial sector during the final quarter of this year (Stats SA 2011a).

From 2011 the classification of the finance sector was changed to *finance and other business services* (Stats SA, 2011b). The fourth quarter of 2011 saw 29 000 job losses in this sector (Stats SA, 2012a), followed by 4 000 job losses in the second quarter of 2012 (Stats SA, 2012b). the year 2012 finished off with 7 000 job losses in the finance and other business services sector in the fourth quarter of this year (Stats SA, 2013a). The first quarter of 2013 saw a decrease of 23 000 in jobs for this industry (Stats SA, 2013b), with another 23 000 job losses in the fourth quarter of this year (Stats SA, 2014a). From these statistics, there is an indication that retrenchment could have taken place throughout the finance sector.

1.5 Research questions and objectives

The aim of this research was to provide answers to the following questions:

- Were small business initiatives undertaken by people who had been retrenched from the insurance industry between the years 2000 and 2013?
- Which employment initiatives were undertaken by people retrenched from the insurance industry between the years 2000 and 2013?
- Was there continuity in the specialist type of work of the specific group of individuals?
- Is there a difference between the importance attached to soft skills and the level of their own soft skills between small business owners and non-small business owners in this group?

- Is there a difference between the importance attached to business management skills and the level of their own business management skills between small business owners and non-small business owners in this group?
- Is there a gap between the importance attached to soft skills and the level of their own soft skill, for small business owners and non-small business owners respectively in this group?
- Is there a gap between the importance attached to business management skills and the level of their own business management skill, for small business owners and non-small business owners respectively in this group?
- What are the actual and perceived barriers to entry that influenced the decisions of this group to undertake small business initiatives?
- What is the difference between the level of agreement regarding actual and perceived barriers between small business owners and non-small business owners?
- Does the small business owner group of respondents comprise specific distinguishable group profiles in terms of their demographical and small business characteristics?

In order to answer these research questions, the following research objectives were set:

- The primary research objective of this study is to determine if there was a small business dividend when retrenchment of a specific group of individuals in the insurance industry in Gauteng between 2000 and 2013.

In order to address this primary objective, the following secondary objectives were set, namely to determine –

- whether small business initiatives were undertaken by the specific group of individuals;
- whether the retrenchment event contributed to the decision to start a small business;
- whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, whether they continued in the same line of work as before or not;

- the difference with regard to the importance attached to and their own level of soft skills between small business owners and non-small business owners in this group;
- the difference with regard to the importance attached to and their own level of business management skills between small business owners and non-small business owners in this group;
- the gap between the importance attached to and level of their own soft skills, for small business owners and non-small business owners in this group;
- the gap between the importance attached to and the level of their own business management skills for small business owners and non-small business owners in this group;
- the actual and perceived barriers to entry that this group of retrenched individuals faced in starting small businesses;
- the difference in level of agreement regarding actual and perceived barriers between small business owners and non-small business owners; and
- whether the small business owner group of respondents demonstrated specific distinguishable group profiles in terms of their demographical and small business characteristics.

1.6 Terminology explained

In this section, the key words used in this research report are explained as they will be used in this dissertation:

1.6.1 Small business

The term *small business* includes micro, very small, small, and medium-sized enterprises that meet the criteria set out in the Schedule of the National Small Business Act, no. 102 of 1996 (RSA, 1996) and the National Small Business Amendment Act, no. 29 of 2004 (RSA, 2004)

The abovementioned Schedule divides businesses according to their industry, total full-time employees, total turnover and total gross asset value (RSA, 2004).

For the purpose of this study, a *small business* referred to micro, very small, small, and medium-sized enterprises, based on their total number of full-time employees. The National Small Business Act, no. 102 of 1996 and the National Small Business Amendment Act, no. 29 of 2004 states that micro-enterprises comprise up to five

full-time employees, and a medium enterprise, 200 employees. This study therefore focused on businesses in Gauteng that employed between 1 and 200 employees and whose owner was retrenched or took a severance package between the years 2000 and 2013. Businesses with fewer than five employees were included in order to include survivalists and micro-enterprises.

1.6.2 Insurance industry

According to the Standard Industrial Classification Codes (see Stats SA, 2012c), used by Stats SA, the financial services industry is divided into five categories: financial services activities, insurance, reinsurance and pension funding and other auxiliary activities (Stats SA, 2012c). This study focused on division 65 of this classification, namely the insurance, reinsurance and pension funding activities performed by specialist persons (see Stats SA, 2012c, section K). On a global scale, the insurance industry comprises 8% of global GDP and 9% of local GDP, emphasising the importance of this industry in terms of the economy (Bailey, 2015).

There are many role players involved in transactions in the insurance industry. If a person needs to purchase life insurance in order to purchase a house, he or she will contact an authorised financial advisor. This financial advisor cannot simply sell a life insurance policy the way one would sell a tangible product. The financial advisor has to conduct a complete needs analysis before recommending any product. Much work goes into preparing for a transaction before any deal can be concluded (Botha *et al.*, 2015). In this process, it is still vital to ensure that the client has a positive experience every time the small business is contacted.

1.6.3 Entrepreneur, entrepreneurship and small business owner

An *entrepreneur* can be defined as someone who starts and manages his or her own business, identifies new opportunities, is creative, organises and controls resources to ensure a profit, has financial means and is willing to take calculated risks (Eisenmann, 2013; Fernandes, 2016; Strydom & Nieuwenhuizen, 2007).

Entrepreneurship refers to the introduction of a new economic activity (Stokes & Wilson, 2010). Other authors (Du Toit, Erasmus & Strydom, 2010) define entrepreneurship as the process of pursuing opportunities with little regard for the resources they currently have. This would include starting a business, regardless of whether this business is successful or not (Du Toit, Erasmus & Strydom, 2010).

However, Erasmus, Rudansky-Kloppers and Strydom (2016) describe entrepreneurship as the pursuit of a business idea until it is successful, and identifying opportunities where others do not.

A *small business owner* is defined as one or more individuals who start a relatively ordinary business in order to earn an income to support themselves (Erasmus *et al.*, 2016; Spors, 2008). Maas, Court and Zeelie (2001) define a small business owner as a person who starts and manages a business with the goal of furthering his or her own objectives. This business will require most of the small business owner's time and resources and will be the main source of income for the individual. Maas *et al.* (2001) indicate that this business is perceived to be an extension of the individual and his or her personality and it is inseparable from the needs of their families.

There may come a time when the entrepreneur is satisfied with the level of growth within the business. He or she is then classified as a *small business manager/owner*, and not as an entrepreneur as previously discussed, assuming that an entrepreneur is starting up a new business and is seen as an innovator (Nieuwenhuizen, 2014; Strydom & Nieuwenhuizen, 2007).

Both small business owners and entrepreneurs were therefore included as respondents in this study.

1.6.4 Environmental model

No business operates in isolation. The *business environment* is defined as the sum total of all the factors and variables that influence the creation, growth and continued existence of the business either positively or negatively, thereby promoting or hindering the achievement of its objectives (Nieuwenhuizen, 2014; Strydom & Nieuwenhuizen, 2007).

This environment is complex; everything is interrelated and is filled with increasing unpredictability (Erasmus *et al.*, 2016). The business environment comprises the micro, market, and macro environment (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016; Nieuwenhuizen, 2014). These three environments will now be discussed in more detail.

1.6.4.1 *The micro environment*

This comprises the business and its functional areas, and includes everything over which the management of the business has control: the resources of the business, the management practices, and the strategic direction (Erasmus *et al.*, 2016). These management practices and strategic decisions may influence the market environment. An analysis of the micro environment enables the business to determine its strengths and weaknesses in order to make use of opportunities in the external environment and to deal with external threats successfully (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016).

1.6.4.2 *The market environment*

This environment surrounds the micro environment. It is defined as the sum total of factors and variables, which exist externally and which cannot be controlled. It can, however, sometimes be influenced so that it will have a positive or negative effect on the growth and existence of the business (Erasmus *et al.*, 2016; Strydom & Nieuwenhuizen, 2007). Included in the market environment are consumers, competitors and suppliers. These factors create opportunities and threats that will influence the micro environment and the decisions the business will make (Du Toit *et al.*, 2010).

1.6.4.3 *The macro environment*

This third environment surrounds the market environment. It can be divided into economic, social, technological, institutional, international, and physical environments. The individual business has little or no influence over the macro environment, but the macro environment has a significant influence on the opportunities and threats the business will face (Nieuwenhuizen, 2014).

1.6.5 Small business development dividend

The term *development dividend* is traditionally used in the context of environmental management and sustainability. In this context, development dividend is defined as “the social and developmental benefits that accompany activities to reduce or sequester greenhouse gas emissions in developing countries” (Forsyth, 2007:1684).

For the purpose of this study, this definition was adapted to investigate the economic consequences of retrenchment in a specific industry and what effect the development of small business had as a positive dividend of the retrenchments that occurred. *Small business development dividend* can therefore be defined as the benefits that accompany activities for improved small business performance and new venture creation in developing countries.

1.6.6 Retrenchment

Retrenchment can be defined as a “dismissal for operational reasons” (Rheeder 2015:n.p.). It forms part of the turnaround process and includes the loss of jobs of both white collar and blue collar workers (Joubert, 1993; Tangpong, Abebe & Zongui, 2015) in order to restructure an organisation. The turnaround process is aimed at reversing the deterioration or decline of a business (Lohrke, Ahlstrom & Bruton, 2012).

Terms that are used in the same context as retrenchment, coined in the 1970s and still in use today, are *layoffs*, *voluntary early retirement*, *business readjustment*, *voluntary termination*, *decrutment*, *forced turnover*, *termination severance packages*, and *voluntary severance* (Sweet, 1975).

1.7 Research method

This section provides an overview of the population, sample selection, bias and reproducibility and the research method applicable to this dissertation.

1.7.1 Population

In order to be identified as a respondent for this study, the individual had to be retrenched from the insurance industry between the years 2000 and 2013. Respondents had to work in Gauteng. These respondents had been employed in the insurance industry before the year 2000, after which they were retrenched and either started their own businesses or found other employment. Both male and female participants were included.

1.7.2 Sample/respondent selection

The researcher contacted industry associations and small business consultancies to make use of their databases of current and previous small business owners in the insurance industry. The researcher also made use of the client databases of

colleagues in other industries, companies and business networks working with SMMEs and residing in Gauteng in order to get into contact with small business owners who no longer worked in the insurance industry but who were involved in a business venture.

Respondents were selected by making contact with relevant industry associations and using snowball sampling (see Crossman, 2017). Because of the unknown size of the population, as well as the possible wide dispersion of potential respondents, each contacted person was asked to refer the researcher to another possible candidate, in order to increase the likelihood of gaining enough people to participate in this study. Snowball sampling is a technique used to choose informants according to the specific qualities they possess (being retrenched from the insurance industry and living in Gauteng between the years 2000 and 2013). This non-random sampling technique focused on informants with the relevant knowledge that was required (Crossman, 2017; Tongco, 2007).

Respondents who were included in this study were people who had been employed in the insurance industry previously. These retrenched people either found other employment or became the owners of small, medium, and micro-sized enterprises. *SMMEs* (small, medium and micro-sized enterprises) is a broad term that includes survivalist enterprises, micro-enterprises, very small enterprises, small enterprises and medium enterprises (ILDPA, 2014). These businesses are classified according to the number of people they employ, their annual turnover, registrations and assets (Finmark Trust, 2006; ILDP, 2014).

For the purpose of this study, *small businesses* referred to businesses from both the formal and informal sectors, employing between 1 and 200 people.

As stated previously, Stats SA makes use of a Standard Industrial Classification of Economic Activities (SIC) that divides the industries in South Africa into nine main groups. The small businesses that were included in this study were classified according to the SIC. The industries focused on were subsections of the Financial Services Industry: insurance, reinsurance and pension funding – SIC division number 65 (Stats SA, 2012c). According to the annual financial statistics released by Stats SA in 2013, the financial industry represents 9% of the total annual turnover of the country, which is in line with the 8% that the insurance industry contributes to

global GDP. This made it the fourth largest contributor to annual turnover during the 2012 financial year (Stats SA, 2013c).

1.7.3 Bias and reproducibility

Purposive sampling is a biased method of data collection (Saunders, Lewis, & Thornhill, 2016). The bias of this study was managed by documenting possible bias throughout the process and reporting on the results taking into consideration this possible bias.

Reproducibility of information was ensured by thoroughly documenting each step in the process.

1.7.4 Research method

This was a formal exploratory study making use of primary and secondary research sources. Secondary research was conducted in the form of a literature review as reflected in the reference list for this study. This literature review was consulted to determine and describe the context of the study. The literature review also formed the basis of developing the research measurement instrument (questionnaire).

Primary research was conducted in the form of a quantitative research design whereby quantitative research data was gathered. This was done by collecting data from respondents who had been employed in the insurance and reinsurance industry previously. This research attempted to record the entrepreneurial ventures undertaken by people who had been retrenched from the insurance industry between the years 2000 and 2013 accurately.

The research started with a pilot study, as suggested by Saunders *et al.* (2016). Three industry experts and four academic experts were requested to complete the questionnaire and provide their written feedback as part of the pilot study. This pilot study was conducted to determine whether the questionnaire was acceptable. The responses received from the industry experts were then incorporated into the questionnaire.

The potential participants were contacted individually by the researcher and fieldworkers. After this initial contact, the questionnaire was sent, using mainly electronic mail, to qualifying respondents. The information obtained from this survey was used to do the statistical analysis and compile a report on the findings.

Quantitative data collected was used for statistical analysis and to compare groups of respondents (Creswell, 2008, Saunders *et al.*, 2016).

1.8 Limitations to the study

Each study has its limitations. One of the main limitations to this study was the fact that respondents identified for this study were selected according to very strict and narrow selection criteria. These criteria were that only workers residing in Gauteng who had been employed permanently before the year 2000 and who had been retrenched from the insurance industry during the years 2000 and 2013 were engaged. This meant that the results could not be generalised as universal truths, and further studies will be required in order to determine whether these results hold true for other industries and provinces in South Africa.

1.9 Chapter outlay

This dissertation is divided into six chapters.

CHAPTER 1: The introduction chapter to this study discussed the background of the study, the research questions and objectives as well as the significance of the study. Other aspects discussed in this chapter were the scope and limitations of the study and the definitions of key terms as they applied to this study.

CHAPTER 2: The small business environment is discussed in this chapter in terms of its micro, market and macro environmental factors as they apply to small businesses and small business owners in South Africa with specific relevance to the insurance industry. Finally, this chapter provides a discussion of the barriers to entry faced by small business owners in South Africa.

CHAPTER 3: Entrepreneurship and small businesses in South Africa are discussed in this chapter. This chapter also elaborates on the entrepreneurial process, and a discussion of the social background of small business owners and the role they play in success of their business follows. Literature on the personal characteristics of entrepreneurs is reported. Entrepreneurs in South Africa are discussed in the light of entrepreneurial classification and sophistication as well as the South African economy. Finally, this chapter looks at the small business management process, investigating organisational characteristics and small business success.

CHAPTER 4: The research methodology of this study is presented in Chapter 4. A discussion of the research process is followed by a brief overview of the reliability, validity and ethics of this study.

CHAPTER 5: This chapter involves the presentation of quantitative results and analyses thereof.

CHAPTER 6: The summary and conclusion of this study as well as recommendations for future research on this topic are presented in this chapter.

1.10 Conclusion

Chapter 1 reflected an introduction to the research along with an outline of the background to the study. The research problem and purpose of the study were delineated along with the research questions and objectives that were the focus of this study. Next, relevant terminology was explained along with the research method, which guided the study. The final part of this chapter comprised a discussion of the limitations of the study and an outlay of the chapters that are to follow.

The next chapter will provide an overview of the South African small business environment and the variables that could influence a small business operating in this environment.

CHAPTER 2: THE SOUTH AFRICAN SMALL BUSINESS ENVIRONMENT

2.1 Introduction

There are many variables that have an effect on a business that operates in South Africa. These factors form part of the business environment and could influence a business positively or negatively (Strydom & Nieuwenhuizen, 2012). The business environment of a small business can be divided into an internal and external environment. The internal environment, also known as the micro environment, includes everything that is within the small business owner's direct control (Botha & Musengi, 2012). The external environment is divided into the market environment, and macro environment (Botha & Musengi, 2012). The market environment comprises the competitors, market and suppliers of a business (Strydom & Nieuwenhuizen, 2012). The macro environment consists of the economic, social, technological, physical, political and international environments (Strydom & Nieuwenhuizen, 2012). These aspects form part of the internal and external forces that influence the decision of an individual to start a small business (Spinelli & Adams, 2015; Timmons & Spinelli, 2007) and it illustrates the environment within which the small business owner has to function. The importance of these business environmental variables is also illustrated by Hatten (2016) in his model of the entrepreneurship and small business management process. All these variables will be discussed in this chapter. An overview of the chapter is shown in Figure 2.1 below:

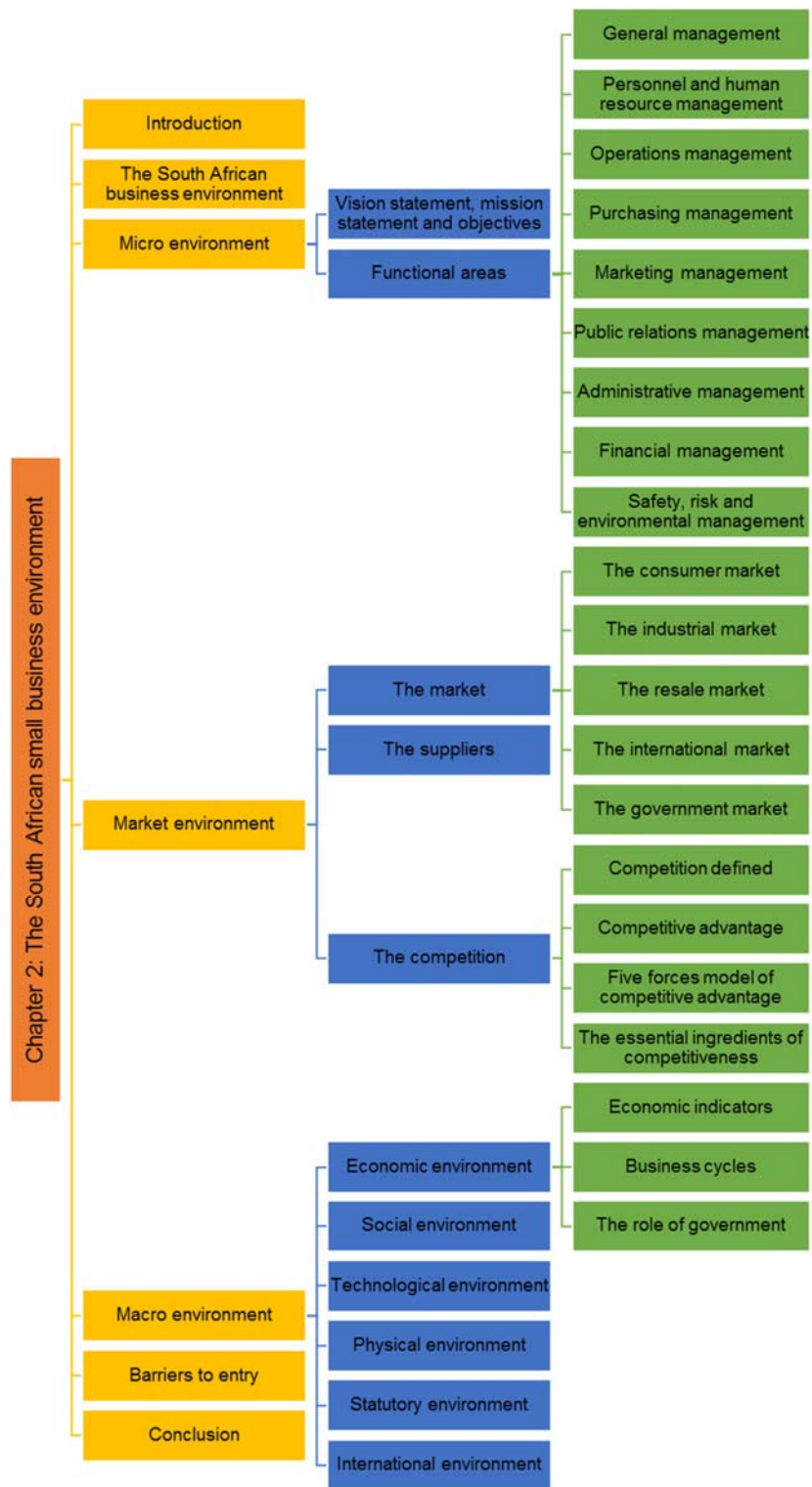


Figure 2.1 Chapter 2 overview

Source: Author's own composition (2015)

2.2 The South African business environment

The three business environments are illustrated in Figure 2.2. Although some aspects of this chapter have been mentioned in Chapter 1, each division of the business environment will be discussed in more detail in this chapter.

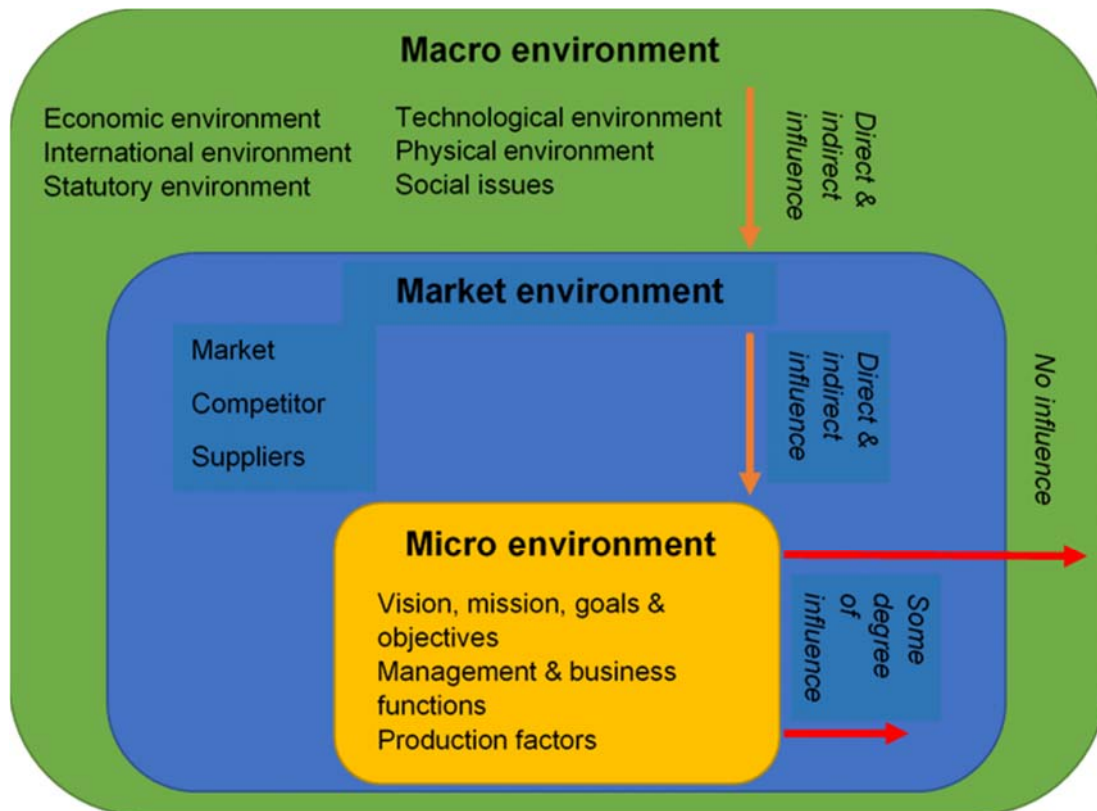


Figure 2.2 The three business environments

Adapted from: Nieuwenhuizen (2014)

It is important to analyse the small business environment since changes in any part of this environment will have an influence on the small business and could cause new opportunities or threats to arise. The theoretical background regarding the business environment is elucidated next.

The role of the business environmental aspects are also illustrated by Hatten (2016) in his model of entrepreneurship and small business management process. Figure 2.3 below highlights the aspects that will be discussed in detail in this chapter.

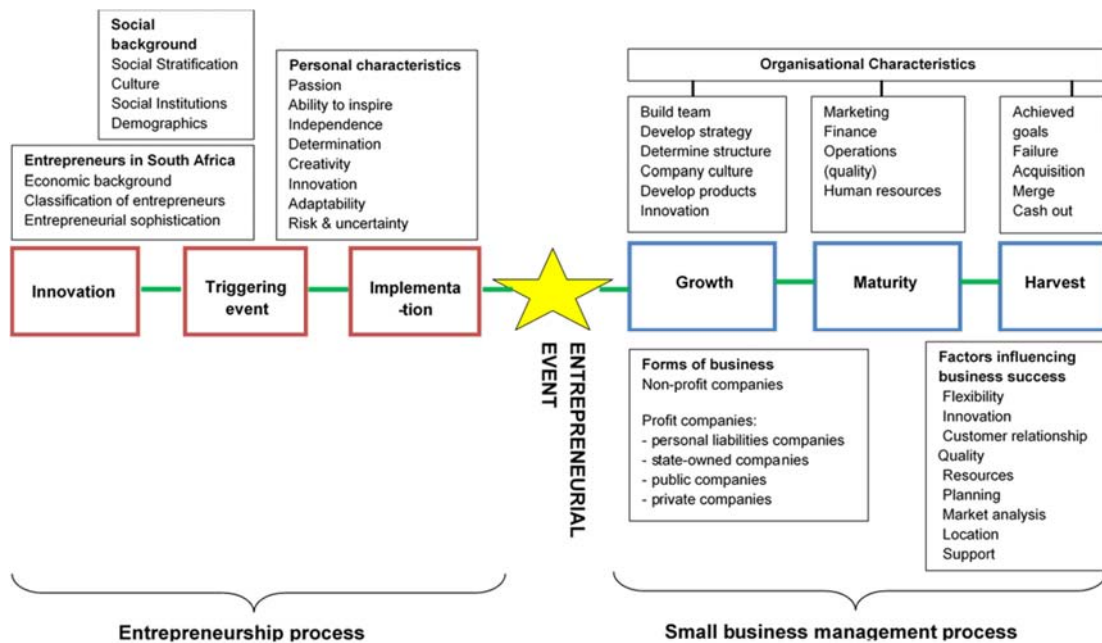


Figure 2.3 The entrepreneurial and small business management process

Adapted from Hatten (2016)

These aspects comprise the environment within which the small business owner needs to operate. This environment should be taken into consideration by individuals who are considering starting their own business in South Africa. At the end of this dissertation, this information is used to describe the barriers to entry faced by small business owners in South Africa (see section 6.3.6). Figure 2.4 below illustrates where this discussion fitted in with the study:

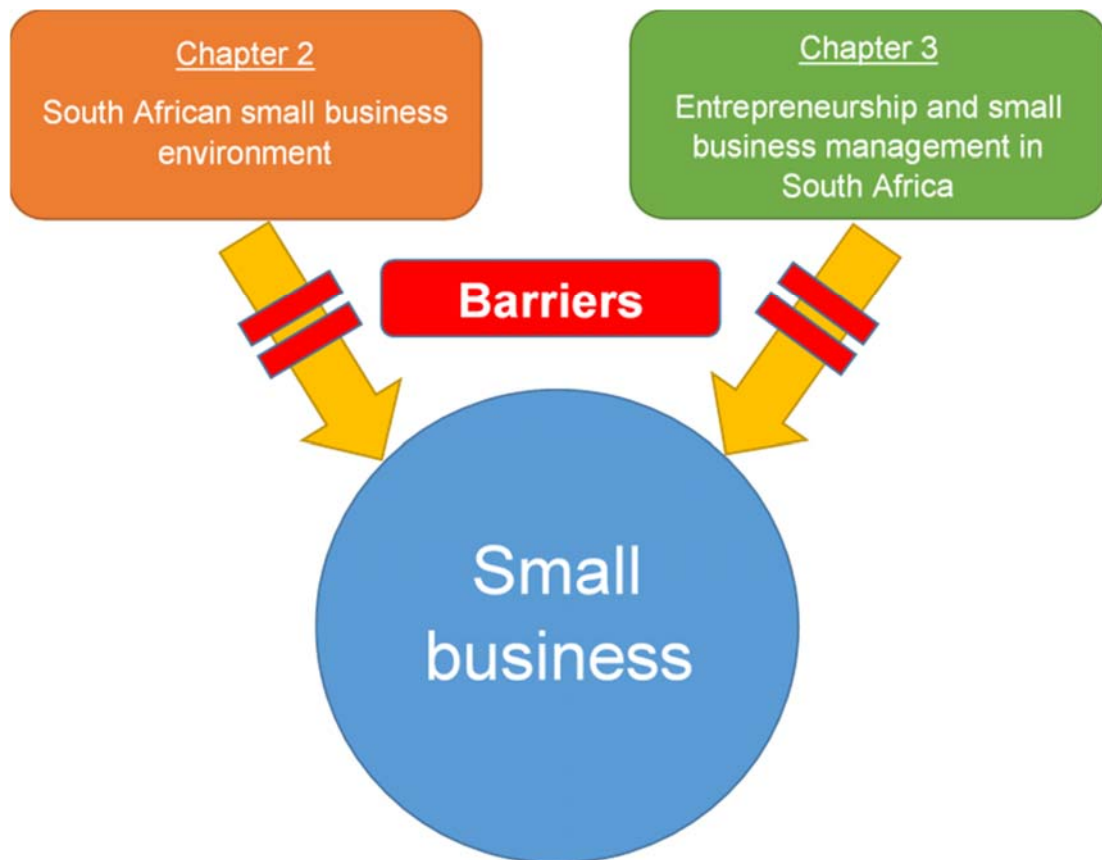


Figure 2.4 Small business barriers

Source: Author's own composition (2016)

2.3 Micro environment

The first business environment that will be discussed is the micro or internal environment. The micro environment is defined by Strydom and Nieuwenhuizen (2012) as the sum total of all the factors and variables which occur internally in the business, and which are influenced in a direct or indirect way by management decisions. These factors and variables have a fundamental influence on the establishment and on the growth and continued existence of the business (Strydom & Nieuwenhuizen, 2012).

In terms of the three business environments, the business owner or manager has a complete influence on the micro environment (Botha & Musengi, 2012). Botha and Musengi (2012) explain that the micro environment encompasses everything that happens within a business. The micro environment has some degree of influence on the market environment, but no or little influence on the macro environment (Botha & Musengi, 2012). Lussier, Corman and Kimball (2015:166) do not make use

of the term *micro environment* but rather calls it the “internal environment”. This term rightly describes the most important characteristic of the micro environment – it is inside the small business and within the control of the small business owner (Lussier *et al.*, 2015). Both the market and macro environments will be discussed later in this chapter (see section 2.4 & 2.5). The elements of the micro environment discussed in this section are illustrated in Figure 2.5 and are discussed below.

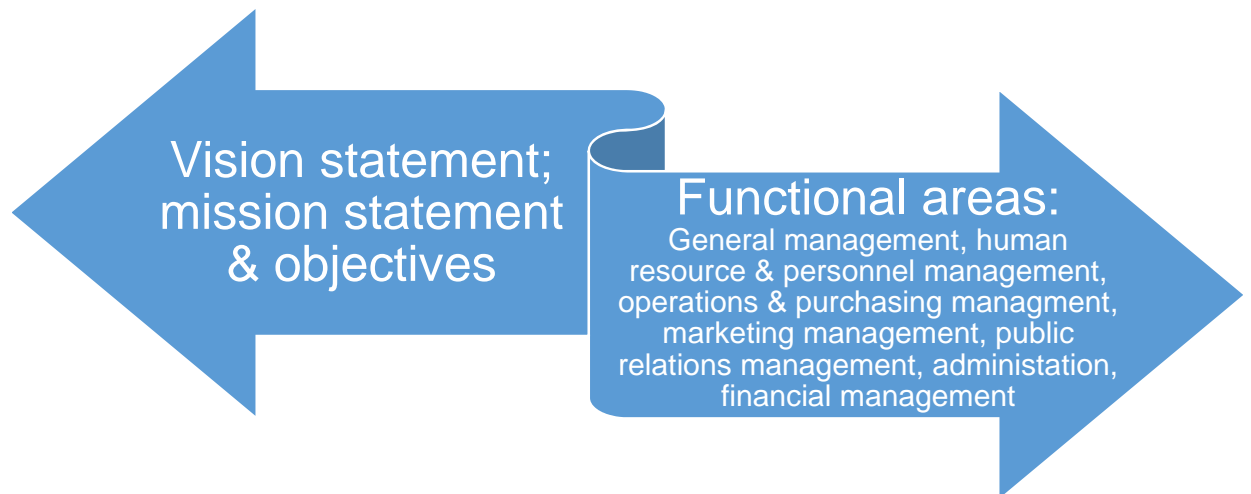


Figure 2.5 The micro environment

Source: Author's own composition (2015)

2.3.1 Vision statement, mission statement and objectives

The vision, mission and objectives of a company reflect the direction towards which the company wishes to grow and also indicate how the company plans to get there. It is a determinant of the company's corporate culture and reflects the strategy management is pursuing. These form part of the strategic planning that needs to be done by a small business.

The question of where a company wants to go is answered by its **vision statement** (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016). It is the first step in the strategic planning process and it sets the scene for all decisions that will be made in future. The vision statement paints a broad picture of where the organisation would like to see itself in future. A well-worded vision statement is a statement that will give direction and inspire (Brevis & Vrba, 2014).

The **mission statement** of a company is based on the vision statement and it identifies a company's customers, products or services, and the resources at the disposal of the company. It also explains what makes the business unique. The mission statement is used to formulate the business objectives (Du Toit *et al.*, 2010; Strydom & Nieuwenhuizen, 2012). Hatten (2016) explains that the mission statement is used to state the business of an organisation. It should clearly explain, to whoever reads it, the core business of the organisation and how the organisation is run.

Objectives are certain activities that a company would like to achieve within a specific period of time. These are more detailed than the vision and mission statement and they are measurable (Strydom & Nieuwenhuizen, 2012). In other words, the business objectives are steps that will describe in broad terms how the stated vision and mission of the organisation will be accomplished. Both the mission statement and objectives of a small business needs to correlate with the expectations and circumstances in the market environment (Strydom & Nieuwenhuizen, 2012).

As illustrated in Figure 2.6, Botha and Musengi (2012) add goals to this mix. They state that objectives are short-term targets, which are specified in detail while goals are the long-term, general targets for which an organisation aims. Botha and Musengi also explain that objectives are specific targets for each person, unit or department. Goals will be discussed in more detail in the section pertaining to general management as a business function (section 2.3.2.1).

Although the strategic planning process of determining the vision, mission, goals and objectives of a small business is time-consuming, it is vital that small business owners and managers invest this time. Strategic planning is conducted by all firms, even on an informal basis. The quality of the strategic plan and the quality of the implementation thereof will be an important determinant of the success of the small business (Cordeiro, 2013).

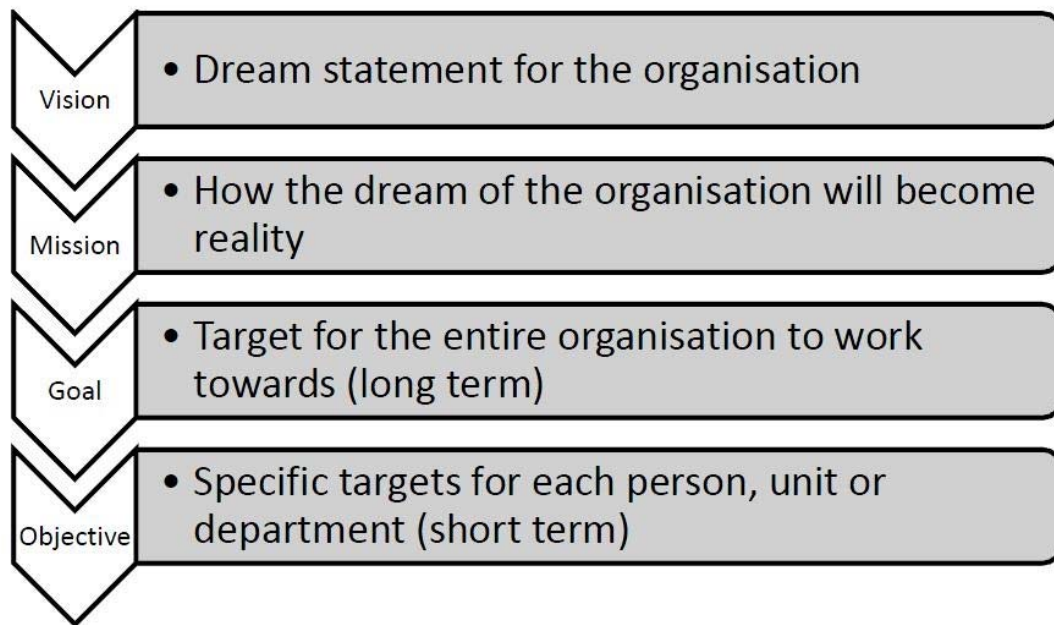


Figure 2.6 The vision, mission, goal and objective of the organisation

Adapted from: Botha and Musengi (2012)

The culture in an organisation influences the vision, mission, goals and objective that will be set. The culture of an organisation is an indication of the way things are usually done. The vision and mission should usually be in line with the culture that already exists otherwise the vision and mission would not be implemented very easily. Culture of employees, clients and suppliers should also be taken into account when communicating with these stakeholders (Botha & Musengi, 2012).

Along with culture comes the issue of diversity. This is an important aspect to address in a South African environment, where much emphasis is placed on equality of different races and genders. People from different backgrounds and cultures will all contribute to the culture of the organisation and, if a business owner can harness these differences, it may also assist the organisation's long-term survival. Botha and Musengi (2012) state that the greater the differences between members of a workforce, the greater the need for management to ensure good working relationships.

Alongside diversity, ethics also play an important role in the culture of an organisation. The ethical values of an organisation will dictate what is right and what is not right, what is acceptable and what is unacceptable (Botha & Musengi, 2012). Small business ethics are vital for the long-term success of an organisation since all businesses need to show their stakeholders and customers that their business is managed ethically. Small businesses need the owners and managers to set an example of the ethical behaviour that should be practised by employees. Despite the importance of managing a small business ethically, many small business owners value profit over ethical conduct (Cant & Van Niekerk, 2013). This is discussed in more detail in the next chapter (see section 3.4.3.1). The issues, such as the use of a vision, mission and objectives, were investigated for this study.

2.3.2 Functional areas

The small business owner is faced with the management of various business functions (Cordeiro, 2013), since he or she does not have the advantage of working in a large corporation where most of these functions are handled by different departments and specialist managers. Although these functions, which are illustrated in Figure 2.7, all form part of the business management discipline, they are separate functional areas, each with its own activities and tasks which will be briefly discussed below.



Figure 2.7 The functional areas of a small business

Source: Author's own composition (2014)

2.3.2.1 General management

General management encompasses all management activities, at all levels of an organisation (Strydom & Nieuwenhuizen, 2012), and deals with the management functions of planning, organising, leading and control.

Although planning is time-consuming and it may result in an organisation losing flexibility, planning has many benefits. It provides an organisation with direction, it enables managers to anticipate change, and thereby minimises the influence certain changes have on an organisation. Planning helps a company to focus all its resources on the determined goals and thereby enhances the cohesion between

the different parts of a company (Du Toit *et al.*, 2010; Nieuwenhuizen, 2014). The function of planning consists of two components: goals and plans.

Goals are the desirable state of affairs that an organisation aims to achieve at some point in the future (Du Toit *et al.*, 2010; Nieuwenhuizen, 2014). Botha and Musengi (2012) define goals as long-term, general targets for which an organisation aims. One organisation may have numerous goals, each one focusing on different functional areas, levels of management and different time periods. Goals can have a long-, medium- or short-term focus. Different goals will also be communicated differently (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016). Some goals will be communicated publically to all stakeholders, others goals will be communicated only to the employees of an organisation and still others yet will only be known to the small business owner or manager.

As stated by Du Toit *et al.* (2010), goals are important because they provide guidance and direction to the organisation, they focus the allocation of resources, and motivate employees when they can see a direct link between the goals of the organisation and their individual performance. Botha and Musengi (2012) add that goals focus the attention of the organisation on the activities that are relevant to goal achievement. They also state that goals serve as a very effective motivator and they give employees and managers a reason to persist through setbacks and disappointments to achieve the determined goals. Botha and Musengi (2012) also state that goals give purpose to the day-to-day activities of employees and create an environment where employees can obtain personal satisfaction in their achievements.

The fact that goals are directly linked with employee motivation and morale, a function of personnel management (see Du Toit *et al.*, 2010), emphasises that the different functions of management are interlinked and therefore stresses the importance of the task that the small business owner has in managing these business functions.

Not only should small business managers determine goals that satisfy the abovementioned characteristics; goals should also be specific, measurable, attainable, relevant and time bound (Botha & Musengi, 2012; Du Toit *et al.*, 2010). This theory was originally published in 1981 by George T. Doran. Doran goes on to

explain that not all five the above criteria will be applicable to every goal an organisation is going to set but he does state that following the SMART (specific, measurable, attainable, relevant, time-bound) way of goal setting will improve management performance in an organisation.

Plans entail how the stated goals are to be realised, and include several alternatives, all of which are designed to lead an organisation to its determined goals. Plans have to take external and internal factors into account, for example the external market factors, economic trends, organisational strengths and weaknesses (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016). Botha and Musengi (2012) argue that planning promotes proactive management. Proactive management anticipates problems in advance by looking at the external factors that threaten an organisation and using an organisation's internal strengths to minimise the effects thereof or even to change problems to business opportunities. Although this may be difficult for a small business manager to do, spending time on this aspect of management will be better for the organisation in the long run than managing a small business without completing this strategic function.

The planning process as explained by Du Toit *et al.* (2010) comprises six steps: establishing goals, developing alternative plans, evaluating those alternative plans, selecting a plan, implementing the selected plan, and finally, doing reactive planning as changes occur in the external environment. Botha and Musengi (2012) add some steps to their planning process. Firstly, the current state of organisation objectives should be determined and the opportunities and threats in the external environment should be assessed along with the strengths and weaknesses in the organisation. After the plans have been selected and implemented, the results should be controlled and assessed and the planning process repeated based on the new information revealed by the results of the assessment. If the outcome of the plan differs from the planned outcome, reactive planning needs to be done (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016).

Normally, in a large organisation, different levels of management have plans and goals that focus on different aspects. Top-level managers are concerned with long-term strategic goals and plans that determine the direction of the entire organisation. The vision and mission statement of the organisation are strategic goals that focus on areas that are key to the survival and success of the organisation (Du Toit *et al.*,

2010; Nieuwenhuizen, 2014). Strategic plans are developed to enable an organisation to reach its strategic goals. Depending on the industry and size of a business, strategic plans focus on a timeframe of five years or more. Strategic plans are divided into corporate strategies, which are the grand strategies of an organisation, and business strategies, which are focused on the best competitive game plan (Du Toit *et al.*, 2010).

Du Toit *et al.* (2010) go on to state that middle-level managers focus on tactical goals and plans, which are medium- to short-term goals and plans, derived from the long-term goals set by top management. Tactical goals and plans focuses on how the long-term goals and plans can be achieved and on the resources that need to be allocated.

Finally, Du Toit *et al.* (2010) state that operational goals and plans fall under lower-level management. These goals and plans are for periods shorter than one year and focus on the daily operations of the organisation. Short-term plans are usually developed in the form of a programme, project or budget.

These three levels of goal- and plan development are normally prepared by different people in different sections of the organisation. The challenge for the small business manager or owner lies in the fact that he or she needs to be able to plan and execute at all three these levels in order to ensure the survival of his business.

Cordeiro (2013) explains that the importance of planning in a small business environment lies primarily in the preparation for future events. In order to do this, a small business needs an understanding of the environment within which it is operating.

Du Toit *et al.* (2010) define 'organising' as the development of a mechanism to implement the plans and strategies of the organisation. The organising process focuses on long-term goals and plans and considers the resources that will be required (Erasmus *et al.*, 2016). Botha and Musengi (2012) add to their definition organising as the combination of human, physical and financial resources of the business so that these work in synergy.

The goal of organising is the systematic, effective and efficient allocation of resources and people to execute the stated plans (Du Toit *et al.*, 2010; Nieuwenhuizen, 2014). Organising allows an analysis to be conducted of what

needs to be done, which resources are available, which resources can be procured and which methods will work best. Procedures can be put into place and the workload can be divided effectively.

As with planning, organising is a management function where most small business owners have very little experience. However, if a small business owner fails to spend time organising resources to complete the plans developed, the business runs a great risk to fail (Botha & Musengi, 2012).

Botha and Musengi (2012) describe the organising process as having two major steps: organisational design and organisational structure. Organisational design is concerned with the creation of organisational structure. It ensures sustainability by ensuring that everyone knows where they fit in and what their duties are. In order to determine the most effective organisational design, all the activities in the business need to be identified. This is also a good time to determine which activities work well together in order to form departments. Departmentalisation is the process whereby all activities are divided according to the business functions they fulfil (Botha & Musengi, 2012). Departmentalisation can also be done according to the areas of expertise of the geographic region, products and customer type of the organisation. Most small businesses will not be able to do this in the start-up phase, but it is vital knowledge to have as their businesses grow and develop (Botha & Musengi, 2010). Following the departmentalisation of the organisation, individual tasks need to be combined to form jobs. Job design entails job specialisation, job expansion, job rotation and job enlargement (Botha & Musengi, 2010). Each job is defined in terms of its scope, depth and identity.

Organisational structure is determined once organisational design has been completed. The structure of an organisation is the formal framework of a business (Botha & Musengi, 2012). Organisational structure is vital to small and large businesses. The only difference is that small businesses will have fewer levels in its organisational structure than large businesses. In determining organisational structure, the extent of the authority and responsibility of individuals is classified and an ideal organisation shape is decided on (Botha & Musengi, 2012).

Leadership is a well-researched and well-authored subject. Brevis and Vrba (2014) define *leadership* as the process whereby a leader exerts influence over others and inspires, motivates and directs their behaviour to achieve goals.

The power exercised by leaders can be divided into five groups (Brevis & Vrba, 2014):

- **Legitimate power** has its roots in the social structure of a group. A person with legitimate power can be in an appointed position or his or her legitimate power can be based on such person's natural abilities and attraction as a leader.
- **Reward power** comes from a leader's access to rewards and his or her ability to dispense such reward correctly.
- **Coercive power** is based on the leader's ability to manipulate employees but instead of being based on a reward system, it is based on a fear system.
- **Referent power** is found where employees strongly associate with a person and would like to become more like that person. Although there may be no formal basis for the power this leader has, he or she may have a strong ability to influence others.
- **Expert power** is based on the respect a group has for a person's expertise and knowledge.

A leader can have any combination of these sources of power (Brevis & Vrba, 2014).

The definition of leadership described above (see Brevis & Vrba, 2014) clearly states that the role of a leader is to motivate his or her subordinates. Motivation is the process of directing an employee's behaviour and energy towards the attainment of certain organisational goals (Brevis & Vrba, 2014). The word *leadership* derives from the original Latin concept of *motivus*, which translates to 'moved' – in other words, moving people in a certain direction (Strydom, Rudansky-Kloppers, Steenkamp, Holtzhausen & Kiley, 2011). In a small business, there are many factors that can be used as motivators to encourage employees to reach the goals of the organisation. These motivators include money, increasing the range of tasks for which an employee is responsible, increasing the responsibility involved in employees' tasks, providing employees with feedback on the effect of their tasks on the organisation as a whole (Brevis & Vrba, 2014). Different employees will respond to different motivational approaches since people differ in their demographic

characteristics, their history and life experience, their belief system and attitudes (Strydom *et al.*, 2011). It is up to the leader to establish which motivators will work best in the specific business environment with the specific individuals with whom they are working.

Control is defined as the process whereby management can determine whether their set goals and plans have been attained or whether corrective actions need to be taken in order to get the organisation back on track with its original plans (Brevis & Vrba, 2014; Strydom *et al.*, 2011).

Although the control function is often overlooked, it is important to ensure that the organisation is still on track with its original strategic plan. The control process will ensure that an organisation stays competitive in an ever-changing business environment. It will also act as a quality control measure and refocus organisational resources on the most important goals of the organisation (Brevis & Vrba, 2014).

Brevis and Vrba (2014) divide the control process into four steps:

- establishing a control standard, which will serve as the standard of performance to which future activities will be compared;
 - measurement of organisational performance by collecting data and comparing the data to the standards established in the first step;
 - evaluation of both positive and negative deviations from the established standards will allow the organisation to determine where they went wrong and whether the standards were set too high or too low; and
 - after gathering all the necessary information, it is important for an organisation to establish how they will correct their performance in the future.
- The control process does not stop. After the fourth step has been completed, the process starts again to assess whether the corrective action that was taken had the desired effect. Strydom *et al.* (2011) describe this step in the control process as 'the reinforcement phase', where satisfactory performance should be reinforced to ensure that it continues.

Control can be exercised at strategic level or operational level as well as in every individual functional area (Brevis & Vrba, 2014).

An effective control process will have set characteristics. Such process should be linked to the planning phase, it should be flexible and accurate, the data should be

available in time and generated in an objective manner and it should not be too complex since that would influence the efficiency of the system (Brevis & Vrba, 2014). The information gathered in the control process will be used to evaluate employee performance, prevent emergencies and crises, update strategic plans and take any other necessary corrective action (Strydom *et al.*, 2011).

Purchasing and supply chain management, and total quality management (TQM) also form part of the control function in a business. It directly affects the products and services that a business can provide, at which cost and within which timeframe (Hugo, Badenhorst-Weiss & Van Biljon, 2011). The role of purchasing and supply chain management will be discussed in more detail later in this chapter (see section 2.3.2.4). Suffice it to say that the execution of the management principles by the population of the study was also investigated.

2.3.2.2 Personnel and human resource management

Strydom and Nieuwenhuizen (2012) define 'personnel management' as the management activities that include all the activities concerned with the procurement, development, compensation, integration and maintenance of the personnel of the organisation (Strydom & Nieuwenhuizen, 2012).

In a business of any size, its labour force is probably its biggest expense in terms of salaries, employee benefits and training. A labour force that is taken care of and developed will stay loyal to their organisation and provide outstanding products and customer service (Botha & Musengi, 2012). On the other hand, a labour force that is unhappy and who has to work in poor and unhealthy working conditions will make life difficult for a business owner and may result in loss of business (Botha & Musengi, 2012). Few things create such a bad reputation for a company as one that has an unsatisfied workforce that provides poor customer service (Botha & Musengi, 2012). The human resources required by a business should be recruited and selected, keeping both the needs of the business and the needs of the individual to be appointed in mind. The appointed person needs to be placed in a position that will be to the benefit of both the business and the individual, and such individual should go through an orientation process where he or she is introduced to the business and its employees (Nieuwenhuizen, 2011; Nieuwenhuizen, 2014).

Lussier *et al.* (2015) have a different approach to the human resources of an organisation. The first human capital to which a small business has access is the immediate support team involved in the small business. This implies the founding members of the small business, each with his or her own expertise and contribution. Friends and family also make a contribution towards the small business by not only contributing capital, but also by providing support in their areas of expertise. Finally, each small business owner and manager should have a mentor who helps the small business with new ideas, retaining focus and obtaining much-needed resources (Lussier *et al.*, 2015).

The management of the employees of a small business may be one of the most underrated of the business management functions, mostly because small business owners have little or no experience in personnel management and they function in a sort of survivor mode where the finer management functions are perceived as less urgent. This is illustrated by studies conducted by Cant and Ligthelm (2005) as well as Jankelová, Masár and Jankurová (2017) who aimed to explore which issues affect business success. They found that personnel issues were not regarded to be an important issue for business success and profitability. This can be explained partially by the fact that small businesses do not necessarily create jobs (Cant & Erdis, 2005; Turner, 2015). Most small enterprises considered by Cant and Ligthelm (2005) created fewer than three jobs and the employees mostly did not have Grade 12 and were family members of the small business owner. The small businesses that did not create any jobs stated a lack of funds and economic recession as their main reasons (Cant & Erdis, 2005; Turner, 2015).

Cant and Ligthelm (2005) found that 38% of their business owner respondents had difficulty with changes in labour legislation and attracting the right talent. This presents additional problems when investigating other aspects of the personnel management function. These aspects include job analysis, job evaluation, recruitment, employee development, employee retention and employee termination. Job analysis, the task of analysing the tasks of each job and communicating this to employees, makes it easier for the small business owner to conduct job evaluations, recruit and retain the ideal staff members, and identify the training needs within the small business (Lussier *et al.*, 2015). Despite all of these challenges, Baron, Franklin and Hmieleski (2013) found that individuals who are at the helm of new business

ventures are less stressed than expected, especially if they voluntarily entered into the small business domain.

The human resource function has much to do with business continuity (Van Zyl, Van Noordwyk & Du Toit, 2012) and putting the right people in the right positions in order to ensure survival of small businesses. This functional area was also investigated as part of this study's survey.

2.3.2.3 Operations management

Operations management is a management function that is applicable in manufacturing firms as well as in service businesses, and includes the management activities that take place so that products and services can be provided to satisfy the needs of the customer (Strydom & Nieuwenhuizen, 2012).

Nieuwenhuizen (2011; 2014) explains that operations management is the business function that concerns managing products and providing services. It looks at the design of products and services, plans for capacity and demand, designs operations systems, plans and controls production, and takes care of problem solving and maintenance.

The advantages of operations management lie in the fact that, when properly implemented and maintained, it reduces manufacturing costs, increases business income, reduces the capital investment required for the manufacturing process, and acts as a foundation and inspiration for innovation and new product development. Operations management also enhances organisational performance by improving productivity and the organisation's awareness of customer needs and the reputation of the organisation in general (Erasmus, Strydom & Rudansky-Kloppers, 2013). These factors are especially vital in a small business with very little resources to spend.

Operations management is important for both manufacturing and service-based businesses since it revolves around customer needs and expectations and influences organisational strategy accordingly (Erasmus *et al.*, 2013).

Erasmus *et al.* (2013) explain that business organisations can gain the greatest advantage from operations management by ensuring that they minimise mistakes, employ cost-effective production and service strategies, work fast and adapt quickly,

and provide products and services that are consistent and that are improved on a continuous basis.

2.3.2.4 Purchasing and supply chain management

The purchasing function deals with the procurement of all the resources an organisation needs to achieve its objectives (Strydom & Nieuwenhuizen, 2012). Kaufman (2002) expands on this definition by adding that purchasing management does not only deal with obtaining resources but it also includes supplier management, awareness of the specific needs of the business and seeing the purchasing process through the phases of selection, negotiation and delivery. The small business owner will need to determine what needs to be purchased, which suppliers will be able to fulfil the existing and future needs of the business, and he or she must then negotiate the terms and conditions of the purchase agreement with the supplier. Thorough research will be to the advantage of the small business owner, even if he or she has experience in purchasing management so as not to negotiate deals that will be detrimental to the business in the long run. The materials purchased need to be the right quality, in the right quantity, from the right source, delivered to the right place, at the right time and at the right price (Erasmus *et al.*, 2016; Nieuwenhuizen, 2011).

Closely related to purchasing management is supply chain management. Hugo *et al.* (2011) explain that supply chain management simply takes purchasing management further. This change in focus is more comprehensive, encouraging relationship building with suppliers instead of chasing the cheapest current price. While purchasing management focuses on supplying the required resources in the most cost-effective way, supply chain management tends to focus on the overall strategic direction of the business. Logistics management forms part of the supply chain management process. The focus of logistics management is on all aspects of the flow of goods from the time they are ordered, until they are used. This means that logistics management comprises both the transportation and storage of goods at any time during the product life cycle (Erasmus *et al.*, 2016; Hugo *et al.*, 2011).

Both these aspects are vital to the survival of a small business. If a small business owner is unable to provide products and services to his or her clients, when the

clients need it, they will simply find another service provider. A good relationship with suppliers is therefore vital.

2.3.2.5 Marketing management

Marketing is the process of transferring goods and services to customers in order to satisfy their needs, as well as the activities that make the transfer possible (Strydom & Nieuwenhuizen, 2012). Marketing management does not simply focus on the product an organisation produces and how to get people to buy these products. It also encompasses the concepts of perceived value for money, customer satisfaction and relationships with customers (Du Plessis, Strydom & Jooste, 2012).

The most important aspects of marketing management are summarised in the extended marketing mix. As illustrated below, the extended marketing mix consists of 7 Ps:



Figure 2.8 The 7 Ps of marketing (extended marketing mix)

Adapted from: Du Plessis *et al.* (2012).

The extended marketing mix is a summary of all the marketing elements that a small business owner or manager will need to keep in mind when designing and marketing products or services.

Marketing management does not only focus on the customer but also on the actual product that a business will offer to those customers as indicated in Figure 2.8. A product can be something that is tangible or it can be a service or an idea (Du Plessis *et al.*, 2012). All three these types of products are marketable, deliverable and can satisfy a need. Since there is such a big difference between tangible products, services and ideas, the type of product plays an important role in the marketing strategy that a small business will be able to use. In most instances, the insurance industry sells a service to their customers.

Customer relationships are important for all businesses but it is even more important for a small business. Having customers who are satisfied with the products that a small business offers, who are satisfied with the service that they receive from a small business, and who feel that they receive more than expected, will turn into loyal customers who will return to the specific business. Relationship marketing focuses on these loyal customers with whom a business can build a relationship (Du Plessis *et al.*, 2012).

Research by Cant and Manley (2013) illustrates the importance of marketing and branding. Cant and Manley looked at perceptions of consumers in black urban areas of Tshwane – a municipal area in Gauteng – and found that respondents were positive towards advertised brands. The participants believed that these brands were of higher quality and better value for money, based solely on the fact that it was advertised. In this manner, marketing must be seen as important for the small business owner. This confirmed findings by Cant and Ligthelm (2005) who found that business owners regarded marketing as the one function that directly contributes to the profitability and success of their endeavours. In their study on the support factors required for SME success in Namibia, Mukata and Swanepoel (2017) also found that marketing is a key are of support that is necessary for SME success. Strydom (2017) studied the role of marketing in more detail and found that it is a key driver of small business success because it facilitates the process of differentiation from competitors and the identification of customer needs.

2.3.2.6 Public relations management

Public relations is the management function that deals with the evaluation of public attitudes, the identification of policies and procedures of an individual or organisation with a public interest, and planning and executing a programme of action to produce public approval and understanding (Strydom & Nieuwenhuizen, 2012). Van Zyl *et al.* (2012) and Erasmus *et al.* (2013) add to this definition by adding that public relations management is a deliberate, planned and sustained effort to establish and maintain a mutually beneficial relationship between the organisation and all affected stakeholders. As Erasmus *et al.* (2013) explain, public relations management is closely related to marketing, and together they form part of the key functions required in a business to make it a success.

Public opinion of the type of business a small business owner is planning to conduct is very important (Van Zyl *et al.*, 2012). If the community is opposed to the business operations, the business will soon have to close its doors due to a lack of customer support. Unlike other business functions that can be obtained and maintained with monetary expenditure, the trust of the community and general public needs to be earned (Erasmus *et al.*, 2016; Van Zyl *et al.*, 2012). Without it, a business will have no customers and unreliable suppliers.

Van Zyl *et al.* (2012) postulate that many business fail, not due to a lack of viability, but because no time was spent on building a good reputation and reaching out to the community surrounding the business.

Everything that a small business, its owners, managers and employees do contributes to the public perception of the organisation (Van Zyl *et al.*, 2012). The way in which a business communicates with clients, suppliers and other stakeholders immediately creates a perception in their minds of what that organisation stands for (Van Zyl *et al.*, 2012). The public perceptions about the business are not limited to the customers, suppliers and other external stakeholders but include the internal personnel of the organisation. Van Zyl *et al.* (2012) argue that the internal stakeholders, such as employees, managers and directors, might be the most important people on whom public relations tasks should focus since they will convey an image of what is happening inside the organisation. Happy employees portray a positive image. In small businesses, where there are fewer

employees than in large organisations, the interpersonal relationships within the organisation become much more important (Van Zyl *et al.*, 2012).

As stated previously (see 2.3.2), the small business owner and manager will be responsible for business functions that would usually be the responsibility of individual experts. Since the small business owner is usually not in the position to employ a public relations manager or consultant, it is important for such manager to be aware of the functions for which a public relations manager would usually be responsible in order for him or her to fulfil this role.

The tasks of a public relations manager are:

- the promotion of goodwill;
- releasing accurate information to the public in a timely fashion;
- deciding on an image to portray to the public and emphasising that image whenever possible;
- controlling the damage caused by negative publicity;
- communicating with employees; and
- planning events and promoting those events (Van Zyl *et al.*, 2012).

If all the other business functions achieve their goals, this leads directly to a positive public image (Van Zyl *et al.*, 2012). Operations, purchasing, supply and logistics management implemented correctly will lead to good-quality products and service (Van Zyl *et al.*, 2012). Marketing management guides a company to be customer-focused and to have a positive attitude towards customer service. When marketing management is implemented correctly, it will also ensure that any advertisements going out to the community will be accurate (Van Zyl *et al.*, 2012). The principles of general management and strategic management will guide the organisation towards ethical business practices that are focused on the greater good of the stakeholders involved and not just on profit and the business. And finally, when personnel and human resource management is a priority in a business organisation, employees will be viewed as the most important asset of the organisation, and this in turn will lead to better customer service. All of these aspects contribute to the positive image of the organisation (Erasmus *et al.*, 2016; Van Zyl *et al.*, 2012).

2.3.2.7 Administrative management

The administrative management function is concerned with the service of procurement, recording and analysing information, and sharing the results with management who then can protect the assets, endorse the activities, and achieve the objectives of the organisation (Nieuwenhuizen, 2014; Strydom & Nieuwenhuizen, 2012). This is summarised by Van Zyl *et al.* (2012) as the process of planning, organising and controlling all information-related activities.

Administrative activities comprise everything from the collection and distribution of information to the layout and equipment of offices. In large organisations, this role is fulfilled by an office manager, but in small businesses this is usually done by the small business owner (Van Zyl *et al.*, 2012).

This business function is largely ignored since it does not produce income for the organisation but it does ensure that an organisation functions effectively. If somebody is in charge of ensuring that the organisation has a good record-keeping system, that filing is up to date, telephone calls and all other correspondence are managed correctly and can be traced, it ensures that the organisation as a whole functions efficiently. If these systems are in place and managed correctly, management system information is accessible as and when needed (Van Zyl *et al.*, 2012).

2.3.2.8 Financial management

The financial function comprises all the activities involved in obtaining capital and the efficient use thereof. The financial manager is responsible for the effective planning, organising and control of all financial activities in the organisation (Erasmus *et al.*, 2016; Strydom & Nieuwenhuizen, 2012).

The capital needs of a small business organisation are created by an increase in sales due to seasonal changes or due to economic changes, a need to improve manufacturing technology, an increase in the number of customers purchasing on credit, to name but a few (Nieuwenhuizen, 2014). This additional capital can be generated internally by retaining profits, borrowed from lenders such as banks, sale of ownership interest in the business, and disposal of current assets (Nieuwenhuizen, 2011; Nieuwenhuizen, 2014). Small business owners and managers require in-depth knowledge of financial management in order to

determine the best price to ask for a specific product, the best prices to pay a supplier, and to determine whether the business venture is financially viable. Small business owners also need sufficient knowledge to determine the need for credit facilities and whether this will generate additional income to manage the cash flow of the organisation and acquire the assets and credit required to grow their business successfully (Van Zyl *et al.*, 2012).

Obtaining finance, doing financial planning, analysing financial information, and managing cash flow are vital skills any business owner should have. Cant and Ligthelm (2005) found that up to 65% of business owners who participated in their survey lacked these skills and admitted that this lack threatened their business success.

The fact that a small business owner will be responsible for most of these management functions on his or her own presents a great challenge since most individuals will only be experienced in a selected few of these functions. Seeing that the respondents of this study were mostly employed in large organisations, their exposure to the functional areas could have been limited. The problem is exacerbated in that many micro-enterprises view management functions as less important than large enterprises do (Cant & Ligthelm, 2005). Mukata and Swanepoel (2017) studied SME success in Namibia and found that issues with finances was a notable problem for these SMEs and they identified finance support as being a key driver to SME success.

2.3.2.9 Safety, risk and environmental management

In the South African context, there are three additional management functions that should be mentioned. In his 2009 and 2016 reports, Judge Mervin King and the King Commission focused on risk management, safety management and environmental management as integral parts of corporate citizenship (Institute of Directors in Southern Africa [IoDSA], 2009; 2016).

In order to be sustainable and socially responsible, it is vital that small businesses evaluate their business risk and take the necessary steps to minimise or avoid these risks. The aim of risk management is to do exactly that, by protecting the stakeholders involved through planning, organising and controlling the activities of an organisation (Erasmus *et al.*, 2016; Valsamakis, Du Toit & Vivian, 2010). Risk

management is a vital skill in small businesses because it gives the small business owner the opportunity to adjust his or her strategic plans to allow for changes in the business environment (Brustbauer, 2014).

South African legislation includes the management and absence of risk as part of the responsibilities of employers toward their employees (RSA, 1993).

Although issues like climate change, deteriorating natural resources and ecological sustainability appear to be macro environmental factors, the preparation for the effect thereof needs to take place in the micro environment. Business organisations need to focus their reporting on more than just financial reporting (IoDSA, 2009). The effect of their activities on the environment needs to be managed in a responsible manner (IoDSA, 2009). Johnson (2015) found a marked shortage in both awareness of environmental management tools as well as implementation of these tools. In their study, Williams and Schaefer (2013) found that small business managers had a sufficient working knowledge of environmental management concepts but that the actual implementation of environmentally friendly business practices depended greatly on the personal values and characteristics of business owners and managers.

The small business owner's perceived knowledge of and expertise in the different functions of the micro environment were assessed when conducting the survey.

2.4 Market environment

The second business environment that will be discussed is the market environment. The market environment can be defined as the sum total of all the factors and/or variables which exist externally and which cannot be controlled but can sometimes be influenced so that it will have a positive or negative effect on the growth and existence of the business (Strydom & Nieuwenhuizen, 2012). The market environment consists of the following sub-components: the market, consumers and suppliers.

The market environment directly influences the micro environment. The role players within the market environment – consumers, suppliers and competitors – make decisions that have a direct effect on the environment within which a small business operates and the strategies the business organisation needs to employ in order to be successful in such environment. In turn, the micro environment also influences

the market environment with its business decisions. The components of the market environment directly influences the ability of a small business to survive by determining the power and influence that competitors have in a specific industry (Du Plessis *et al.*, 2012).

The market environment represents the industry within which the small business operates and it can be a source of both opportunities and threats as will be illustrated in this section. Industry trends present unique opportunities for an individual to start up, and the small business owner to expand on existing operations (Lussier *et al.*, 2015).

Lussier *et al.* (2015) divide these industry opportunities into trends and fads. Trends are long-term changes, while fads are seasonal. The small business owner needs to be aware of trends in order to maximise on the opportunity these present.

2.4.1 The market

The market environment includes all aspects that are concerned with the customers and their needs. It includes all individuals, groups or institutions who have specific needs for goods and services and who are prepared to use their available financial means to acquire them (Strydom & Nieuwenhuizen, 2012). Botha and Musengi (2012) state that the customers are the most important part of the market environment. Without the different types of consumers, as listed below, an organisation would not exist and cannot survive.

2.4.1.1 The consumer market

Strydom (2017) studied the importance of marketing in the longevity of small businesses in Soweto and found that successfully identifying the needs of consumers is key to the long-term survival of small businesses. The consumer market consists of the end-customers who carry out transactions in order to buy and consume items such as clothing, food or cars (Strydom & Nieuwenhuizen, 2012). Du Plessis *et al.* (2012) expand on this definition by adding that the consumer market consists of individuals and households who purchase products and services for personal consumption. This definition can be supplemented by the definition of Lussier *et al.* (2015) who explain that, although the terms 'consumer' and 'customer' are used interchangeably, there is a difference. The consumer, who actually makes use of the product, is not always the same person as the customer, who purchases

the product. It stands to reason that, in the light of this distinction, the consumer market includes both the consumer and the customer, who actually purchases the product. This distinction is essential for a small business owner since it determines the target market for his or her marketing campaigns. In certain cases, there is little use in marketing to the customer (for example parents) when the consumer (in this example, the children) is the opinion shaper and driving force behind purchases. The distinction is important for the insurance industry, which was the focus of this study, because in many instances, the opinion shaper will be the independent advisor or representative who gathers information and relays his or her opinion to the client. Not all products are marketed directly to the end user, but rather they are marketed through these representatives.

2.4.1.2 The industrial market

The industrial market is the market where the goods and services that are needed for the manufacturing process are purchased. The end product of this manufacturing process will be sold in the consumer market (Nieuwenhuizen, 2011; 2014). The industrial market also comprises those products and services that are purchased by businesses from other businesses for their own consumption (Du Plessis *et al.*, 2012).

2.4.1.3 The resale market

The resale market comprises the purchasing of goods for the purpose of selling them again in the same condition to consumers (Erasmus *et al.*, 2016; Nieuwenhuizen, 2011). Du Plessis *et al.* (2012) explain that the goal of the resale market is the generation of profit through the wholesale and retail industries.

2.4.1.4 The international market

The international market exists outside the borders of a country and includes all foreign customers, manufacturers, retailers and authorities (Strydom & Nieuwenhuizen, 2012). With the advent of globalisation, international customers and suppliers have become more accessible to small businesses than before.

2.4.1.5 The government market

The government market is where government and municipalities provide citizens and businesses with goods and services that are essential for them to conduct their

daily activities. These comprise the supplies for government schools, sanitation services, medical and other emergency services as well as the organisations and employees whose salaries are paid by government (Strydom & Nieuwenhuizen, 2012).

Erasmus *et al.* (2013) explain that in general, customer needs and expectations can be divided into the following six broad categories. Customers expect higher quality, at the lowest possible cost, within the shortest amount of time, with great flexibility and reliability, while getting great overall service.

2.4.2 The suppliers

Once a business owner has decided which products he or she will be producing for the consumer market and the quantities that will be needed in the production process, the business owner has to get hold of the raw materials required to produce these chosen products (Strydom & Nieuwenhuizen, 2012). In the market environment, the role of suppliers is to fulfil these needs for raw materials and services (Botha & Musengi, 2012). The relationship between an organisation and its suppliers is vital, as discussed in section 2.2.4. If a supplier fails to deliver the necessary raw materials, the production of the organisation can come to a complete stop. If the raw material is of a substandard quality, the end product supplied by the organisation will also be of poor quality (Botha & Musengi, 2012).

Suppliers include those organisations who supply materials, but it also includes the organisations who supply capital, such as banks and other financial institutions, and services (Du Plessis *et al.*, 2012). Local and provincial governments are vital suppliers of energy, water and sanitation services. The importance of this aspect will be discussed later in this chapter (see 2.5.1.3).

Small business owners in the insurance industry, independent financial advisors and suppliers in this industry deal with intangible products (Myler, 2015). The products are divided into various categories to address consumers' current and future financial needs. Brokers and small businesses need to be registered separately for each product line they will be marketing. Suppliers also need to be registered per category or per product line. Suppliers can be financial services providers, such as insurance companies and large intermediaries, previously known as 'insurance brokers'. These large organisations would include, for example, Old Mutual,

Alexander Forbes and Sanlam. Some large organisations, such as Discovery, Liberty, Momentum, and Sanlam identified the potential in small businesses and they are actively involved in franchising parts of their business to empower small businesses and small business owners (see Stokes, 2009).

In South Africa, the insurance industry forms part of the financial intermediation, insurance, real estate and business services SIC (standard industrial classification of all economic activities) (Stats SA, 2017a). According to this classification, this sector employs approximately 2 195 000 individuals (Stats SA, 2016). INSETA, the sector education and training authority responsible for the insurance industry, estimates that the insurance industry employs over 100 000 people, through 9 595 employers who are registered with the South African Revenue Service (SARS) (Insurance Sector Education and Training Authority [INSETA], 2016). However, the Financial Services Board (FSB) (2016) indicates that there are over 24 000 registered financial service providers. This inconsistency is due to the fact that only 9 595 companies are paying skills development levies through SARS.

The financial intermediation, insurance, real estate and business services sector contributed 37.7% of the total companies tax received by SARS in 2015. This constitutes R64.3 billion (SARS, 2016). This economic sector also contributed 42.7% of the total value-added tax (VAT) received by SARS during 2015 (KPMG, 2016). Along with the fact that insurance is estimated to comprise 14% of the national GDP (KPMG, 2016), it is clear that this economic sector plays a vital role in the South African economy.

2.4.3 The competition

This section provides a definition of competition, explains competitive advantage, provides an overview of the Porter five forces model of competitive advantage and the importance of competitive advantage. This section ends off with a brief discussion on the essential ingredients of competitive advantage

2.4.3.1 Competition defined

Competitors are defined by Botha and Musengi (2012) as organisations that sell the same, or similar, products and can potentially take market share away from another business organisation. Competition in the market environment ensures that consumers receive the best possible services at the best possible price (Botha &

Musengi, 2012). The basis of competition lies in convincing consumers that the products of a specific business are superior to the products of another business. Competitors require the same or similar raw materials, and their strategy and pricing decisions directly influence other organisations in the same industry (Strydom & Nieuwenhuizen, 2012).

Du Plessis *et al.* (2012) expand on the definition of competition by specifying four types of competitive environments:

- **Perfect competition** occurs in an environment with a large number of sellers and a large number of buyers who are able to make well-informed purchasing decisions, based on the standardised marketing campaigns that are at their disposal. Thanks to a changing world economy, perfect competition is becoming a more theoretical concept than a practical occurrence.
- A **monopoly** is a type of competitive environment where only one supplier dominates the market and this supplier can provide his or her products and services at any price since there are no competitors challenging him or her. In South Africa, the Competition Commission investigates collusion and any form of monopoly formation in the private sector quite rigorously (see Du Plessis *et al.*, 2012).
- An **oligopoly** occurs when a handful of suppliers dominate the market and each supplier can influence the market to a great extent. There are many examples of this type of competition in South Africa, such as the major commercial banks in South Africa. This is also true for the insurance industry with Old Mutual, Momentum, Sanlam and Liberty acting as the major role players (BusinessTech, 2015).
- **Monopolistic competition** is a type of competitive environment that is based solely on branding. Although the products in this category are very similar, the different brands convey different perceptions to consumers. The advantage of this type of competitive environment lies in the fact that it forces participant suppliers to keep their prices and quality competitive.

Cordeiro (2013) explains that if a small business understands the role of the competitors within its environment, it will be able to do better strategic planning. This understanding of competitors will also allow small businesses to identify the gaps

within its own strategy and resources in order for it to plan how it will get hold of the resources it requires to be successful. The importance of understanding the role of competitors is also highlighted by Strydom (2017) who found that the ability of a small business to differentiate themselves from their competition were more successful in the long run.

2.4.3.2 Competitive advantage

A competitive advantage of a business organisation comprises those factors that set such organisation apart from its competitors, and are the things that a business does better than anyone else (Hatten, 2016). This competitive advantage can lie in the image of the business or its location, layout, atmosphere, products, services, pricing and advertising as sales methods. The advantages that already exist should be incorporated into the strategic plan of the business in order for it to utilise them fully. The advantages that are attainable should also be incorporated into the strategic plan in order for them to be achieved and used to the advantage of the business. It is also important to keep in mind that a characteristic of a business or its products may be a competitive advantage in one section of the market while it alienates another market sector. This is especially true when incorporating online technology into the strategic plan of the business. Although it may impress millennials, businesses run the risk of missing out on the business generated by older-generation clients (Skinner, 2015).

In this day and age, an exceptional online presence and unique specials are what gives one insurance institution an advantage over others (Skinner, 2015). Outsurance was one of the first insurance providers combining the benefits of technology and promising a cash payout if their quote does not beat a potential client's existing insurance premium. This revolutionised the insurance industry as a whole by following a disintermediation route, taking out the intermediary. In this case, the middleman would be the insurance broker or other well-established financial intermediaries.

2.4.3.3 Five forces model of competitive advantage

Michael Porter, a leading researcher and academic on strategy and competition, explains that there are five forces of competition. The first force is the **degree of rivalry between competitors** (Porter, 1991). This is determined by whether or not

the competitors in an industry are actively competing with one another. The second force is the **threat of new entrants** (Porter, 1991). Certain sectors have a few businesses that have been established long and they form a close-knit group that both compete with each other and prevent new businesses from entering their market. These sectors make things very difficult for small businesses. Larger organisations have the cash flow to sell their products at reduced prices or even at a loss in order to take market share away from small businesses and force those businesses to close down. The third force is the **bargaining power of the supplier** (Porter, 1991). If the raw materials required for production are supplied by more than one organisation, competition over pricing might exist and a business could purchase from any supplier it chooses. If however, there are only one or two suppliers, they have a monopoly and could ask any price they choose. Due to the lack of cash flow in small businesses, the situation of monopoly suppliers could ruin the small business and force them to close down. The fourth force of competition is the **bargaining power of the buyers** (Porter, 1991). The more options a buyer has when it comes to substitutes to the product of a business, the higher the buyer's bargaining power when it comes to pricing. Linked to this is the **threat of substitute products or services** (Porter, 1991).

The existence of substitute products creates additional challenges within the insurance industry. Insurance is a product purchased by individuals and businesses to limit the effect of risk (Erasmus *et al.*, 2016; Valsamakis *et al.*, 2010). Crime and economic uncertainty in the South African environment lead to increased threats and needs to be combatted with the purchase of more insurance or a move to more self-insurance where the client takes on more risk responsibility. This negative connotation makes an already begrudged purchase even more negative (Insurance Times, 2008). Very few people have a positive attitude towards the purchase of insurance products. The benefits of insurance are based on intangible benefits that only occur under negative circumstances, such as death (Insurance Times, 2008).

2.4.3.4 Importance of competitive advantages

The importance of having a competitive advantage stands central to business survival. The only way a business organisation will gain and retain customers is if it does something that sets it apart from its competitors. Businesses of all sizes are vulnerable to changes in competitive advantage. Big and small business

organisations can lose their competitive advantage at any time due to the actions of a competitor, international or economic events such as a recession, and technological changes such as disintermediation (Fang, Ivashina & Lerner, 2015).

2.4.3.5 The essential ingredients of competitiveness

Goetsch (2012) combines different aspects from the micro business environment to form his theory of the essential ingredients of competitiveness. Goetsch (2012) postulates that the most important ingredients that a business should control in order to stay competitive are productivity, quality, cost, response time, image, service, and the education and training of staff and managers. This model essentially incorporates all the functional areas that were discussed in the section on the micro business environment in section 2.3.2 previously.

When one looks at this theory from a small business management perspective, it once again shows that the small business owner needs to be multi-skilled and multi-talented, but it also gives the small business owner access to management functions he or she could use to manage the business successfully.

2.5 Macro environment

The macro environment, the third business environment to be discussed in this chapter, influences the organisation, but a business cannot influence the macro environment. The macro environment consists of all the variables and factors outside the business which have a positive or negative influence on the growth and continued existence of the business and its marketing activities, either positively or negatively (Strydom & Nieuwenhuizen, 2012). Du Plessis *et al.* (2012) refer to these forces as 'megatrends'. The macro environment (as illustrated in Figure 2.9 below) comprises the economic environment, social environment, technological environment, physical environment, international and statutory environments, all of which will be discussed below.

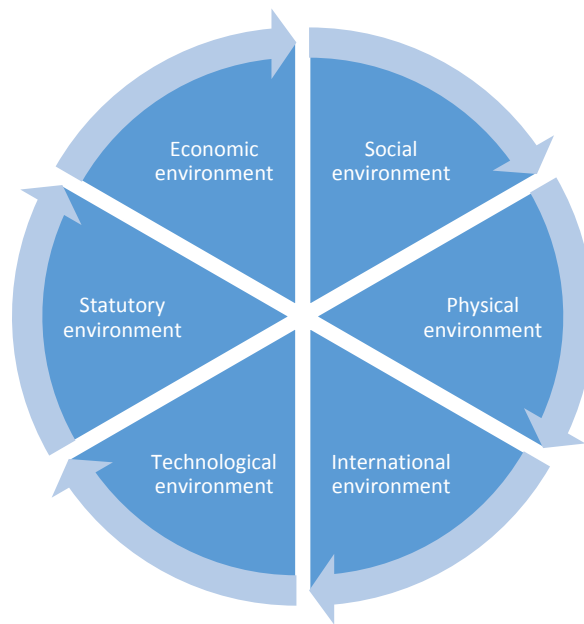


Figure 2.9 The macro environment

Source: Author's own composition (2014)

Although entrepreneurs view macro environmental issues as the least important issues a business faces (Cant & Ligthelm, 2005), they still have a significant influence on the business an entrepreneur conducts and on the market environment within which this business operates. The international recession that hit the business world in 2008 is a very good example of the influence that the macro environment has on business organisations (Erasmus *et al.*, 2013). Small businesses around the world, and specifically in South Africa, are still recovering from the recession and its aftermath.

The PESTEL or PESTLE analysis (see Sandoval, 2015 and Aguillar, 1967) divides the macro environment into six sub-environments, namely political, economic, social, technological, environmental and legal. This analysis is applied as a risk management tool by determining the effect that barriers in these six environments will have on business strategy (Sandoval, 2015). Sandoval (2015) also describes how the PESTLE framework was used as a post-mortem tool to determine why certain projects failed. Originally used by Aguilar in 1967, this business environment scanning tool was better known as ETPS – economic, technical, political and social (Aguilar, 1967). This framework was improved and customised over the years to the PESTEL/PESTLE framework used today.

2.5.1 Economic environment

Kelly and Ashwin (2013) define the economic environment as the totality of economic factors. These economic factors comprise supply and demand, productivity inflation, interest rates and income as well as employment. The economic environment covers the following issues: global trade practices and terms of trade, international exchange rates and controls and rates of taxation (Hendrikse & Hefer-Hendrikse, 2012). These issues in the economic environment influence the personal disposable income of the customer and his or her purchasing behaviour. Customers have limited financial resources available with which to satisfy their needs and will be forced to make choices as to how they will be utilising these resources (Strydom & Nieuwenhuizen, 2012). Botha and Musengi (2012) explain that the economic factors in the macro environment are those factors that affect the health and vitality of the economic system in which an organisation operates.

Van Zyl *et al.* (2012) explain that the economic environment is the one macro environmental segment that has the most influence on the spending power of consumers. Factors such as interest rates and inflation play a vital role in the disposable income of consumers and businesses alike.

The economic environment can be explained in terms of the following concepts (Kelly & Ashwin, 2013):

- economic indicators;
- business cycles; and
- the role of government.

2.5.1.1 Economic indicators

Economic indicators are used to convey the current state of an economy. GDP, the gross national product (GNP), balance of payment, and employment rate are the most commonly used economic indicators (Kelly & Ashwin, 2013). The small business owner needs to be aware of economic indicators and their meaning in order to make sound business decisions. Economic indicators illustrate in which business cycle an economy finds itself at any given time. In the South African economy, GDP is around 2% (Le Cordeur, 2015a). Compared with the GDP of 4.1% measured in 2014, the growth of the South African economy has been slowing at a concerning rate and was hovering below the 1% growth per annum for quite some

time (Stats SA 2017b). The most recent statistics regarding the South African GDP growth rate was recorded as -0.7%, officially placing the South African economy in recession (Stats SA, 2017b).

The regular power cuts experienced in South Africa contributed to the lower GDP experienced in all industries but mainly the manufacturing industry in 2014 (Le Cordeur, 2015b). The SA Reserve Bank increase prime interest rates from time to time, in an attempt to curb the weakening of the rand (Fin24, 2017). The current prime interest rate stands at 7% (see Fin 24, 2017) and there could be further increases depending on what will happen to the South African economy after the downgrade by three rating agencies (see Gumede & Yoo, 2017). Such interest rate increases influence small businesses negatively. Interest rate increases lead to increases in the cost of borrowing, affect mortgage repayments, reduce consumers' disposable income and investor confidence in the country (Parrish, 2013). It obviously also affect the customer when it comes down to buying insurance as this is sometimes seen as a non-essential item or grudge purchase (see Kruger, 2014).

2.5.1.2 Business cycles

Kelly and Ashwin (2013) define business cycles as the variations in an economy that follow a general pattern of growth, recession and recovery. The timeline of such cycles can be limited to one financial year, or it could last for many years.

As the economic environment goes through growth phases, the small business owner is presented with additional opportunities as consumers have more to spend on fewer essential products and services (Lussier *et al.*, 2015). The resource cycle downturn has had a negative effect on the South African economy. The basic commodities, such as gold, silver, platinum and coal, are all basic export commodities that South Africa sells in vast quantities overseas. With the worldwide economic decline (2008–2010), the demand for these products waned and this resulted in a massive drop in the price of these commodities. The end result is that most of these producers are under threat with low if any profits (Lussier *et al.*, 2015). The knock-on effect is that thousands of workers are under threat to lose their jobs (Mahlakoana, 2016). Obviously, this will affect the potential customers for insurance products. It also affected the target population of this study. The recent worldwide financial crisis had an influence on the insurance industry, leading to the closure of

some institutions. Along with South African black economic empowerment (BEE) regulations (see section 1.3 and 2.5.5), the economic downturn also forced companies to merge (KPMG, 2013). Mergers, such as between Metropolitan and Momentum (MMI) in 2010, were accompanied by court cases preventing them from retrenching any employees (Business Day, 2011). There has been a reduction in long-term insurance companies from 87 in 2012 (FSB, 2012) to 81 in 2016 (FSB, 2016); and in short-term insurance companies from 106 in 2012 (FSB, 2012) to 96 in 2016 (FSB, 2016). Although no official figures have been released, it stands to reason that both these major industry changes eventually led to job losses. The individuals who had been retrenched or marginalised from the insurance industry in Gauteng formed the population of this study.

2.5.1.3 The role of government

In the ideal world, the government of a country would be responsible for maintaining a high level of economic growth, low levels of inflation and unemployment and ensuring that there is a positive balance between imports and exports (Kelly & Ashwin, 2013). All of these factors contribute to a healthy economy. Governments achieve this by managing their macro-economic policies (Kelly & Ashwin, 2013). Macro-economic policies can be divided into fiscal policy and a monetary policy (Kelly & Ashwin, 2013). A government's fiscal policy is essentially a balance between government spending and the taxes this government imposes (Kelly & Ashwin, 2013). This is the policy where unemployment exerts the most influence. A monetary policy involves interest rates, exchange rates, inflation and a balance between imports and exports (Kelly & Ashwin, 2013). As Kelly and Ashwin (2013) explain, people who are unemployed are not only not earning any money to sustain themselves and their families; they are also not contributing to the taxes recovered by a government. According to GEM Consortium (2014), South Africa has an estimated unemployment rate of 40% among the general population and over 60% among the youth population, directly affecting the economic policy of organisations. GEM Consortium (2017) indicates that it will take a long time to bring employment levels across the world back to acceptable levels, and government training intervention, as early as secondary school, is of vital importance.

As explained later in this chapter (see 2.5.1.3), local and provincial governments are vital suppliers of energy, water and sanitation services. However, with the

challenges that are experienced by Eskom, a state-owned enterprise (SOE) to supply power, South Africa finds itself in a situation where multinational companies are moving their business to other countries where electricity supply is reliable and affordable (Aboobaker, 2015). Many of the products that were previously exported, now have to be imported. This directly affects the health of the economy as it results in a deficit on the trade account. This move by multinational corporations also negatively influence employment rates, and businesses refuse to pay employees for the hours in which there was no power (Aboobaker, 2015). If electricity supply problems and tariff increases force multinational organisations out of South Africa, how much worse is the effect on small businesses, both formal and informal? Fin24 (2015a) reports that small businesses are already under pressure due to the economic and political conditions in South Africa, and continued price increases will only increase this pressure and cause millions of individuals and small businesses to fall into debt. This situation is significantly worsened by the downgrading of South Africa's banks by three international rating agencies (Jackson, 2017). In an interview with the AHi (Afrikaanse Handelsinstituut), Debt Rescue, and independent economists, the effect of South Africa's economic and infrastructure problems on small businesses was underlined. The increased pressure on the economy follows a decrease in productive hours, caused by unreliable power supply, increased unemployment, and the additional price increases (Fin24 2015a) and, more recently, continued and regular protest action (African News Agency, 2017).

GEM Consortium (2017) indicates that government and financial institutions play a vital role in improving the entrepreneurial culture of a country and alleviating poverty. GEM Consortium (2017) suggests the development of a financial model that would allow small businesses to obtain capital easier. It is also suggested that greater tax breaks be offered to new ventures and to those investing in these businesses (GEM Consortium, 2017). In an attempt to encourage small business development, the Ministry of Small Business Development was established in 2014 (Department of Small Business Development, 2015). The goal of this government department is to disseminate resources that would encourage small business development and sustainability. In conjunction with other government departments, the strategic aims of this ministry include –

- ensuring that small businesses have access to procurement opportunities in the public and private sectors;
- providing incentives that would make it more affordable to run small businesses;
- providing easier access to finance for small businesses;
- development of policies that will reduce the regulatory burden on small businesses (Department of Small Business Development, 2015).

Although this ministry aims at addressing many of the challenges faced by small businesses in South Africa, it has to deal with many challenges. In their 2015/2016 annual report, the Department of Small Business Development indicated that they achieved their targets on only 13 of the 31 key performance areas. This report also indicated that they struggled under budgetary constraints and the challenges of constantly being understaffed (Rayi, 2017). The establishment of such a department does however indicate a willingness on the part of the South African government to support small businesses. It also indicates awareness of the importance small businesses have for any developing economy.

2.5.2 Social environment

The social environment is governed by the demographics of the population and the social and cultural variables (Strydom & Nieuwenhuizen, 2012). These variables comprise the size and composition of the population, geographic location and the developmental level of the market. It enables a business to target a specific population group based on their demographics, like age, gender and race (Botha & Musengi, 2012). Targeted marketing is less expensive than other marketing methods because the tools for marketing and the tools for information gathering are more readily available than it was ten years ago. This is to the advantage of small businesses since they have more limited resources than larger business organisations (Strydom & Nieuwenhuizen, 2012).

Demographics also include culture. Small businesses should be sensitive to the influence of the cultural differences in South Africa, since there are 11 official languages and each cultural group has its own set of values, beliefs, languages and religious practices (Botha & Musengi, 2012).

Recent trends within the social environment comprise the effect of a more mature population where we see that improved quality of life leads to a lower mortality rate (see Lussier *et al.*, 2015). This drastically increases the market represented by retired people, and the businesses that function within that population need to be aware of the opportunities it presents (Lussier *et al.*, 2015). Some of these opportunities could be utilised by the small business insurers and intermediaries.

Other trends are a focus on sustainability, health and wellness, green products and green energy, and finally security and privacy (Lussier *et al.*, 2015). Consumer awareness drives trends, and never before have consumers been so educated and influential.

At social level, South Africa is in a state of turmoil (Tshabalala, 2015). Xenophobic attacks are sabotaging the goodwill that South Africa earned from African countries and international investors (Tshabalala, 2015). Instead of reaping the benefits of the economic success of fellow African countries, South Africa is finding itself more and more isolated (Tshabalala, 2015). This turn of events, caused by xenophobic attacks, the crime rate, and a lack of general law enforcement is causing a negative international sentiment towards South Africa (Tshabalala, 2015).

The social environment has a vital role in the future success of an entrepreneur and these factors will be discussed in greater detail in Chapter 3.

2.5.3 Technological environment

The technological environment comprises all aspects which give rise to new or improved products and services being made available on the market (Strydom & Nieuwenhuizen, 2012). Botha and Musengi (2012) explain that technology in a business environment includes everything that enables an organisation to transform inputs into outputs. This is reiterated by Richard Branson. Jack Preston quotes Richard Branson as saying: "The big change to entrepreneurship over the past 25 years has been technology. Now, more than ever, anybody can create their own business and be up and running in the time it takes to register a website" (Branson, in Preston, 2013:no page).

Cant and Ligthelm (2005) found that 40% of entrepreneurs participating in their study, viewed rapidly changing technology as having a positive effect on business success. Where Cant and Ligthelm (2005) indicated that marketing management is

one of the most important business management functions, David (2016) explains that in the face of globalisation, technology and technological advancement are of greatest importance to business success. Small businesses do not need to be the originators of these new technologies. According to Lussier *et al.* (2015), the real opportunity lies in embracing these new technologies. Small businesses could successfully become suppliers of these new technologies, design compatible products and add-ons or even improve on the existing technologies.

Kelly and Ashwin (2013) explain that technology can be applied in the products and services that the small business makes available to its customers, and it can also be applied in the internal processes of an organisation. The benefits of technology for small businesses comprise improved communication, improved data management, reduced costs of doing business, reduced time needed for certain tasks while it also enables the small business owner to add value to his or her products and services without capital expenditure (Kelly & Ashwin, 2013).

The increased availability and affordability of technology make it possible for small businesses to exist in a virtual environment (GEM Consortium, 2017). Customer service, procurement and networking occur in a virtual environment and it opens doors to international as well as local customers. GEM Consortium (2017) adds that well-organised technological infrastructure improves access to information, provides better opportunities for innovation, reduces the cost of doing business and increases the market reach of a small business. Along with the new opportunities presented by technology, the small business needs to be aware of the challenges that technology causes. Small business owners and managers will have to acquire skills and develop policies to manage good communication, select the correct tools for each specific business, build relationships with customers and suppliers without face-to-face contact and manage administrative duties (Kinskey, 2015). The availability of affordable e-commerce technology has allowed small businesses to compete right along large e-commerce companies. Small businesses in e-commerce have the ability to implement newer technologies faster than larger companies (Savitz, 2013). Small businesses who invest in mobile platforms also prove to be more successful with consumers with a culture of instant gratification (Savitz, 2013). E-commerce allows small businesses to take the advantages of doing business with small organisations to a large audience (Savitz, 2013). These

advantages include personal attention and flexibility that seem to lack when doing business with large organisations. One example in the insurance industry was the success of Outsurance that has revolutionised the short-term insurance industry. The 'paperless' documentation route as well as the online completion of contracts have opened new opportunities for this industry but may also be seen as a threat to the traditional insurer intermediary in the market place (Deloitte, 2015).

The technological environment is arguably the macro environmental factor with the most influence over changes in the market and micro environments (Erasmus *et al.*, 2013). It is important for the small business owner to keep abreast of changes in the technological environment in order for his or her business to survive.

The extent to which participants make use of technology in their businesses was investigated during the primary research phase of this study.

2.5.4 Physical environment

The physical environment comprises the natural resources in the country, and incorporates the total management of these resources. The resources in the physical environment have varying availability and expenses, and the extraction processes can result in environmental degradation and pollution (Strydom & Nieuwenhuizen, 2012).

Due to a great awareness of environmental conservation by both customers and manufacturers, there is increased pressure on companies to supply products that have been manufactured in environmentally friendly ways (Botha & Musengi, 2012). It may even be to a company's competitive advantage to advertise the fact that they are environmentally responsible in terms of their packaging. This part of environmental awareness also slots in with marketing (Erasmus *et al.*, 2016). The packaging of a product should be recyclable and ideally made from recycled material (Erasmus *et al.*, 2016). Small businesses that operate in an environmentally responsible way could use their responsible actions as a basis for their marketing.

When viewed from a purchasing and supply management perspective, a small business needs to ensure that it acts in an environmentally responsible way throughout the life cycle of its products. This means that the suppliers of whom a small business makes use needs to be environmentally responsible as well (Erasmus *et al.*, 2016; Hugo *et al.*, 2011). It is no longer acceptable to turn a blind

eye to the irresponsible environmental activities of suppliers since it does not directly affect the small business or its customers.

From a different perspective, the physical environment has a directly effect on world economies. During 2012, the economic losses that were induced by natural disasters amounted to \$186 billion (KPMG, 2013). The effect of such losses and the management thereof need to be included in the strategic planning of any small business, even more so for small businesses in the insurance industry, where such losses lead to an unexpected rise in claims and financial pressure.

The factors in the physical environment present many threats to the small business but these can be turned into opportunities. The greatest threats presented by the physical environment include the cost of energy, the cost of pollution, environmentalism, and scarcity of resources (Erasmus *et al.*, 2013). The opportunities these present are –

- the opportunity to explore and sell energy alternatives;
- implementing recycling as part of daily business practices and community projects;
- selling their environmentally responsible business decisions to consumers and suppliers; and finally,
- exploring alternative and more sustainable resources.

2.5.5 Statutory environment

Government influences the way in which businesses are managed through legislation and budgets (Erasmus *et al.*, 2016; Nieuwenhuizen, 2011). Legislations applicable to small businesses in South Africa can be divided into the following broad categories (Laws of South Africa, n.d.):

- labour-related legislation;
- companies and closed corporation legislation;
- taxation legislation;
- consumer legislation;
- trade and industry legislation; and
- insurance industry-specific legislation.

Labour-related legislation in South Africa is quite comprehensive and include:

- the Basic Conditions of Employment Act 75 of 1997;

- the Compensation for Occupational Injuries and Diseases Act 130 of 1993;
- Employment Equity Amendment Act 47 of 2013;
- Labour Relations Act 66 of 1995;
- Occupational Health and Safety Act 85 of 1993;
- the Skills Development Amendment Act 37 of 2008;
- the Skills Development Levies Act 9 of 1999;
- Unemployment Insurance Act 63 of 2001;
- the Unemployment Insurance Contributions Act 4 of 2002;
- Employment Services Act 4 of 2014; and
- Manpower Training Act 56 of 1981 (Department of Labour, 2015).

Two acts are currently regulating companies and closed corporations. These are the Closed Corporations Act 69 of 1984 and the Companies Act 71 of 2008 (CIPC, 2017). The Companies Act summarises the types of organisations that can be registered in South Africa. Under the Companies Act, new registrations are divided into for-profit and not-for-profit companies. The Act specifies certain reporting criteria to which businesses should adhere. Owner-managed private companies are exempt from auditing requirements (RSA, 2008).

These two pieces of legislation, the Closed Corporations Act 69 of 1984 and the Companies Act 71 of 2008, determine the forms of business in South Africa. As explained earlier, the forms of business that can be registered in South Africa are divided between non-profit and profit companies. Profit companies can then be divided further into personal liability companies, state-owned companies, public companies, private companies and closed corporations (CIPC, 2017). An overview of each of these types of businesses is provided in order to illustrate how the choice of business affects the regulations with which an organisation should comply:

- Non-profit companies

Under the new Companies Act, non-profit companies replace section 21 companies and companies limited by guarantee. These companies are also known as public benefit organisations (RSA, 2008). The assets of these companies may not be distributed to directors for any reason other than reasonable compensation for services rendered by them (RSA, 2008). A non-profit company needs to be incorporated by three people and appoint at least

three directors. The name of a non-profit company should contain the letters NPC (non-profit company) and they need to comply with the special regulations as set out in the Companies Act 71 of 2008 (Department of Trade and Industry [dti], 2010).

- Profit companies

When it comes to profit companies, the restrictions that are applicable to non-profit companies with regard to the transfer of shares and assets do not apply. Four types of profit companies are included in the Companies Act 71 of 2008: personal liability companies, state-owned companies, public companies and private companies (dti, 2010).

- Personal liability companies

Companies previously known as partnerships (see RSA, 2008) will fall into this category. The names of these companies have to end with the word 'incorporated' or Inc. (dti, 2010).

- State-owned companies

State-owned companies have been classified separately because they now have to comply with additional legislation and regulations. The names of state-owned companies have to end with SOE Ltd, an acronym for stated owned enterprises limited (dti, 2010).

- Public companies

A public company under the new Companies Act (71 of 2008) is similar to those that existed under the previous Companies Act (61 of 1973). The names of these companies should end with the word 'Limited' or the abbreviation Ltd. These companies have a memorandum of incorporation that states whether they will offer shares to the public, and the restrictions applicable (dti, 2010). Public companies need to have at least one incorporator and three appointed directors (dti, 2010).

- Private companies

Private companies under the new Companies Act (71 of 2008) are similar to the private companies that existed under the previous Companies Act (61 of 1973). There are fewer requirements with which they have to comply, as is the case with public companies. Private companies are not allowed to offer

their shares to the public but they are allowed to have more than 50 shareholders. The names of these companies should end with Proprietary Limited or the abbreviation (Pty) Ltd. The requirements with which a private company has to comply are stated in its memorandum of incorporation. There should be at least one director (dti, 2010).

- Closed corporations

Although no new closed corporations may be registered since 2011, existing closed corporations will exist indefinitely and will be regarded as private companies. Closed corporations may also be converted to private companies in the future (dti, 2010).

The business form a person chooses to register, directly influences the regulations with which such will need to comply.

Taxation laws for small businesses can be a daunting responsibility for small business owners. Small businesses need to be aware of value-added tax (VAT) and the turnover thresholds at which stage the business should be registered for VAT. Whether a small business registered voluntarily or for compulsory reasons, it adds to the administrative responsibilities of the small business owner (Standard Bank, n.d.). Another responsibility that small business owners should be aware of is employee tax. The employer is responsible for deducting employee tax for the pay-as-you-earn system (Standard Bank, n.d.). Skills development levies, unemployment insurance and compensation for occupational injuries and disease form part of these employer responsibilities. Additionally, small business owners are responsible for the turnover tax of the business and provisional tax in their personal capacity (Standard Bank, n.d.). The Taxation Laws Amendment Act (15 of 2016) is amended annually, based on the latest tax regulations that are released by Cabinet.

Consumer-related legislation of which small businesses need to be aware include the Consumer Protection Act 68 of 2008, the Protection of Personal Information Act 4 of 2013, and the Promotion of Access to Information Act 2 of 2000 (CIPC, 2017).

The following acts are listed under trade and industry legislation: Broad-Based Black Economic Empowerment Act 46 of 2013 (BBBEE Act) and the Business Act 71 of 1991 (Laws of South Africa, n.d.). Small businesses who want contracts with large corporations or the South African government, needs to be at a specific BEE level

in order to qualify for such contracts (Paton, 2013). The BBBEE Act sets criteria that provide benefits to businesses owned by a specific ethnic group. While some authors claim that such criteria provide numerous opportunities for small businesses (Bugan, 2013), Paton (2013) explains that the BBBEE criteria make it almost impossible for businesses belonging to other ethnic groups to qualify for these contracts. She goes on to explain that BBBEE is a contributor to small business failure in South Africa since small businesses already need to stay ahead of numerous pieces of legislation, regulating their environment.

Each small business also has legislation and regulations with which it needs to comply, depending on the industry within which it is operating. Small businesses in the insurance industry find that they need to comply with different combinations of legislation, depending on the categories of products on which they advise customers. This includes:

- Financial Advisory and Intermediary Services Act (FAIS Act) 37 of 2002;
- National Credit Act 34 of 2005;
- Administration of Estates Act 66 of 1965;
- Long-term Insurance Act 52 of 1998;
- Short-term Insurance Act 53 of 1998;
- Estate Duty Act 45 of 1955; and
- Tax Administration Act 28 of 2011 (FSB, n.d.).

Legislative and regulatory requirements present a major stumbling block for small business success. Small businesses have very limited resources, both in terms of time and money. The cost of compliance diverts these resources away from business activities that could have contributed to their business success (Hart, 2015).

Although BEE legislation attempted to take small businesses into consideration, it is still preventing small businesses from growing to medium and large businesses by forcing small business owners to comply with certain BEE thresholds (Shapiro, 2015). These thresholds dictate which percentage of a business should be owned by which ethnic group (Shapiro, 2015).

Proposed updates to insurance legislation comprise minimum capital investment amounts that small and micro-enterprises who intend to become micro-insurers

need to have available (Du Preez, 2015; Ensor, 2017). Although the proposed changes to the Insurance Bill is aimed at introducing more micro-insurers to provide service to low-income markets, the minimum capital investment required is R3 million (Du Preez, 2015; Ensor, 2017). Not many small businesses would be able to raise this amount to commence with business activities in this industry. Add to that the high risk of venturing into any new market, and small business owners are up for a challenge. Costs of new ventures are often higher than initially calculated, as explained by Vice (in KPMG, 2013).

In addition to business-related legislation, there is also legislation applicable to the individuals in an organisation, i.e. the business owner and employees. This extends the list of legislation applicable to small businesses and the administration duties of small business owners even further.

As can be seen from the discussion in this section, businesses in the insurance environment of South Africa face unique challenges. Within these regulatory and legislator changes lie opportunities that the small business needs to identify and embrace (Lussier *et al.*, 2015).

2.5.6 International environment

The international environment encompasses those factors that influence a business from outside the national borders of the country within which the business operates. It comprises factors such as international technology, international politics and the international economy (Strydom & Nieuwenhuizen, 2012). Technological advancements, trade treaties and changes in exchange rates all influence South African businesses in some way or another. The changes happening in the international environment will affect the opportunities and threats that occur in the South African business environment (Botha & Musengi, 2012). Small businesses that operate internationally need to comply with the legislations and regulations of all the countries within which they operate. Businesses that do not operate internationally still need to be aware of changes in the international environment and what it means for the future of the market within which they operate.

International investments in the South African economy are a good indicator of the health of the economic, political and social environments (Erasmus *et al.*, 2016). Having looked at the business environmental model, it makes sense to summarise

the main barriers to entry for a small insurer in the highly competitive insurance market.

2.6 Barriers to entry

Many of the environmental factors discussed in this chapter form the barriers to entry that prevent a potential small business owner from actually entering a specific industry.

According to the GEM Consortium (2013; 2016), the barriers to entry are:

- start-up costs and expenses;
- compliance with legislation;
- the owner's lack of skills and knowledge;
- the owner's lack of education;
- political uncertainty;
- high drop-out rates at secondary school level;
- low enrolment levels at tertiary level;
- cultural stigmas surrounding entrepreneurship;
- fear of failure;
- the economic climate of a country;
- a lack of finance and infrastructure;
- a lack of mentorship and support;
- corruption;
- over-regulation; and
- a lack of property rights.

Among these global problems, GEM Consortium (2013) identified the following as major issues according to entrepreneurs in sub-Saharan Africa: a lack of capital, skills, support, market opportunities, property rights and professional networks along with corruption.

As indicated earlier in this chapter (see section 2.5.5), compliance with legislation and regulations places great strain on the resources available to small businesses. Based on the information in this section, it can be stated that small businesses in the insurance industry have compliance responsibilities that exceed those of small businesses in other industries. They are also required to provide a substantial capital investment (three million rand), as illustrated earlier in this chapter (see

section 2.5.5). When investigating what these barriers to entry means for small businesses in the insurance industry, it is clear that potential and existing small business owners may find it difficult to build successful businesses in the insurance industry. Monetary and regulatory challenges make it extremely difficult for small businesses to survive and grow in this industry.

This is reiterated by KPMG in their 2013 report on the insurance industry. The report explains that the major challenges faced by businesses, specifically in this industry, include regulations, tax, government involvement, information management and the ever-increasing speed of innovation (KPMG, 2013).

The perceived barriers to entry formed part of the primary research of this study.

2.7 Conclusion

In this chapter, the variables that have an effect on small businesses were discussed in terms of the business environments. It was illustrated how these micro, market, and macro environmental variables influence small businesses in terms of threats but also in terms of business opportunities.

In Chapter 3, Entrepreneurship and small businesses management will be defined. This chapter also relates a discussion of the personal characteristics of entrepreneurs in general and the challenges of entrepreneurs in a South African context.

CHAPTER 3: ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT IN SOUTH AFRICA

3.1 Introduction

In this chapter, the attention will be on defining what an entrepreneur is, exploring the social background influencing the entrepreneur, discussing the personal characteristics of an entrepreneur and taking a look at entrepreneurs and small business development in South Africa. Figure 3.1 below illustrates the outline of this chapter.

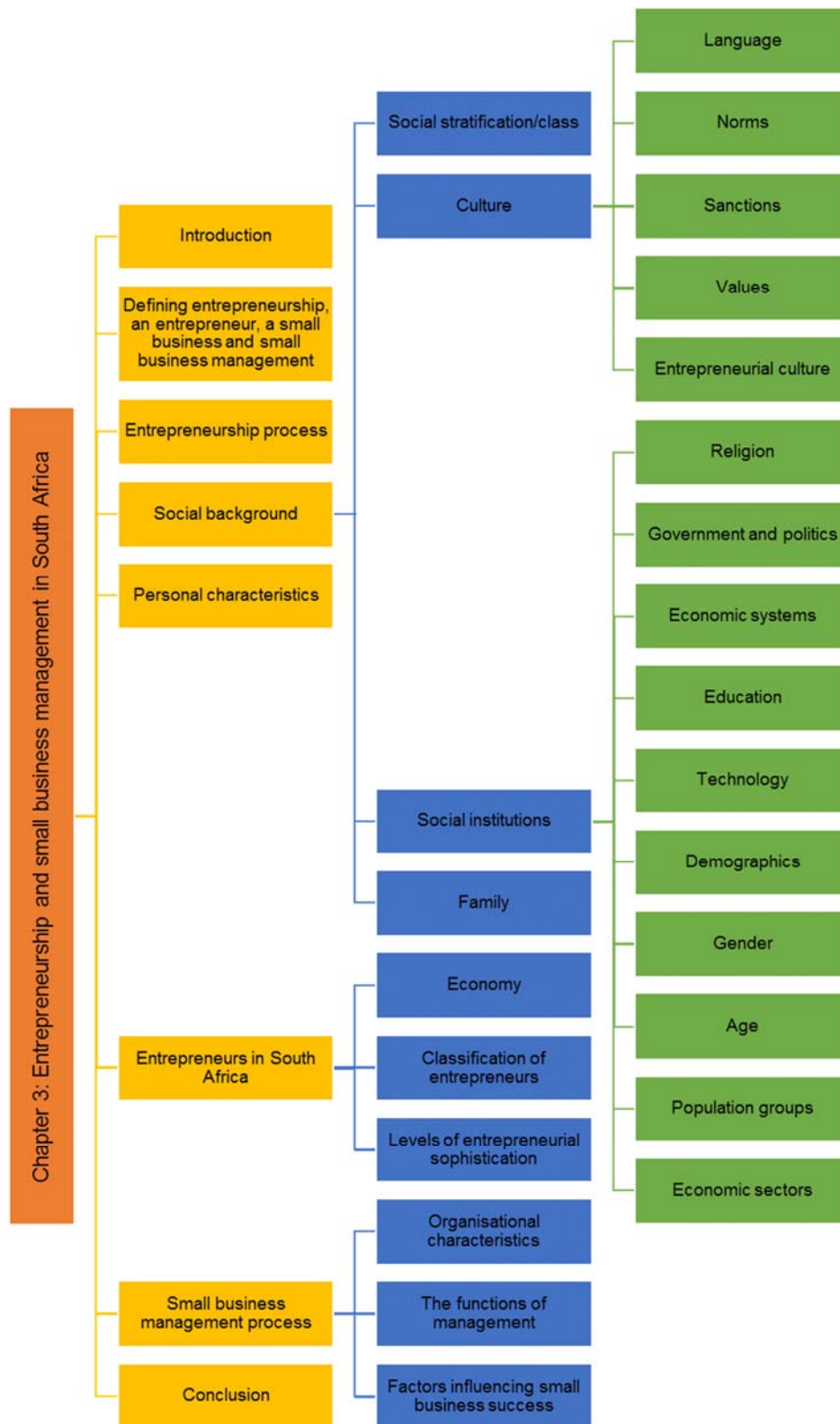


Figure 3.1 Chapter 3 overview

Source: Author's own composition (2015)

In this chapter, the aspects mentioned in Figure 3.1 are investigated by making use of Hatten's (2016) model of the entrepreneurship and small business management process. These aspects will be applied to the broader context of the South African business environment as discussed in the previous chapter. After the discussion of the factors that influence an entrepreneur or small business owner in South Africa, the factors will be investigated in terms of the barriers they present to potential new business entrants from the population (insurance industry) under discussion.

3.2 Defining entrepreneurship, an entrepreneur, a small business and small business management

According to Licht (in Freytag & Thurik, 2010), a good definition of entrepreneurship should consider the role of the entrepreneur in the economy. For the purposes of this study, the definition of entrepreneurship as stated by UNECE (United Nations Economic Commission for Europe) was used (UNECE, 2008). This definition states that entrepreneurship comprises activities that are focused on profit, and that these activities involve uncertainty and risk and are rooted in innovation since entrepreneurs focus on the creation and implementation of new ideas that will increase profit. Combining factors of production is also underlined by Botha (Botha & Musengi, 2012) who states that entrepreneurship is the process of combining or coordinating natural resources, capital and labour (the traditional factors of production).

For the purposes of this study, an entrepreneur was defined as a person who takes risks and stimulates change and growth in a manner that sees the generation, distribution and implementation of pioneering and lucrative ideas. (Hagel, 2016; Organisation for Economic Co-operation and Development [OECD], 2003). The classification of entrepreneurs in the South African environment is discussed later in this chapter (see 3.6.2).

Governments focus on entrepreneurship as a way of alleviating poverty and stimulating job creation (GEM Consortium, 2014). High rates of unemployment and underemployment are a problem in all the sub-Saharan African (SSA) countries. Even more so for South Africa, whose unemployment rates are three times higher than other developing SSA countries (GEM Consortium, 2014). Stimulating small business creation is seen as an ideal solution for this problem. However, the focus

on the rate of economic growth may increase or decrease entrepreneurship in a country. If the economic growth in a country is low, people are more likely to turn to entrepreneurship as an option (GEM Consortium, 2014). However, it must be emphasised that the type of entrepreneurship encountered during times of economic decline and resultant layoffs of the working force is not always based on a long-term career decision as a small business owner. It is rather a factor of necessity to survive and to be able to feed their family that drives some entrepreneurs to start a business; hence, the term 'necessity entrepreneurs' (see Ligthelm, 2010) is used. If economic growth is high, people may be less willing to establish or run small business because of the employment opportunities associated with a healthy economy (Naude & Havenga, 2007). Ligthelm (2010) found that the motivation of many start-ups is simply to survive until they are able to find full-time employment. This is especially prevalent in developing countries. As will be explained later in this section, this generalisation might not necessarily apply to South Africa.

Generally, small businesses are defined in terms of the number of people they employ, the total annual turnover of the business and the gross asset value. According to the Small Business Amendment Act 26 of 2003, micro-enterprises employ fewer than five people, have a total annual turnover of less than R200 000.00 and a total gross asset value of less than R100 000.00. Very small, small and medium enterprises have specific terms determined by the industry within which they operate. This is illustrated in Table 3.1 below.

Table 3.1 Small business definition schedule

Sector or subsector (Standard Industrial Classification [SIC])	Size of class	Total full-time equivalent of paid employees	Total turn-over	Total gross asset value (excluding fixed property)
Agriculture	Micro	5	R0.20 million	R0.10 million
	Very small	10	R0.50 million	R0.50 million
	Small	50	R3 million	R3 million
	Medium	100	R5 million	R5 million
Mining and Quarry	Micro	5	R0.20 million	R0.10 million
	Very small	20	R4 million	R2 million
	Small	50	R10 million	R6 million

Sector or subsector (Standard Industrial Classification [SIC])	Size of class	Total full-time equivalent of paid employees	Total turn-over	Total gross asset value (excluding fixed property)
	Medium	200	R39 million	R23 million
Manufacturing	Micro	5	R0.20 million	R0.10 million
	Very small	20	R5 million	R2 million
	Small	50	R13 million	R5 million
	Medium	200	R51 million	R19 million
Electricity, Gas and Water	Micro	5	R0.20 million	R0.10 million
	Very small	20	R5.10 million	R1.90 million
	Small	50	R13 million	R5 million
	Medium	200	R51 million	R19 million
Construction	Micro	5	R0.20 million	R0.10 million
	Very small	20	R3 million	R0.50 million
	Small	50	R6 million	R1 million
	Medium	200	R26 million	R5 million
Retail and Motor Trade and Repair Services	Micro	5	R0.20 million	R0.10 million
	Very small	20	R4 million	R0.60 million
	Small	50	R19 million	R3 million
	Medium	200	R39 million	R6 million
Wholesale Trade, Commercial Agents and Allied Services	Micro	5	R0.20 million	R0.10 million
	Very small	20	R6 million	R0.60 million
	Small	50	R32 million	R5 million
	Medium	200	R64 million	R10 million
Catering, Accommodation and other Trade	Micro	5	R0.20 million	R0.10 million
	Very small	20	R5.10 million	R0.20 million
	Small	50	R6 million	R1 million
	Medium	200	R13 million	R3 million
Transport, Storage and Communications	Micro	5	R0.20 million	R0.10 million
	Very small	20	R3 million	R0.60 million
	Small	50	R13 million	R3 million
	Medium	200	R26 million	R6 million
Finance and Business Services	Micro	5	R0.20 million	R0.10 million
	Very small	20	R3 million	R0.50 million
	Small	50	R13 million	R3 million
	Medium	200	R26 million	R5 million
Community, Social and Personal Services	Micro	5	R0.20 million	R0.10 million
	Very small	20	R1 million	R0.60 million

Sector or subsector (Standard Industrial Classification [SIC])	Size of class	Total full-time equivalent of paid employees	Total turn-over	Total gross asset value (excluding fixed property)
	Small	50	R6 million	R3 million
	Medium	200	R13 million	R6 million

Source: National Small Business Amendment Act 26 of 2003.

For the purpose of this study, the term 'small business' includes registered and unregistered businesses that operate mainly within South Africa, and fall under the definitions of micro, very small and small enterprises as stated in the Small Business Amendment Act 26 of 2003.

Hatten (2016) defines small business management as the ongoing process of owning and operating an established business. The small business management process is based on the life stages of a small business, starting at the growth stage, leading to maturity, which is reached when a business is considered stable and established. Finally, a business will enter the harvest stage. This is when there is a transfer of ownership or the business terminates due to factors such as the death of the owner or due to bankruptcy (Hatten, 2016).

As long as a person is focused on growing his or her business and taking the risks necessary to accomplish this, such person can be seen as an entrepreneur (Strydom & Nieuwenhuizen, 2012). When a person reaches the stage where he or she is satisfied with the size of his or her business and he or she becomes risk-, change- and innovation-averse, such person is classified as a small business manager (Strydom & Nieuwenhuizen, 2012). Botha states that a small business also has a relatively low use of technology (Botha & Musengi, 2012). This transition usually occurs when the small business reaches maturity, and entrepreneurs will usually leave a business at this stage, going on to new ventures while a small business manager will continue to stay committed to the business during this period of stability (Hatten, 2016). The type of commitment and motivation exhibited by an entrepreneur has a direct effect on the eventual success of his or her venture. Small businesses with an entrepreneurial focus of improving products, service or production methods or of exploring new economic opportunities were found to be more likely to succeed (Hagel, 2016; Ligthelm, 2010).

Entrepreneurs can be classified according to various criteria, inter alia to the size of their businesses or their motivating factors. The method of classification used most often in recent entrepreneurial research is that of necessity-driven and opportunity-driven entrepreneurs (GEM Consortium, 2014). These factors can originate from the entrepreneur's social background as will be explained in this chapter, or from the economic and regulatory environment that within which the person finds him- or herself, as was discussed in Chapter 2. As indicated in Figure 3.2 below, this chapter will give an overview on the entrepreneurial process, the social background and personal characteristics of an entrepreneur and entrepreneurs in South Africa. The discussion on entrepreneurs in South Africa will include entrepreneurial classification and sophistication. This will be followed by an overview on the small business management process in South Africa. The aspects discussed in this chapter have been used to develop the survey instrument for this study.

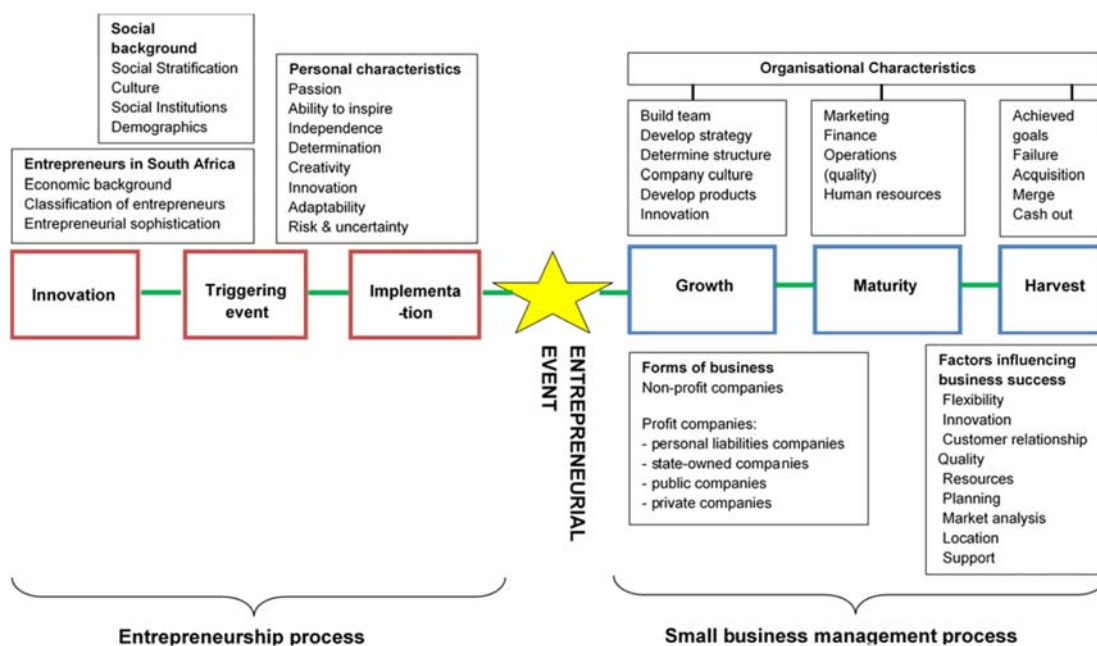


Figure 3.2 The entrepreneurial and small business management process

Adapted from Hatten (2016).

3.3 Entrepreneurship process

The entrepreneurship process, as illustrated in Figure 3.2, comprises three different stages. During the **innovation stage**, a business idea is conceived and shared with others. As time passes, the business idea is evaluated and re-evaluated. New information and experiences influence the original idea on a regular basis. This

stage may take years before a triggering event occurs that leads the entrepreneur to the **implementation stage**. **Triggering events** for this particular study were downsizing or job losses that occurred in the insurance industry, which was the focus of this study. During the implementation stage, the entrepreneur will start to formalise his or her idea and commit resources to it. The small business management process starts once the new organisation is formed (Hatten, 2016). This model of the entrepreneurship process is supported by Moore (1989) who published a similar model of the entrepreneurship process as early as 1989 and inspired Hatten's model.

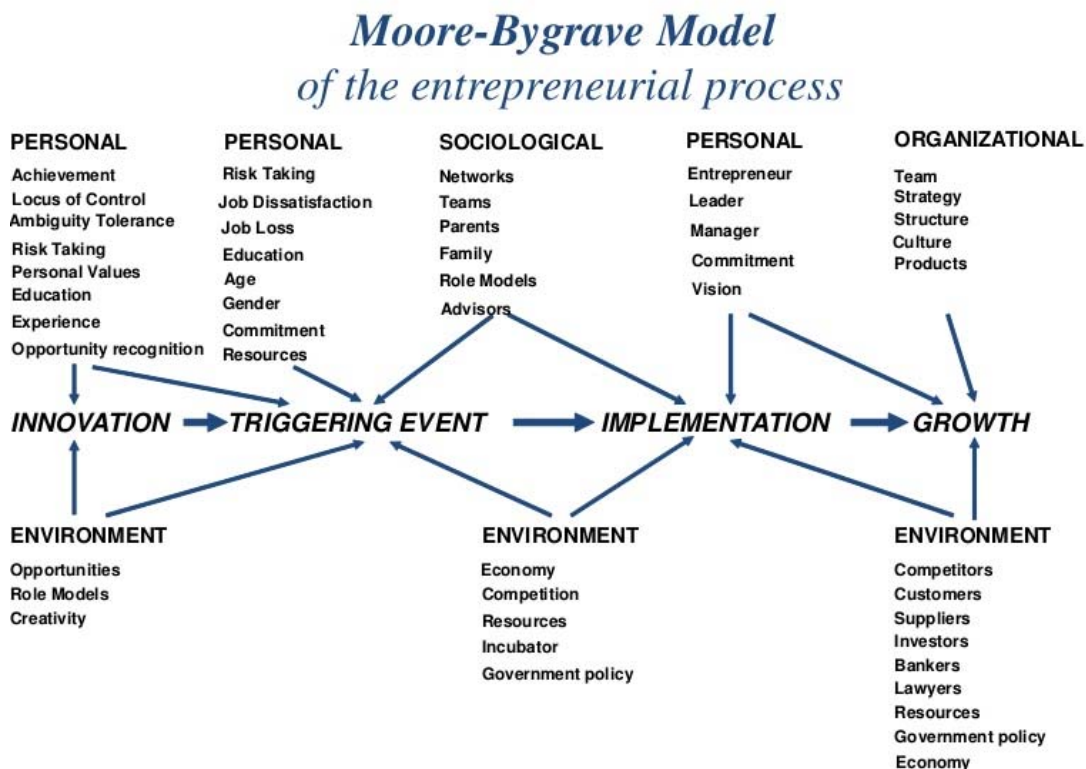


Figure 3.3 Moore–Bygrave model of the entrepreneurial process

Source: Moore (1989:66–70).

3.4 Social background

A person's social background is a determining factor in whether or not such person will consider entrepreneurship as an option and the decisions he or she will make. Social background includes social stratification, culture, social institutions and demographics.

3.4.1 Social stratification/class

Social stratification and class structure is an important part of someone's background, therefore, also of the entrepreneur's social background. Schaefer (2012) defines social structure as the way in which a society is organised into predictable relationships. According to Giddens (2006), social structure describes the structured inequalities between different groupings of people. Slavery is the first classification under social stratification. Some people are literally owned by another person. Slaves had no or very little rights and were severely punished and had to be supervised constantly to ensure that they were productive. This status was transferred from parent to child (Schaefer, 2012).

- The caste is most prominent in Indian subcultures. It is defined as a form of stratification in which an individual's social position is fixed at birth and cannot be changed. Intermarriage between ranks is virtually impossible. In South Africa, the caste system that was most prevalent until the year 1992 was termed 'apartheid'. This system was based entirely on race and had a direct effect on every aspect of South African society and economy (Giddens, 2006; Giddens & Sutton, 2013).
- Estates assigned different rights and obligations to different groupings of people (Giddens, 2000; Giddens & Sutton, 2014). This was usually determined and enforced by law. The highest estate was the aristocracy. Next was the clergy who had less authority than the aristocracy but more than the rest of the citizens. The final estate was commoners who worked for a living. Moving between estates was allowed although this did not happen often and most people stayed in the classification into which they had been born (Giddens, 2006; Giddens & Sutton, 2013).
- Class refers to some degree to that which is being accomplished by the individual. It is not determined by religion or law and it is acceptable and possible to move between classes (Giddens, 2006; Giddens & Sutton, 2013). 'Class' is a term first used by Max Weber to refer to persons who share a similar level of wealth and income (Giddens & Sutton, 2014; Schaefer, 1989).
 - **Upper class** comprises executives and people who own resources.

- **Middle class** usually refers to white-collar workers (see Giddens, 2000; Giddens & Sutton, 2014) and professionals.
 - A further distinction can be made between **upper middle class** and **lower middle class** (Giddens, 2000; Giddens & Sutton, 2014).
 - **Lower class** comprises people who do manual work, also referred to as blue-collar workers (see Giddens, 2000; Giddens & Sutton, 2014).
 - The final classification of class is the **underclass** or peasants. The economic standing of these people is much lower than the other four groupings and their living conditions much worse than the majority of the population (Giddens, 2000; Giddens & Sutton, 2014).
- Although social mobility is possible in the class system, it is usually assumed that this is an upward movement, where a person works hard to get into a better economic position. It is also possible for a caste system to evolve or change. South Africa is an example of a caste system, termed 'apartheid' in this case, changing to a class system that is still evolving as South Africa progresses as a developing country (Giddens, 2006; Giddens & Sutton, 2013).

It is important to note the occurrence of downward mobility within social classes. This is defined as a social mobility in which individuals find themselves in worse jobs than or in inferior economic circumstances to those they once had or their parents had (Giddens, 2000; Giddens & Sutton, 2014). One of the causes of downward mobility is job losses, downsizing, restructuring and retrenchments, such as those that occurred in the insurance industry due to recent economic and credit crises (KPMG, 2013). Some people are not able to find a similar job, and they settle for a lower job in order to survive. In other cases, people find themselves in a lower economic class because the cost of living continues to rise with a household's income failing to keep up (Giddens, 2000; Giddens & Sutton, 2014).

Other stratifications are by gender, race or age (Giddens, 2000; Giddens & Sutton, 2014).

3.4.2 Culture

Large societies that formed after industrialisation are not only classified by social stratification and class structures. Within these societies, small groups with similar

cultures form. Culture comprises the values, ceremonies and ways of life characteristic of a given group. Culture is one of the most distinctive properties of human social association (Giddens, 2006; Giddens & Sutton, 2014) and consists of a number of elements. These comprise language, norms, sanctions and values. The importance of culture as seen from an economic perspective will also be discussed in this section (see section 3.4.2.5).

3.4.2.1 Language

Language is an essential part of any culture, and can either expand the ability of the group to communicate or greatly limit it (Wallace & Wallace, 1985). It is an abstract system of word meanings and symbols for all aspects of culture (Schaefer, 2012).

A study conducted by Altinay (2008) on Turkish entrepreneurs found that people who were less comfortable and less fluent using a language were more likely to use resources and advice that were offered by people of the same ethnic group, simply because these sources were experienced to be more trustworthy. On the other hand, entrepreneurs who were fluent in a language were more likely to use and trust formal sources of advice and information. Altinay (2008) also states that the cultural background of the owners of ethnic minority firms in their study played an equally important role in determining the entrepreneurial behaviour of the firm.

A study conducted by Lautanen (2000) on the factors influencing the decision of small Finnish firms to export found that the language skills of the entrepreneur were a much more determining factor than the financial risk, education level and level of experience of the entrepreneur.

3.4.2.2 Norms

The next element of culture is norms. Norms are the ways by which a society encourages the behaviour that it views as proper and punishes the behaviour it views as unsuitable. There are formal norms that can be formalised into laws and enforced by regulating bodies, and informal norms, which are not recorded but generally understood, for example, dress code or good manners (Schaefer, 2012). Giddens (2006) states that norms are always backed by sanctions of one kind or another.

3.4.2.3 Sanctions

Sanctions are the reward or punishment that reinforces socially expected forms of behaviour (Giddens, 2006; Giddens & Sutton, 2014). Formal norms are associated with formalised sanctions. Sanctions can only be applied when somebody with power notices the violation of norms. It is also possible for sanctions to be applied unfairly (Giddens & Sutton, 2014). The reaction of a society to these situations and their sanctions in general represents the values and priorities of that culture (Schaefer, 2012).

3.4.2.4 Values

Values are shared notions of what is considered to be good, desirable and proper, or bad, undesirable and improper in a culture. Values influence the behaviour of people and they serve as a benchmark according to which other people's conduct can be evaluated (Schaefer, 2012). Values can change over time but they usually remain stable within a person's lifetime. Value conflicts occur when one culture sees their values as superior to another culture's values, or when a culture enforces one set of values for themselves and another set of values for others (Schaefer, 2012).

3.4.2.5 Entrepreneurial culture

The importance of culture from an economic perspective and specifically an entrepreneurial perspective is the creation of an entrepreneurial culture. The entrepreneurial culture of a country is affected by and in turn affects the attitudes and views that a country's population will have regarding business start-ups. It also has an effect on the way people perceive themselves and their abilities. In an environment with a weak entrepreneurial culture, people are more likely to think that they do not possess the skills needed to start a business (GEM Consortium, 2014). This also has a negative influence on their ability to see future business opportunities. Unfortunately, South Africa does not have a strong entrepreneurial culture and is ranked significantly lower than other SSA countries by the GEM Consortium (2014). This statement is supported by Antonites and Wordsworth (2009) who describe the entrepreneurial culture found in South Africa as being weak.

3.4.3 Social institutions

Part of the social background of a person comprises the social institutions around such person. These are the religious, political, economic, education and technological institutions.

3.4.3.1 Religion

Religion is vital in the fabric of society since it answers some of the most fundamental questions a group of people have about the sacred. It determines the rituals that are expected of people, integrates human society, influences social control, and provides support in times of difficulty and to those in need. Religion either encourages or impedes social change, and it influences work ethic and governmental structures (Schaefer, 2012). Entrepreneurs who actively practise their religion are likely to employ people from a similar cultural background (Altinay, 2008). They are also likely to accept advice from, build networks with and conduct business with people who have similar religious views to theirs (Altinay, 2008). There is also a link between religion and work ethic. The Protestant work ethic is a notion that is discussed in Theology, Sociology, Economics and History, emphasising that hard work and prudence contribute to a person's salvation in the Protestant faith, in contrast to the religious focus upon religious attendance, confessions and communal philosophy (Weber, 2015).

3.4.3.2 Government and politics

Government and politics are indicators of the distribution of power, authority and rights in a country (Schaefer, 2012), and have a direct influence on the preconceptions a person has about the world. Governments are distinguished by types of authority and types of governance. Traditional authority is determined by custom and accepted practice. Legal-rational authority is based on the law, while charismatic authority refers to the extraordinary emotional appeal a person has on his or her followers (Schaefer, 2012).

Government can be divided into five major types or groups. A monarchy is headed by a single member of a royal family. Although most monarchs only have ceremonial importance in today's society, they used to have a strong link with religion, some claiming that God granted them the right to rule (Schaefer, 2012). In an oligarchy, a few people rule. This can be seen in a military rule. Dictatorship is a type of

government where one person has total power. The people in such a country do not have the right to elect a ruler, and the dictator can make or change laws. Dictatorship in its worse form is referred to as totalitarianism (Schaefer, 2012). This occurs when a government controls virtually every aspect of its people's lives. Finally, democracy is a government for the people by the people, which uses representatives who were elected by the people (Schaefer, 2012). Since 1994, South Africa has been classified as a democracy, encouraging public participation and it is being governed by an extensive government and parliament (Radebe, 2015).

3.4.3.3 Economic system

An economic system comprises the social, collective associations through which goods and services are created, circulated and consumed (Schaefer, 2012). It shapes other aspects of the social order and is, in turn, influenced by them (Schaefer, 2012). In a capitalistic economic system, most of the goods and services that are required by a society are produced by private institutions while a socialistic economy is based on governmental control of resources and production (Botha & Musengi, 2012; Du Toit *et al.*, 2010). Although this topic was discussed in detail in Chapter two, it is important to mention that South Africa is facing a challenging situation where the majority of jobs that are created are in the government sector while the private sector is facing continued job losses (Hart & Mothata, 2015). Roodt (2014) explains that a government focused on creating jobs is not focusing on creating economic growth and creating employers. This means that such government is not necessarily encouraging people to start new businesses and employ more people within the private sector as a means of encouraging economic growth.

3.4.3.4 Education

Education is the means through which information and culture are transferred within a society (Schaefer, 2012). Social control and political integration are promoted by education. It is an indicator of the changes that are occurring in the social environment. Education enables a person to enter the workforce as a skilled employee, but on the other hand, education can be class-specific. The higher the degree a person acquires, the more status is associated with it (Schaefer, 2012).

Altinay's (2008) study on Turkish entrepreneurs found a direct correlation between the level of education of an entrepreneur and the sources to which he or she will turn for advice. People with very little education are more likely to rely on friends and family members for advice while university graduates have more trust in official sources of advice (Martin, McNally & Kay, 2013). Jones and Tullous (2002) and Bae, Qian, Miao and Fiet (2014) state that educators should realise the importance of their roles in the socialisation process and the effect this has on entrepreneurs, especially female entrepreneurs, as this directly influences the view they have of their own abilities and the development of those abilities. Lofstrom, Bates and Parker (2014) highlight the importance of a good educational background for small business owners to be successful since it enables them to make choices that are different from the main commercial stream in order to gain access to added rewards despite the additional barriers that they may face in the process.

3.4.3.5 Technology

Technology refers to the application of knowledge to the making of tools and the utilisation of natural resources. There have been situations where advancement in science and technology caused social change (Schaefer, 2012). In turn, social structures and interaction are needed to promote technological change. Technology can underline class differences but, in general, these advancements aim to make life easier and more affordable (Schaefer, 2012). One of the advantages of encouraging entrepreneurship is the advancement of the technologies of a country (Licht, in Freytag & Thurik, 2010).

The insurance industry had to make some major changes in their attitude towards technology in response to the new breed of customers who are young and techno savvy. These customers are not only making their purchases online but they are discussing these purchases in an online social media environment. The younger generation of customers set the standard and paved the way for the older generation customers to make their purchases in the same manner (Skinner, 2015). The online presence of an insurance company and its reputation on social media is becoming increasingly important to the current customer.

3.4.4 Demographics

A discussion pertaining to the social background of entrepreneurs will be incomplete without looking at demographics. The four demographic factors that are measured in entrepreneurial research are gender, age, population and economic sector (GEM Consortium, 2014).

3.4.4.1 Gender

Although the difference between male and female entrepreneurial activity has decreased, men are still more likely to start their own businesses (GEM Consortium, 2014). To a certain extent, the increase in female economic participation can be attributed to the influence of retrenchments in South Africa that were arguably caused by the global recession (GEM Consortium, 2014). Females had to enter the labour market to earn an income when their husbands were retrenched (GEM Consortium, 2014). Despite the difference in start-up rates of males and females, with South African males being more likely to participate in entrepreneurial activity, there is no evidence to suggest that either gender is more likely to succeed in business (GEM Consortium, 2014). This was also proved in a study conducted by Callaghan and Venter (2011) on informal traders. They found that gender had no effect on the success of an entrepreneurial venture. A study by Jones and Tullous (2002) on the differences in perceptions between male and female Anglo and Hispanic entrepreneurs found that female entrepreneurs were much more likely to seek professional advice and assistance than their male counterparts even though these female entrepreneurs were not more in need of such advice. On the other hand, external consultants thought that the male entrepreneurs had a far greater need for financial and business advice (see Jones & Tullous, 2002). This was confirmed in a study by Agholor, Smith, Akeem and Seriki (2015) on female South African entrepreneurs.

Studies by Williams, Round and Rodgers (2006) involving Ukrainian entrepreneurs and Agholor *et al.* (2015) involving South African women entrepreneurs found that the motivations for entering into entrepreneurship differed between males and females. Female entrepreneurs were more likely to start their own business because of unemployment in order to survive or because of a desire to own their own business, while their male counterparts were more likely to start a business because

of a desire to be independent or as a result of the availability of resources or because they wanted to increase their overall income. Other distinct differences found by Antonites and Wordsworth (2009) and Agholor *et al.* (2015) were that male entrepreneurs displayed a much higher risk tolerance than their female counterparts. However, research on female entrepreneurs in developing countries indicate that they pursue small business ventures to obtain financial independence and a sense of achievement (Pogessi, Mari & De Vita, 2015) despite their lower tolerance for risk.

3.4.4.2 Age

Entrepreneurial activity across age groups was the same for South Africa as for most countries participating in the GEM Consortium research (GEM Consortium, 2010; 2017). Younger people are less likely to start their own businesses than older people (GEM Consortium, 2010; 2017). The most entrepreneurial activity occurs in the age groups 25–34 and 35–44. It was also noted that most people who start their own businesses did so while still formally employed. It was previously argued that the low start-up rate in the 18–24 age group is due to a lack of skills and employment history (GEM Consortium, 2010; 2017) but recent evidence suggests that a combination of a lack of finance and a lack of basic numeracy and literacy greatly influences this low start-up rate among South African youth (GEM Consortium, 2014). Reissi (2011) and Arend (2014) state that there is a definite correlation between age and the chance of entrepreneurial success. A higher age is usually associated with more business experience. On the other hand, Antonites and Wordsworth (2009) and Barber (2015) found that age had very little influence on the risk tolerance of entrepreneurs.

3.4.4.3 Population groups

There are also definite differences in entrepreneurial activity between population groups. The white, Indian and Asian population groups of South Africa are more likely to venture into entrepreneurship than the remaining population groups (GEM Consortium, 2010; 2016). This could be attributed to the caste system that was in effect until relatively recently (Giddens, 2006; Giddens & Sutton, 2014). People from different countries, social backgrounds, cultures and social classes will react

differently to the opportunities and challenges they will face as entrepreneurs and business owners (UNECE, 2008).

3.4.4.4 Economic sector

According to Hatten (2016), the reasons why people decide to start their own businesses include the opportunity for independence, which comes down to having more control over their own schedule, development and workload. The opportunity for a better lifestyle and the opportunity for profit are included in the explanation given by Hatten (2016). Entrepreneurs see having their own business as a chance to do something interesting instead of being caught up in the mundane day-to-day chores associated with working for someone else.

Business ideas comes from several sources. The most common source is prior work experience. Working for someone else enables a person to gain valuable insight and experience and also to learn from their employer's mistakes and to figure out ways in which such person would do things differently. A specific section of the population of the present study comprised employees who worked in the insurance industry and after retrenchment decided to start their own small businesses focusing on the same industry (Hatten, 2016). Jacobs (in Strydom & Nieuwenhuizen, 2012) explains that the formal and informal training a person receives also teaches that person skills that can be used to generate and implement business ideas. Another source of business ideas is a person's hobby. If a person turns his or her hobby into a full-time business he or she has the advantage of knowledge and experience in that field, as well as a passion for what he or she is doing. Some entrepreneurs get their ideas from chance happenings during the course of life or from someone else's business suggestions (Hatten, 2016). Another source of business ideas comprises needs common among a specific group of people or the improvement of current products and services. Business publications, expired patents, the Yellow Pages, trade shows and overseas trends and products are other sources of business ideas (Jacobs, in Strydom & Nieuwenhuizen, 2012).

3.4.5 Family

Because of the unique challenges faced by entrepreneurs and small business owners, the support given by their families makes a vital contribution to success. Families support these business owners either by contributing their time and skills

or through financial assistance. Latha and Murthy (2009) state that the fact that a family is willing to contribute financially towards a new venture and take that risk, gives an indication to the entrepreneur that the people closest to him or her believe in his or her entrepreneurial capabilities and the feasibility of his or her business idea. In their study, Latha and Murthy also found that the direct support provided by an entrepreneur's family is one of the main motivators for starting an own business venture in the first place. This was confirmed in a study conducted by Arregle *et al.* (2015). When entrepreneurs combine the funding from their families with that of a large number of individuals it is known as crowdfunding.

Crowdfunding is a relatively new phenomenon that sees large numbers of investors, each investing a small amount of money in an entrepreneur's idea in exchange for future equity or services, or simply donating this money to the entrepreneur (Belleflamme, Lambert & Schwienbacher, 2014). Despite the fact that the success of crowdfunding is untested, it is encouraged by US senate as a way of promoting entrepreneurial growth (Mollick, 2014). Although this method of funding solves the problem many entrepreneurs have with acquiring capital, it goes hand in hand with the added stress of meeting investor expectations (Belleflamme *et al.*, 2014). Crowdfunding not only affords entrepreneurs the opportunity to access additional funds but it also exposes the public to their product and brand (Schwienbacher & Larralde, 2010). A large online community is usually directly related to a successful crowdfunding venture (Belleflamme *et al.*, 2014). In a crowdfunding venture, family and friends are more likely to be offered equity in the entrepreneur's project than strangers would be (Schwienbacher & Larralde, 2010), placing the entrepreneur's family in a very influential position.

Owens, Scott and Blenkinsopp (2013) investigated the effect the involvement of the owner's spouse on company culture. They found that, because the business owner trusts the most important person in his or her life with functions like human resource management, the employees feel that they are cared for, which provides additional motivation and limits workplace conflict. These two aspects illustrate the importance of an entrepreneur's family and spouse in a small business. Lindquist, Sol and Van Praag (2015) explored the role of families in small business success by investigating the role of entrepreneurial parents. Their research found that entrepreneurial parents were 60% more likely to have entrepreneurial children, since they had more

experience and exposure to the process of small business ownership (Lindquist, 2015).

To summarise, this section illustrated the importance of an entrepreneur's family for, amongst others, emotional and financial support.

3.5 Personal characteristics

The personal characteristics of an individual serve as determinants of his or her entrepreneurial inclination and eventually his or her business success. The personal characteristics that will be discussed in this section are passion, an ability to inspire others, the potential entrepreneur's level of independence, determination, creativity and innovation, adaptability, and ability to handle risk and uncertainty.

The personal characteristic that is most often found in small business owners and entrepreneurs is the passion that they have for their venture. Without this passion for their business it may prove difficult to remain interested and focused. If an entrepreneur has a passion for what he or she does, he or she will easily inspire and convince others of the viability of his or her ideas and business. The ability to inspire other and to be visionary-minded are entrepreneurial characteristics highlighted by Botha and Musengi (2012).

Different individuals have different levels of independence. A person who works well on his or her own and does not need continuous instructing and supervision is very likely to start his or her own business. Such person usually has a high degree of independence and determination and he or she is driven by achievement, and the personal risk involved in starting his or her own business seems to be outweighed by the advantages. It is also important not to underestimate the value of creativity and innovation (Botha & Musengi, 2012; Nieman & Nieuwenhuizen, 2009; Popper, 2011; Strydom & Nieuwenhuizen, 2012). It is important to note that culture has a significant influence on the decision to start a business. In some cultures, these business owners are renowned, and owning your own business is seen as a viable career choice. However, in other cultures, being an entrepreneur or small business owner is frowned upon as taking unnecessary risks and not being able to function in a structured environment (Nieman & Nieuwenhuizen, 2009).

Licht (in Freytag & Thurik, 2010) found that entrepreneurs have an above average ability to adapt to change and place a high value on bettering themselves. An

entrepreneur should be able to handle great risk and uncertainty and he or she should be willing to take calculated risks (Botha & Musengi, 2012; Strydom & Nieuwenhuizen, 2012). The South African entrepreneur, Brian Joffe, who is well known for his risky decisions that are contrary to popular business management theories, explained that there is a big difference between entrepreneurial risk and gambling risk (Makura, 2010). A study by Antonites and Wordsworth (2009) found a clear difference in the risk tolerance of entrepreneurs and full-time employees or people who are unemployed.

A study conducted by Noseleit (in Freytag & Thurik, 2010) indicates that entrepreneurs have a different value system than people who are not self-employed. Entrepreneurs are more focused on achievement and self-direction than on security and tradition. The United Nations Conference on Trade and Development (UNCTAD) (2008) highlights the following personal characteristics and skills as vital to the development of an entrepreneur: it states that an entrepreneur should be opportunity seeking and able to take initiative, committed, persistent, willing to take calculated risks, able to prioritise, set goals, work with high efficiency and high quality in mind, able to network, and able to work independently and with self-confidence.

Nieuwenhuizen (in Strydom & Nieuwenhuizen, 2007) and Nieuwenhuizen (2014) add that an entrepreneur should be involved in all levels of his or her business and such person should have a positive attitude in order to face the obstacles and disappointments that come with having your own business. An entrepreneur also highlight the importance of relationships and people skills since he or she will be dealing with other people on a daily basis, including employees, suppliers and customers. An important characteristic in successful entrepreneurs is self-belief (Brian Joffe, in Makura, 2010). During the ups and downs that every business goes through, it is important that the entrepreneur never lose belief in his or her business idea and his or her ability to make it a success (Brian Joffe, in Makura, 2010).

3.6 Entrepreneurs in South Africa

Entrepreneurs in South Africa face unique challenges. In this section, the different types of economies will be discussed in order to illustrate the effect the South African economy has on small businesses. This will be followed by an overview of the two

types of classifications of entrepreneurs. The section will be concluded with a discussion on the levels of entrepreneurial sophistication.

3.6.1 Economy

Throughout history, different types of societies have existed. The development of these societies led to the development of different economic systems. The economic systems that will be discussed below are hunting and gathering societies, agrarian and pastoral societies, traditional states, First World economies, Second World economies and Third World economies in order to discuss South Africa as a mixed economy.

- The early types of human society started with hunting and gathering. These societies relied on animals, fish and plants that were available to them. As the human population on earth grew, hunting and gathering was no longer a feasible option (Schaefer, 2012).
- Societies developed into more advanced agrarian and pastoral societies. These people survived by producing their own food through farming and rearing animals (Giddens, 2006; Giddens & Sutton, 2014). They improved the yield from these activities by inventing different implements (Schaefer, 2012).
- Next, societies evolved into what is called 'non-industrial civilisations' or 'traditional states'. Examples of these are the Maya and the Chinese empires. These societies, which emerged from about 6000 BC, were larger than the preceding societies, relied mostly on agricultural activities, had some type of government and were led by a king or emperor (Giddens, 2000; Giddens & Sutton, 2013).
- The next era was characterised by the invention of machines that were powered by steam or electricity. With the Industrial Revolution, traditional states started to disappear and the social order in these societies changed drastically. These societies contained more people than their predecessors and the effect of major technological advancements were seen in the military, economic power and politics of a society. Industrialised countries are now referred to as 'First World countries' and they employ a market economic system where individuals are not regulated as to what industry they may

enter or which products and services they may provide (Botha & Musengi, 2012).

- 'Second World country' is a term that was used to refer to communist countries who did not adopt a capitalist economic system (see Giddens, 2006; Giddens & Sutton, 2013). Most industries and agriculture were owned by the state (Giddens, 2006; Giddens & Sutton, 2013). Government decides which services and industries are needed and assigns resources accordingly. Individual decision-making and initiative are not encouraged. This type of economic system is also termed 'command system' (Botha & Musengi, 2012).
- The term 'Third World societies' is used to refer to less-developed countries. A large number of these countries are found in Africa, South America and Asia. These countries are very different from traditional societies in the sense that their government structures resemble those of First World countries but agriculture is still the main activity in such a society, and most of the population resides in rural areas. Poverty in these rural areas is worsening as time goes by (Giddens, 2000; Giddens & Sutton, 2014).

According to the GEM Consortium report (2010; 2016) on entrepreneurship, South Africa is classified as a mixed economy with both formal and informal sectors playing a significant role in the economy of the country. Third World countries or mixed economies that have been successful in industrialising and growing their economies are however still characterised by the major gap found between rich and poor (GEM Consortium, 2010; 2016; Giddens, 2000). Most of the major economic sectors, infrastructure and social grants are controlled by the government of such country while entrepreneurship is allowed in the smaller businesses. Although free trade and competition are encouraged by governmental policies, South Africa is still characterised by government intervention and control (Botha & Musengi, 2012). South Africa can also be described as an 'open economy' (see Botha & Musengi, 2012). The outcome of this is that changes in international markets directly influence the business environment within South Africa (Nieuwenhuizen, 2011).

3.6.2 Classification of entrepreneurs

As mentioned in section 3.2, the classification of entrepreneurs will be discussed in this section. Botha and Musengi (2012) distinguish between six broad categories of entrepreneurs: corporate entrepreneurs, technopreneurs, co-preneurs, corporate cast-offs and dropouts, social entrepreneurs and finally, women entrepreneurs. GEM Consortium (2014) makes a broader distinction between opportunity-driven and necessity-driven entrepreneurs. Although some of these classifications have already been mentioned, both these classification types will be discussed in detail below.

- **Corporate entrepreneurs** work in big corporations and are responsible for managing their business unit as if it were their own business where they can apply their creativity, innovation and opportunity-oriented behaviour (Botha & Musengi, 2012). This also includes the establishment of a new business section within an existing business (Strydom & Nieuwenhuizen, 2012). A culture of corporate entrepreneurship in an organisation has the advantages of improved organisational performance and pro-active employee participation (Mohamad, Ramayah, Puspowarsito, Natalisa & Saerang, 2011).
- **Technopreneurs** are entrepreneurs who have a high degree of technical knowledge and use this to start their own businesses, develop new and improved products, services and production methods. Mark Shuttleworth is arguably South Africa's most successful technopreneur. He started a small company, Thawte, while still studying, which focused on electronic online transactions, e-commerce and the associated security risks. This company was later sold for millions of dollars. Shuttleworth then moved on to establish numerous companies and projects based on his technical knowledge and skill (Makura, 2010). The South African-born Elon Musk, the owner of inter alia SolarCity, Tesla and SpaceX businesses, has surpassed Shuttleworth as a technopreneur in the past number of years.
- The third type of entrepreneur described by Botha and Musengi is **co-preneurs**. Co-preneurs are couples working together in and owning that entrepreneurial initiative. Co-preneurs are usually husband and wife teams

who make use of the knowledge, expertise and strengths of each other (Botha & Musengi, 2012).

- **Corporate cast-offs and dropouts** make use of the knowledge and skills gathered while in corporate employment. These entrepreneurs were either retrenched or had left corporate employment voluntarily. Hatten (2016) states that many people who used to be employed in large corporations start their own small businesses when their companies downsize. These entrepreneurs formed part of the population investigated in the primary research stage of this study.
- **Social entrepreneurs** start a business with the aim of improving and uplifting the community, and the types of businesses they start reflect this, rather than being profit-driven. Natie Kirsh is one example of a South African social entrepreneur. Since his first ventures in 1964, his aim was to empower the communities around these ventures and to employ local people. Originally, Kirsh was renowned for his ability to facilitate complex take-overs when he built a conglomerate of companies in South Africa, and more recently, he became known for his chains of cash-and-carry stores over the United States of America that changed the wholesale industry (see Makura, 2010). These days, philanthropic and social entrepreneurial projects are his main focus, and he started business seed funding projects in Swaziland, Israel and South Africa. These are projects that both uplift the community and show a profit (Makura, 2010).
- The next type of entrepreneur described by Botha and Musengi (2012) is **women entrepreneurs**. Women are categorised separately because of historical discrimination and inequalities that meant that women did not have access to the same opportunities as men and had to face additional challenges in order to make their businesses a success. The number of women entrepreneurs in the population of this study is an aspect that has been investigated in the primary research of this dissertation (see section 6.4).
- **Opportunity- and necessity-driven entrepreneurs**: GEM Consortium (2010; 2017) distinguishes between necessity- and opportunity-driven

entrepreneurs. This is a classification that the GEM Consortium researchers use in all 59 countries they research.

- **Necessity-driven** entrepreneurs are motivated by a lack of other options for making a living.
- **Opportunity-driven** entrepreneurs start a business to take advantage of an opportunity and are those entrepreneurs who start businesses in order to earn an additional or a higher income and those who start a business to increase their own independence.

This classification is also supported by Serviere (2010) and Fuentelsaz, Gonzalez, Maicas and Montero (2015) who name opportunity and necessity as the two main reasons people will involve themselves in entrepreneurial activity. Williams *et al.* (2006) and Williams and Williams (2014) explain that the factors that influence the decisions made by necessity entrepreneurs regarding their entrance into entrepreneurship are **push factors**. These entrepreneurs are pushed into entrepreneurship when there are no other options or when the available options are inadequate. Necessity-driven entrepreneurs are also known as **reluctant entrepreneurs**, while opportunity-driven entrepreneurs are pulled into entrepreneurship by the options available to them.

Ligthelm (2010) expands on the distinction between necessity- and opportunity-driven entrepreneurs by arguing that necessity-driven entrepreneurs tend to be generally unproductive in growing their businesses. The sole focus of a necessity-driven entrepreneur is survival and not growing his or her business to produce more profit and provide employment opportunities to others. On the other hand, productive or opportunity-driven entrepreneurs are those self-employed people who actively pursue gainful business opportunities in order to ensure the growth of their business (Fuentelsaz *et al.*, 2015).

The distinction between **formal** and **informal entrepreneurs** should also form part of this discussion. Ligthelm (2013) describes informal entrepreneurs as those people whose businesses are not formally registered. In the South African environment, this would imply registration with CIPC (Companies and Intellectual Property Commission) and SARS (South African Revenue Service). Ligthelm (2013) found that informal entrepreneurs tend to remain in a survivalist of necessity entrepreneurial state and they do not contribute to the growth of the economy over

the long term, categorising them as unproductive entrepreneurs according to the definition discussed earlier (see section 3.2).

The distinction between these aspects is important since the population that formed part of the primary research section of this study, may have started out as necessity-driven entrepreneurs, driven solely by survival. However, these entrepreneurs started to pursue profitable business opportunities actively and they are making a productive contribution to the South African economy.

One of the worrying aspects of entrepreneurship in South Africa lies in the fact that despite an unemployment rate of almost 40% in the general population and over 60% in the youth population, necessity-driven entrepreneurship is lower than in other developing nations (GEM Consortium, 2014). Entrepreneurial activity in South Africa decreased by 34% despite an increase in unemployment and an increase in government funding (GEM Consortium, 2014).

3.6.3 Levels of entrepreneurial sophistication

Nieman and Nieuwenhuizen (2009) describe different levels of entrepreneurial sophistication that will be discussed in more detail below. These levels are basic survivalists, pre-entrepreneurs, micro-entrepreneurs and small-scale entrepreneurs.

- **Basic survivalists** have no interaction with other business owners and their activities have very little effect on the economic environment. Survivalists are entrepreneurs with no economic independence. They generate enough income to survive but nothing more (Fisher, 2009; Nieman & Nieuwenhuizen, 2009). These people have little or no contact with other entrepreneurs and they are unaware of their potential within their market. Their future growth is limited by a lack of skills and knowledge. Survivalist businesses are characterised by the ease with which they can enter a market even if they operate on such a small scale, their reliance on local sources, and the family involvement and ownership within the enterprise. Other characteristics of survivalist businesses are the labour intensiveness of the technology they use, the skills that are required for this business are acquired outside the official schooling system, and the market within which they operate is unregulated and very competitive (Nieman & Nieuwenhuizen, 2009).

- **Pre-entrepreneurs** follow the ideas of others. They do not have the skills to become entrepreneurs or business owners but they are not expected to become self-sustaining. This can be seen in the types of projects run by welfare. **Subsistence entrepreneurs** are inexperienced and can be found in temporary environments where they are generating an income for themselves (Nieman & Nieuwenhuizen, 2009; Yun, Lim, Li & Park, 2016).
- **Micro-entrepreneurs** are mostly the owners of home-based businesses. The support available to them is of a monetary or credit nature and not a skills development nature. It is difficult for these business owners to obtain much-needed loans from formal institutions such as banks. They employ between one and nine employees (Calderon, Iancovone & Juarez, 2017; Nieman & Nieuwenhuizen, 2009).
- The final group identified by Nieman and Nieuwenhuizen (2009) comprises the **small-scale entrepreneurs**. They manage a small firm where they employ between 10 and 49 employees. They are educated and financially sound. These entrepreneurs formed part of the population investigated in the primary research of this study.

Having discussed entrepreneurship in detail it is also important to focus on the development of small businesses and the management of small businesses.

3.7 Small business management process

The small business management process is divided into organisational characteristics, the functions of management, and factors influencing small business success.

3.7.1 Organisational characteristics

Throughout the life cycle of an organisation, different characteristics can be identified. As illustrated in Figure 3.3, the small business process can be divided into three stages: growth, maturity and harvest. The characteristics of each of these stages are discussed in this section.

- The **growth stage** of the small business process is characterised by team building, strategy development, structure-related decisions, the

determinations of the culture of the company, product development and innovation (Hatten, 2016).

The small business manager needs to determine which skills will be vital to the small business, whether he or she will be able to perform the required tasks him- or herself and how many people he or she can afford to appoint. In order to do this, the manager needs to determine the strategy for the business. Hatten (2016) defines a strategic plan as a tool utilised for long-term planning that views the business and its environments in comprehensive terms. All future decisions regarding the business have to relate back to the strategic plan. The strategy determines the team that will be required to make the business venture a success and it determines the business structure, company culture and product development processes.

- The **maturity stage** of the small business process is characterised by the management of organisational functions that include marketing, finance, operations and human resource management (Hatten, 2016). The strategy determined in the growth stage of the small business management process should be revised on a regular basis. From this overall strategy, the marketing strategy should be determined. This phase also focuses on the management of the finances, operations and human resources of the organisation. Policies and procedures for these management functions should be put into place.
- Usually an organisation reaches the **harvest stage** when the goals it set out have been achieved, or the business fails. Other factors that could cause a business to be classified as reaching the harvest stage is an acquisition or merger, if the owner decides to cash out, if the owner implements an employee stock ownership plan or if the owner sells company shares publically (Hatten, 2016). All of these cause the relationship between the owner and the business to change or end. This stage reflects the exit strategy of the small business owner or manager. Another option as an exit strategy is family succession. The owner's family needs to be prepared in advance if this option will be exercised. The business owner needs to ensure that the person or people he or she has in mind as successors have the ability and skills as well as the desire to do so. This option can be exercised during any

of the three stages in the small business management process (Hatten, 2016).

3.7.2 The functions of management

The functions of management are listed by Hatten (2016) as planning, organising, leading and control. These four functions need to be performed by the owner or manager on a continuous basis. The process starts with the **planning** function where the manager needs to decide what will happen, where the business will be going and how the business will get there. The next function, **organising**, takes place when the manager gathers available resources and organises them in a way that will achieve the plan previously set out. **Leading** involves getting the most out of the resources that have been assembled. The final step in this process is **control**. This involves comparing the actual achievements and outcomes with those that were originally planned. Gaps need to be identified and addressed and the plan adapted. This starts the cycle all over again. The functions of a small business manager were discussed in detail in Chapter 2 of this dissertation.

3.7.3 Factors influencing small business success

The factors influencing the success of a small business comprise the competitive advantage. The factors that small business can use more easily than larger businesses are flexibility, innovation, a close relationship to its customers and a high-quality product or service (Hatten, 2016). These are the factors that lead certain customers to prefer dealing with a small business as opposed to larger companies. Market analysis and location also influence small business success. After these discussions, this section will conclude with the challenges faced by small businesses.

Small businesses are flexible since they rely less on rigid organisational structures and economies of scale. It is much easier for a small business to tailor-make products and services according to a customer's needs than it is for a large corporation to do so (Hatten, 2016).

The flexibility found in small business also affords such business the opportunity to develop great innovations. A small business usually does not invest large amounts of money in factories and processes and is able to invent products that are completely new without damaging a large infrastructure investment. As a result,

small businesses worldwide are responsible for most innovations (Du Toit *et al.*, 2010; Hatten, 2016).

Part of what attracts customers to small businesses is the close relationship they build with the business owner and employees. Small business owners are involved at a personal level and they are also often directly involved in the neighbourhood within which the small business operates. Small business owners have the advantage of knowing exactly what their customers want by building a relationship with them, as opposed to large companies who only get information on customer needs through limited market research (Hatten, 2016).

Product or service quality can be approached in one of two ways. The first is TQM (total quality management), a method of quality management that looks at quality in every part of a business (Hugo, Badenhorst-Weiss & Van Biljon, 2011). The disadvantage of this method is that it is resource-and time-intensive. Another method that is used is ROQ (return on quality). This method is especially useful for small businesses as it focuses quality management on those parts of the business that are particularly important to the customers of the business (Hatten, 2016).

Market analysis is a fundamental part of any successful small business (Nieuwenhuizen, 2014). Even before a new venture starts, the proposed business idea needs to be analysed to determine whether there is a market that will be willing to pay for the product or service, the size of the target market, and how this idea will be marketed and distributed most effectively (Du Toit *et al.*, 2010; Nieuwenhuizen, 2014).

The location chosen for a business may play a vital role in its survival. When choosing a location for a small business, the following should be taken into account:

- the availability of labour;
- access to the target market;
- access to transport infrastructure;
- access to water and electricity;
- the existing business environment;
- social infrastructure;
- climate;
- the attitude, regulations and fees of the local authorities; and

- the availability of the necessary raw materials (Du Toit *et al.*, 2010; Erasmus *et al.*, 2016).

Small businesses are in a position to provide support to large corporations (Du Toit *et al.*, 2010; Nieuwenhuizen, 2014). International companies need local small businesses to act as suppliers in the different companies within which they wish to distribute their products and services (Nieuwenhuizen, 2014). The other success factors of small businesses that were discussed previously (see section 3.4 and 3.5) illustrate why small businesses are viable options for international companies.

Botha and Musengi (2012) approach this topic from a different angle, discussing the challenges faced by small businesses. These include a lack of access to finance, a lack of access to markets and procurement, laws and regulations that are not in favour of small enterprises, insufficient skills and expertise regarding management and business, a lack of access to information, technology and support structures, and an inability to afford decent business premises.

3.8 Conclusion

Background and characteristics of a person are vital in determining whether such person will become a small business owner or entrepreneur. Usually, an entrepreneur grew up in an environment where at least one parent ran his or her own business. This type of informal training and exposure has a much greater effect on a person's decisions and future than formal education has. However, without quality formal education, the future pursuit of entrepreneurial ventures is unlikely. The person's age and work experience also play a role in his or her future as an entrepreneur. Exposure to small business and entrepreneurship from a young age, whether through a family business or simply by working in somebody's small business, plays an important role in the risk tolerance of a business owner. This is where the entrepreneurial culture of a country plays an important role as it shapes the way in which a person perceives the possibility of starting his or her own business.

The small business management process discussed in this chapter has been divided into three stages: growth, maturity and harvest. In each stage, the organisation has unique characteristics and challenges. There are also factors that influence the success of small businesses and that give them a competitive

advantage over other businesses. These are their flexibility, innovation, the personal relationships they build with their customers and their approach to product and service quality.

In the next chapter, the research method is discussed in terms of the research process, research design, questionnaire design, data gathering and analysis.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

In this chapter, the research methodology of the present study is discussed. The research method is based on a clearly defined purpose, a specific research question, detailed research process and a well-planned research design (Cooper & Schindler, 2011, Saunders *et al.*, 2016). Cooper and Schindler (2011) further postulate that good research is based on sound reasoning and a scientific method. Sound reasoning entails finding the correct evidence, testing the correlation between facts and assumptions, and basing all claims on sufficient evidence. The scientific method acts as a guide towards problem solving. The most important aspects of following the scientific method lie in clearly defined methods and procedures, testable hypotheses, statistically based conclusions and following a self-correcting process (Saunders *et al.*, 2016). Within this method of enquiry, findings should be detailed and presented as clearly as possible. Conclusions should be based on fact, and the limitations should be discussed openly while high ethical standards should be applied throughout the research process. The diagrammatic flow of the chapter is illustrated in Figure 4.1 below.

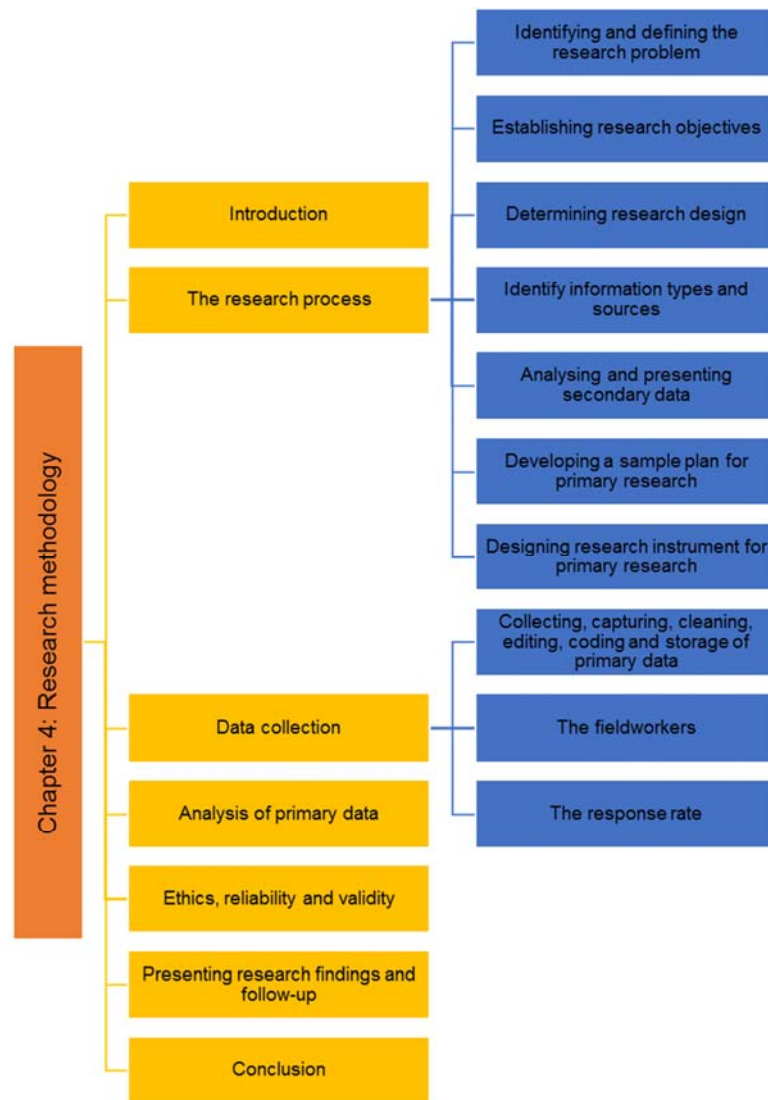


Figure 4.1 Chapter overview

Source: Author's own composition (2015)

The study made use of a quantitative research design in order to capture the history of a group of workers who faced retrenchments in the insurance industry over a certain period. Investigating the employment difficulties faced by these retrenched individuals will assist in developing a good understanding of the continuity in their specialist type of work after the retrenchment event as well as the actual and perceived barriers that need to be addressed in a South African small business environment.

4.2 The research process

This study made use of the research process as designed by Tustin, Ligthelm, Martins and Van Wyk (2005). The research design is elaborated on below. This design was selected because it was designed specifically for the South African business research environment. This study further supported this theoretical foundation in the work of Cooper and Schindler's (2011) research model, and Saunders *et al.*'s (2016) model was incorporated since it was designed specifically for the business research environment.

The research process described by Tustin *et al.* (2005) involves the following steps: the identification of the research problem, definition of the research problem, establishment of the research objectives, and the determination of the research design. This process continues with the identification of information types and sources, analysing and presenting secondary data, developing a sample plan for primary research, designing a research instrument for primary research, collecting, coding, capturing, cleaning and storing of data. These steps are illustrated in Figure 4.2 and will be discussed in more detail below.

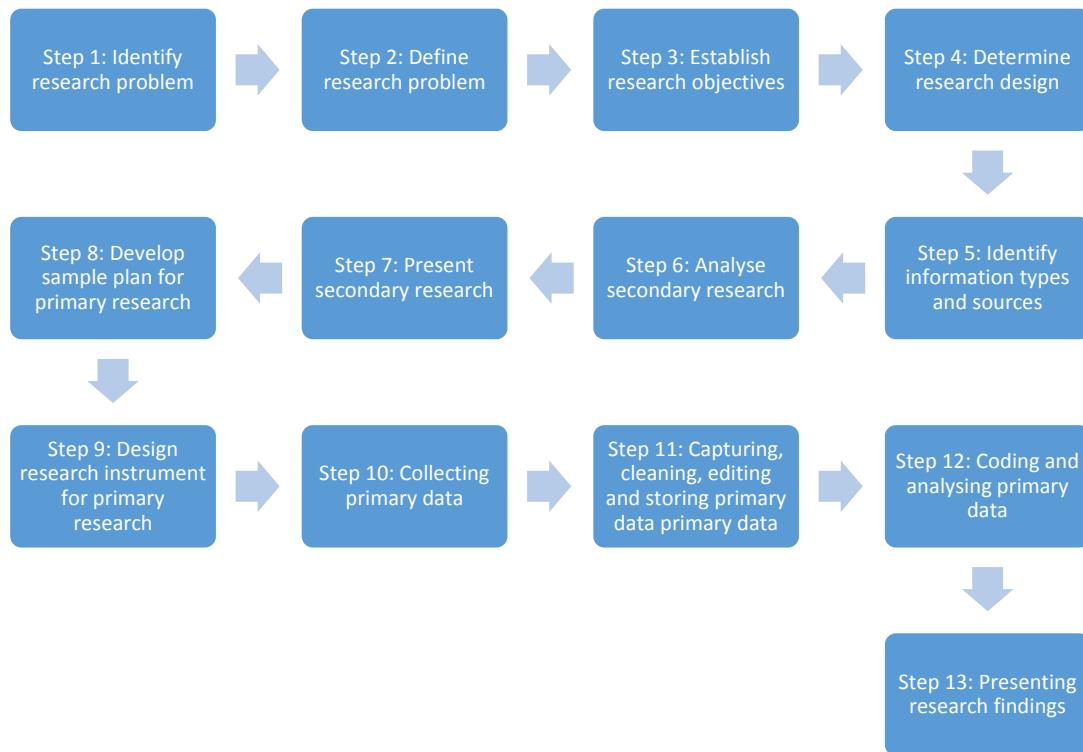


Figure 4.2 Steps in the research process

Source: Adapted from Tustin *et al.* (2005)

4.2.1 Identifying and defining the research problem

The first two steps in the research process entail the identification and definition of the research problem or opportunity (Tustin *et al.*, 2005).

Political transformation in South Africa also affects the economic transformation processes (Seekings, 2014). The transformation related corrective action processes resulted in job losses or the creation of new jobs in the population with some starting their own businesses in the formal or informal business environment, in order to survive or to commence with a new career. This transformation process is ongoing with approximately 17 000 job losses between 2014 and 2015, and a 26% decline in labour union membership between 1994 and 2014 (Evans, 2015). This decline in union membership can to a certain extent be related to a decline in formal employment (Evans, 2015). To this end, the present study focused on employment

practices and the job creation and job losses in a certain industry in the South African economy (Evans, 2015).

Investigating the effect of legislation, retrenchment and other environmental factors on small businesses in South Africa since 1994, especially for the insurance industry, is warranted since SMMEs comprise 97.5% of all types of businesses in South Africa (GEM Consortium, 2016; Strydom & Nieuwenhuizen, 2007).

By defining the research problem, the researcher is able to determine exactly which information is needed and which method he or she could use to obtain the needed information (Saunders *et al.*, 2016; Tustin *et al.*, 2005). Defining the research problem affords the researcher the opportunity to understand the environment within which the problem occurred better. The key information that should be gathered during this stage of the research process involves determining the reason why the information is required, whether there is an existing secondary source for the required information, and whether the research problem really can be solved (Tustin *et al.*, 2005).

The purpose of the present study was to conduct exploratory research into the entrepreneurial initiatives and other business initiatives undertaken by people who had been retrenched or who had taken severance packages from the insurance industry in Gauteng during a period of political and economic transformation in South Africa in the period 2000 to 2013. Of the issues that were to be researched were to determine in which business sectors this selected group had chosen to seek or find employment or to commence with small business initiatives, the importance of small business-specific soft skills and business management skills to the respondents as well as their own opinions on their soft and business management skills, and the entry barriers they encountered. Various skills that are important for successful small business managers have been identified in the literature study. These small business skills was then divided into soft skills and business management skills. The soft skills are:

- consulting a mentor;
- using technology for better customer service;
- using technology for better internal processes;
- the ability to handle risk and uncertainty;

- having a passion for doing business;
- the ability to inspire others;
- determination;
- placing a high value on self-improvement;
- continually seeking new opportunities;
- Being able to take initiative;
- working independently; and
- ethical conduct.

The business management skills that were identified are:

- administration skills;
- involvement in all levels of the business;
- ability to compile a vision and mission statement;
- ability to compile a strategic plan for the business;
- ability to implement a strategic plan for the business;
- personnel and human resource management skills;
- operations management;
- purchasing management;
- marketing skills;
- public relations management skills;
- financial management skills;
- awareness of environmental management and sustainability;
- safety management skills; and
- risk management skills.

4.2.2 Establishing the research objectives

Following the definition stage, the research objectives for the specific study need to be determined. Research objectives specify the information that needs to be obtained (Saunders *et al.*, 2016; Tustin *et al.*, 2005). From the research objectives, hypotheses to be tested are set. The results of the hypotheses testing are answers to the research questions (Saunders *et al.*, 2016; Tustin *et al.*, 2005). Part of determining research objectives is determining the scope and boundaries of the

study. With this information in place, the researcher can move on to determine the research design (Saunders *et al.*, 2016; Tustin *et al.*, 2005).

The aim of this research was to provide answers to the following research questions. These research questions were formulated and reflected in Chapter 1 and are repeated here for convenience sake:

- Were small business initiatives undertaken by people who had been retrenched from the insurance industry between the years 2000 and 2013?
- Which employment initiatives were undertaken by people retrenched from the insurance industry between the years 2000 and 2013?
- Was there continuity in the specialist type of work of the specific group of individuals?
- Is there a difference between the importance attached to soft skills and the level of their own soft skills between small business owners and non-small business owners in this group?
- Is there a difference between the importance attached to business management skills and the level of their own business management skills between small business owners and non-small business owners in this group?
- Is there a gap between the importance attached to soft skills and the level of their own soft skill, for small business owners and non-small business owners respectively in this group?
- Is there a gap between the importance attached to business management skills and the level of their own business management skill, for small business owners and non-small business owners respectively in this group?
- What are the actual and perceived barriers to entry that influenced the decisions of this group to undertake small business initiatives?
- What is the difference between the level of agreement regarding actual and perceived barriers between small business owners and non-small business owners?
- Does the small business owner group of respondents comprise specific distinguishable group profiles in terms of their demographical and small business characteristics?

In order to answer these research questions, the following research objectives were set:

- The primary research objective of this study is to determine if there was a small business dividend when retrenchment of a specific group of individuals in the insurance industry in Gauteng between 2000 and 2013.

In order to address this primary objective, the following secondary objectives were set, namely to determine –

- whether small business initiatives were undertaken by the specific group of individuals;
- whether the retrenchment event contributed to the decision to start a small business;
- whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, whether they continued in the same line of work as before or not;
- the difference with regard to the importance attached to and their own level of soft skills between small business owners and non-small business owners in this group;
- the difference with regard to the importance attached to and their own level of business management skills between small business owners and non-small business owners in this group;
- the gap between the importance attached to and level of their own soft skills, for small business owners and non-small business owners in this group;
- the gap between the importance attached to and the level of their own business management skills for small business owners and non-small business owners in this group;
- the actual and perceived barriers to entry that this group of retrenched individuals faced in starting small businesses;
- the difference in level of agreement regarding actual and perceived barriers between small business owners and non-small business owners; and

- whether the small business owner group of respondents demonstrated specific distinguishable group profiles in terms of their demographical and small business characteristics.

The following hypotheses have been set based on research questions 4, 5 and 9:

H₀₁: there is no statistically significant difference between small business owners and non-small business owners with regard to the importance rating of soft skills

H_{A1}: there is a statistically significant difference between small business owners and non-small business owners with regard to the importance rating of soft skills

H₀₂: there is no statistically significant difference between small business owners and non-small business owners with regard to their own skill rating of soft skills

H_{A2}: there is a statistically significant difference between small business owners and non-small business owners with regard to their own skill rating of soft skills

H₀₃: there is no statistically significant difference between small business owners and non-small business owners with regard to the importance of business management skills

H_{A3}: there is a statistically significant difference between small business owners and non-small business owners with regard to the importance of business management skills

H₀₄: there is no statistically significant difference between small business owners and non-small business owners with regard to their own skill ratings of business management skills

H_{A4}: there is a statistically significant difference between small business owners and non-small business owners with regard to their own skill ratings of business management skills

H₀₅: there is no statistically significant difference between small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers

H_{A5}: there is a statistically significant difference between small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers

4.2.3 Determining the research design

The research design provides the roadmap for answering the research questions and realising the research objectives. The research design addresses the research philosophy, research approach, methodological choice, research strategy, time horizon and research techniques. See Figure 4.3 below for a visual summary of the research design.

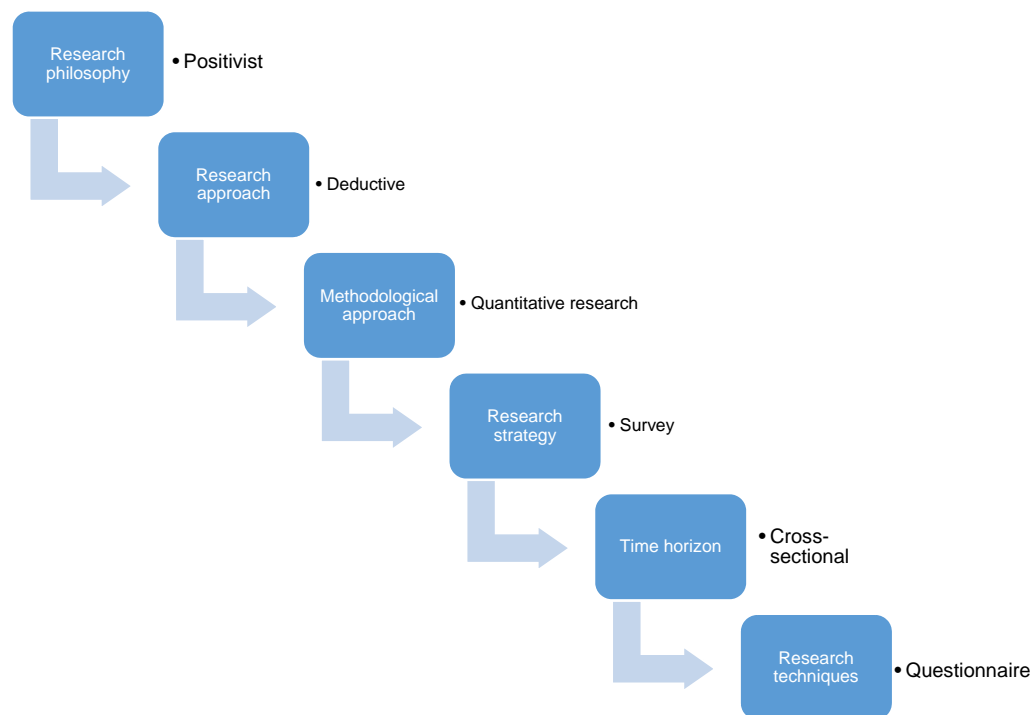


Figure 4.3 Research design

Source: Author's own composition (2015)

The nature of the research design can be divided into three broad categories: exploratory research, descriptive research and explanatory research (Saunders, Lewis & Thornhill, 2012). The present study was based on descriptive research. Tustin *et al.* (2005) explain that descriptive research answers the questions of who, what, why, when and where. Typical descriptive research makes use of structured, quantitative methods (Saunders *et al.*, 2016; Tustin *et al.*, 2005).

Research philosophies are generally divided into four categories: positivism, realism, interpretivism and pragmatism (Saunders *et al.*, 2016; Tustin *et al.*, 2005). A positivistic philosophy involves the evaluation of observable realities in order to develop generalisations (Saunders *et al.*, 2016; Tustin *et al.*, 2005). The present study adopted a positivistic approach throughout the design in order to determine how many participants had similar opinions and experience. These views were recorded by making use of a survey and analysed through descriptive and inferential statistical analysis.

Research approaches are divided into three categories: deductive, abductive and inductive (Cooper & Schindler, 2011). This study made use of a deductive research approach. Deduction involves the exploration of a topic in order to develop a theory (Saunders *et al.*, 2016; Tustin *et al.*, 2005). In this study, the theory developed in the literature study was tested through a pilot study. These results were then integrated into the survey (Saunders *et al.*, 2012). The information gathered in this dissertation provided information on small businesses started after retrenchment in South Africa.

This study made use of a quantitative methodological approach. This approach aimed to describe the nature of retrenchment in the insurance sector of South Africa, and the small business initiatives that followed in the wake of such retrenchments during the period 2000 to 2013. The research strategy of this study was survey research conducted by means of the development of a survey questionnaire, the research technique, which was tested through a pilot study. The insights gained through the pilot study were integrated into the questionnaire before it was distributed to prospective respondents.

The time horizon of a research study is either cross-sectional or longitudinal (Saunders *et al.*, 2016; Tustin *et al.*, 2005). The time horizon for this study was cross-sectional, involving a cohort population that went through a single similar event. In this study, the single, similar event, during the period of 2000 to 2013, was retrenchment from the insurance industry, investigated at one moment in time, during 2016.

In essence, the present research study involved a descriptive research design, with a positivistic research philosophy, deductive research approach and a quantitative research method.

4.2.4 Identifying information types and sources

Information can be gathered as primary and/or secondary data. In the present study, secondary data was analysed in the form of a literature study. Primary data, first in the form a pilot study, and thereafter through a complete survey, was used. Information gathered from the literature study was subsequently integrated into the survey questions in order to ensure content validity of the instrument within a South African context. Content validity is also known as 'face validity' and it means that the questions appear logically and these questions correctly reflects what it is anticipated to measure (Saunders *et al.*, 2016).

4.2.5 Analysing and presenting secondary data

The secondary data of this study was analysed in the form of a literature study. Existing literature was analysed in the process of determining the hypotheses and research questions. Existing literature was also consulted in the process of compiling the questionnaire, ensuring that the questions asked would answer the research questions and make a contribution to the body of knowledge.

A review of the existing database was done in the form of a literature study, as portrayed in Chapters 2 and 3 of this dissertation.

4.2.6 Developing a sample plan for primary research

The target population for this study cannot be described exactly, as information regarding this group was limited. The target population consisted of people who had been retrenched from the South African insurance industry between the years 2000 and 2013. These respondents had to reside and work within Gauteng. Both male and female respondents were included in the study.

No formal sample frame existed. Respondents were selected through purposive sampling by contacting various industry associations. Making use of snowball sampling in addition increased the likelihood of finding suitable respondents for the present study. This was vital since the target population was very limited and difficult to pinpoint. Potential respondents were initially contacted telephonically by the researcher and fieldworkers. After this, they received an online survey link. Respondents were also asked whether they knew of other people who could qualify as respondents (snowball sampling – see Saunders *et al.*, 2016; Tustin *et al.*, 2005).

In order to qualify for participation in this research study, the prospective participants had to have been retrenched from the insurance industry. Prospective participants also needed to reside in Gauteng and to have their primary business based in Gauteng. Small business owners and non-small business owners were included in this research study. Originally, the researcher set out to receive 250 questionnaires since large sample sizes afford the opportunity to conduct additional analysis (Siddiqui, 2013). The estimated response rate was 10% (Manfreda *et al.*, 2008), which meant that the researcher and fieldworkers estimated that they would need to contact 2 500 individuals.

4.2.7 Designing research instrument for primary research

The questionnaire was divided into the following sections:

- Section A: Background information (qualifying questions)
- Section B: Demographics, importance and own skills levels for soft and business skills
- Section C: Small business owners
- Section D: Actual and perceived barriers

DeVellis (2016) explains that measurement is a vital part of science and is used to obtain knowledge about processes, events, people and objects. The measurement instruments within a questionnaire present the main method of acquiring information from respondents, and designing this measurement instrument to be effective is vital. It is important that the questions contained in a survey be clear and unambiguous. No unnecessary options should be included in the multiple-choice questions. DeVellis (2016) explains that not all aspects included in a questionnaire need to be measured on a multi-item scale. This would include age, gender, race, marital status, highest level of formal education and other demographic and firmographic (i.e. regarding the descriptive attributes of firms) information since these aspects are more factual than opinion-based.

Saunders *et al.* (2016) explain that the individual questions in a questionnaire can be designed as open questions or closed questions. The goal of open questions is to provide respondents with the opportunity to answer questions as they prefer. Closed questions on the other hand, require less writing, are quicker to answer and easier to compare. Closed questions include list questions, category questions,

rankings, ratings, quantity questions, matrix and scale questions (Saunders *et al.*, 2016; Tustin *et al.*, 2005). This study made use of open questions, list questions, category questions, rating questions and quantity questions.

Table 4.1 below illustrates the questions that were included in the questionnaire and the type of questions that these could be categorised as.

Table 4.1 Questionnaire content, type of question, type of rating

Question	Type of question	Type of rating
SECTION A		
Were you retrenched from the insurance industry between the years 2000 and 2013?	Category question	
Is your primary business based in Gauteng?	Category question	
Are you a small business owner?	Category question	
Are you currently employed? If yes, please specify industry.	Category and list question	
Did you consider starting a small business after the retrenchment?	Category question	
Is the small business still active? If no, please state reason for termination.	Category and list question	
SECTION B		
Age	Quantity question	
Race	Category question	
Gender	Category question	
Geographical area	Category question	
Marital status	Category question	
Highest level of formal education	Category question	
Insurance industry-specific qualification	List question	
Work experience	Open-ended question	
Importance of soft skills: <ul style="list-style-type: none"> • Consulting a mentor • Using technology for better customer service • Using technology for better internal processes • The ability to handle risk and uncertainty • Having a passion for doing business • The ability to inspire others • Determination • Placing a high value on self-improvement • Continually seeking new opportunities 	Rating question	Level of importance

Question	Type of question	Type of rating
<ul style="list-style-type: none"> • Being able to take initiative • Working independently • Ethical conduct 		
<p>Own skill rating for soft skills:</p> <ul style="list-style-type: none"> • Consulting a mentor • Using technology for better customer service • Using technology for better internal processes • The ability to handle risk and uncertainty • Having a passion for doing business • The ability to inspire others • Determination • Placing a high value on self-improvement • Continually seeking new opportunities • Being able to take initiative • Working independently • Ethical conduct 	Rating question	Level of skill
<p>Importance of business management skills:</p> <ul style="list-style-type: none"> • Administration skills • Involvement in all levels of the business • Ability to compile a vision and mission statement • Ability to compile a strategic plan for the business • Ability to implement a strategic plan for the business • Personnel and human resource management skills • Operations management • Purchasing management • Marketing skills • Public relations management skills • Financial management skills • Awareness of environmental management and sustainability • Safety management skills • Risk management skills 	Rating question	Level of importance
<p>Own skill rating for business management skills:</p> <ul style="list-style-type: none"> • Administration skills • Involvement in all levels of the business • Ability to compile a vision and mission statement • Ability to compile a strategic plan for the business 	Rating question	Level of skill

Question	Type of question	Type of rating
<ul style="list-style-type: none"> • Ability to implement a strategic plan for the business • Personnel and human resource management skills • Operations management • Purchasing management • Marketing skills • Public relations management skills • Financial management skills • Awareness of environmental management and sustainability • Safety management skills • Risk management skills 		
SECTION C		
Primary economic sector	List question	
Years owning a small business	Quantity question	
Number of employees	Category question	
Annual turnover	Category question	
What was the source of your business idea to start this business?	Open question	
What sources of funding did you make use of to start your business? Indicate the sources and percentages	List and quantity question	
At which of the following places is your small business registered?	List question	
What type of business do you have?	Category question	
The greatest challenge I face in my business is ...	Open-ended question	
SECTION D		
<p>Actual and perceived barriers:</p> <ul style="list-style-type: none"> • The demand for new technology in my industry is higher than I am comfortable with • New technology makes a valuable contribution to the success of a small business • Business registration requirements in South Africa are burdensome • Business taxation practices in South Africa present a challenge to small businesses • Political uncertainty prevent people from starting successful small businesses • There are initiatives undertaken by government to encourage small business success • Capital investment requirements make it difficult to start a small business in the insurance industry 	Rating question	Level of agreement

Question	Type of question	Type of rating
<ul style="list-style-type: none"> • A lack of readily available capital make it difficult to start any small business • There are negative stigmas surrounding the decision to start a small business • Small business owners have very little support • Political uncertainty make it more difficult to successfully manage a small business • Economic instability make it more difficult to successfully manage a small business • Legal aspects and regulations make it more difficult to successfully manage a small business • Corruption influences the way people do business in South Africa 		

The questions comprising the questionnaire were based on information gathered in the literature study, and the aim of these questions was to answer the research objectives of this study. Table 4.2 below illustrates the relationship between the literature study, research objectives and the questions in the survey questionnaire:

Table 4.2 Questionnaire content, research objectives and the literature review

Question and section in literature review	Research objective
SECTION A	
Were you retrenched from the insurance industry between the years 2000 and 2013?	Qualifying question
Is your primary business based in Gauteng?	Qualifying question
Are you a small business owner?	To determine whether small business initiatives were undertaken by the specific group of individuals
Are you currently employed? If yes, please specify industry.	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they continue in the same line of work as before or not?
Did you consider starting a small business after the retrenchment?	To determine whether the retrenchment event contributed to the decision to start a small business
Is the small business still active? If no, please state reason for termination.	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they

Question and section in literature review	Research objective
	continue in the same line of work as before or not?
SECTION B	
Age (section 3.4.4.2)	Demographics
Race (section 3.4)	Demographics
Gender (section 3.4.4.1)	Demographics
Geographical area (section 1.7.2)	Demographics
Marital status (section 3.4.5)	Demographics
Highest level of formal education (section 3.4.3.4)	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they continue in the same line of work as before or not?
Insurance industry-specific qualification	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they continue in the same line of work as before or not?
Work experience (section 3.4.4.3)	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they continue in the same line of work as before or not?
Importance of and own skill rating for soft skills: <ul style="list-style-type: none"> • Consulting a mentor (section 2.3.2.2) • Using technology for better customer service (section 2.5.3, 3.7.3, 3.4.3.5) • Using technology for better internal processes (section 3.4.3.5, 3.7.3) • The ability to handle risk and uncertainty (section 3.5) • Having a passion for doing business (section 3.5) • The ability to inspire others (section 3.5) • Determination (section 3.5) • Placing a high value on self-improvement (section 3.5) • Continually seeking new opportunities (section 3.5) • Being able to take initiative (section 3.5) • Working independently (section 3.5, 3.4.4.4) • Ethical conduct (section 2.3.1, 2.3.2.6) 	<p>To determine the difference with regard to the importance attached to and their own level of soft skills between small business owners and non-small business owners</p> <p>To determine the gap between the importance attached to and level of their own soft skill, for small business owners and non-small business owners respectively</p>
Importance of and own skill rating for business management skills: <ul style="list-style-type: none"> • Administration skills (section 2.3.2.7) 	To determine the difference with regard to the importance attached to and their own level of business management skills between small

Question and section in literature review	Research objective
<ul style="list-style-type: none"> • Involvement in all levels of the business (section 3.5) • Ability to compile a vision and mission statement (section 2.3.1) • Ability to compile a strategic plan for the business (section 2.3.1, 2.3.2.1) • Ability to implement a strategic plan for the business (section 2.3.1, 2.3.2.1) • Personnel and human resource management skills (section 2.3.2.2) • Operations management (section 2.3.2.3) • Purchasing management (section 2.3.2.4) • Marketing skills (section 2.3.2.5) • Public relations management skills (section 2.3.2.6) • Financial management skills (section 2.3.2.8) • Awareness of environmental management and sustainability (section 2.3.2.9) • Safety management skills (section 2.3.2.9) • Risk management skills (section 2.3.2.9) 	<p>business owners and non-small business owners in this group</p> <p>To determine the gap between the importance attached to and their level of own business management skill for small business owners and non-small business owners respectively</p>
SECTION C	
Primary economic sector	To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, did they continue in the same line of work as before or not?
Years owning a small business	Firmographics
Number of employees	Firmographics
Annual turnover (section 3.2)	Firmographics
What was the source of your business idea to start this business? (section 3.4.4.4)	Firmographics
What sources of funding did you make use of to start your business? (section 3.4.5)	Firmographics
At which of the following places is your small business registered? (section 3.6.2)	Firmographics
What type of business do you have? (section 2.5.5)	Firmographics
The greatest challenge I face in my business is ...	To determine the actual and perceived barriers to entry that this group of retrenched individuals faced in starting small businesses
SECTION D	
<p>Actual and perceived barriers:</p> <ul style="list-style-type: none"> • The demand for new technology in my industry is higher than I am comfortable with (section 2.5.3, 3.4.3.5) 	To determine the difference in the level of agreement regarding actual and perceived barriers between

Question and section in literature review	Research objective
<ul style="list-style-type: none"> • New technology makes a valuable contribution to the success of a small business (the results of this statement will be inverted in order for it to be in line with the rest of the negatively stated barriers in this section) (section 2.5.3, 3.4.3.5) • Business registration requirements in South Africa are burdensome (section 2.5.5) • Business taxation practices in South Africa present a challenge to small businesses (section 2.5.1, 2.5.1.3, 2.5.5, 2.6) • Political uncertainty prevent people from starting successful small businesses (section 2.5, 3.4.3.2) • There are initiatives undertaken by government to encourage small business success (the results of this statement will be inverted in order for it to be in line with the rest of the negatively stated barriers in this section) (section 2.5.1, 2.6) • Capital investment requirements make it difficult to start a small business in the insurance industry (section 2.3.2.2, 2.3.2.8, 2.4.2, 2.5.1.3, 2.5.5, 2.6, 3.4.5) • A lack of readily available capital make it difficult to start any small business (section 2.3.2.2, 2.3.2.8, 2.4.2, 2.5.1.3, 2.5.5, 2.6, 3.4.5) • There are negative stigmas surrounding the decision to start a small business (section 2.6) • Small business owners have very little support (section 2.5.1, 2.6) • Political uncertainty make it more difficult to successfully manage a small business (sections 2.6, 3.4.3.2) • Economic instability make it more difficult to successfully manage a small business (section 2.5.1, 3.4.3.3, 2.3.2.1, 2.3.2.2, 2.4.3.3, 2.6) • Legal aspects and regulations make it more difficult to successfully manage a small business (section 2.5.5, 2.6) • Corruption influences the way people do business in South Africa (section 2.6) 	<p>small business owners and non-small business owners</p>

As described earlier in this chapter, the questionnaire that was used for data gathering purposes was developed based on the information gathered through the literature study. Industry and academic experts were consulted regarding the questionnaire to ensure content validity and face validity. These industry and academic experts were consulted about the accuracy of the content of the questionnaire and to determine whether the questionnaire was designed in such a manner that it would lead to accurate information gathering. The experts consulted included three industry experts and four academic experts. The academic experts

included a statistician and other experienced researchers. The comments that were received from these industry and academic experts were incorporated into the questionnaire. The first comments related to an adjustment of the options available under question 12 related to the highest level of formal education. The industry experts indicated that there were insurance industry-specific qualifications that differed from the indication of traditional qualifications. This meant that the researcher had to add options for certificates and postgraduate diplomas to the questionnaire.

The second aspect highlighted by the industry experts related to question 15 of the questionnaire. This question investigated the perceived importance of selected soft skills and business management skills for small business owners in South Africa. The industry experts indicated that it might be necessary to include definitions of certain terms, such as marketing skills, in order to ensure that the respondents understood the questions correctly. The questionnaire was adjusted accordingly and the final questionnaire is attached as Addendum A. The industry experts agreed that they believed the list of actual and perceived barriers as well as the list of soft and business management skills seemed to be comprehensive and complete without any suggestions for further improvements.

4.3 Data collection

Data collection comprises the collection, capturing, cleaning, editing, coding and storage of primary data, as well as information about the fieldworkers and response rate.

4.3.1 Collecting, capturing, cleaning, editing, coding and storage of primary data

Data collected in the pilot study was used to improve the questionnaire before it was distributed to potential respondents. Primary data was collected through questionnaires that were sent to respondents. In order to make contact with relevant prospective participants, the researcher and field workers approached the IING (Insurance Institute of North Gauteng), various accountants, brokers and coaches. With the contact obtained from these sources, the researcher and fieldworkers contacted 673 individuals.

The researcher and fieldworkers then contacted INSETA (Insurance Sector Education and Training Authority), and the questionnaire was distributed to 4 000 stakeholders by INSETA.

The data was firstly captured on paper copies of the questionnaire. Subsequently, the data was transferred and coded into a computer using SPSS (Statistical Package for the Social Science) and Excel software.

This data was stored electronically on a password-protected computer and paper-based collected questionnaires were locked in a safe when they were not actively being used.

4.3.2 The fieldworkers

Two fieldworkers assisted the researcher in this study. One fieldworker had been employed in the insurance industry for 27 years and the second fieldworker previously did fieldwork for, amongst others, the World Health Organisation (WHO).

4.3.3 The response rate

The researcher and fieldworkers received 27 questionnaires from the 673 individuals who were originally contacted, indicating a 4% response rate. These 673 individuals were contacted via email, telephonically and via social media. In an attempt to increase the response rate, the individuals were reminded of the survey via email and telephone calls. In order to increase the number of people who were aware of this survey, the researcher and fieldworkers made use of social media. Requests to participate in this research study were posted on Facebook, LinkedIn and Twitter. Various small business and general community groups were targeted on Facebook with further requests to participate in the research studies. All of the individual contacts of the researcher, fieldworkers and involved associations were informed of the research study via the private message function on Facebook. The same strategy was applied to LinkedIn, where the information regarding the research study was posted on the pages of the researcher, fieldworkers and the involved associations as well as communicated via private messages.

The questionnaire was made available in printed format or as a Word document. The printed questionnaires worked well for the fieldworkers because they could have a conversation with the prospective participant while completing the

questionnaire on his or her behalf. Although this method was more time-consuming, it ensured that the questionnaires that were indeed completed, were done accurately and that the prospective participants actually qualified to be included in the study.

Although the initial target population was 2 500, permission was received from INSETA to distribute questionnaires to 4 000 individuals, constituting a census of the entire INSETA database. From the 4 000 questionnaires that were disseminated by INSETA, the researcher received 14 questionnaires that complied with the set qualifying characteristics. Due to this very low response rate (0.4%), the researcher and supervisor decided on a cut-off date, at which time the researcher and fieldworkers would stop disseminating questionnaires. The remedial actions implemented due to the low response rate caused a delay of several months in this research study. The responses received are illustrated in Figure 4.4 below.

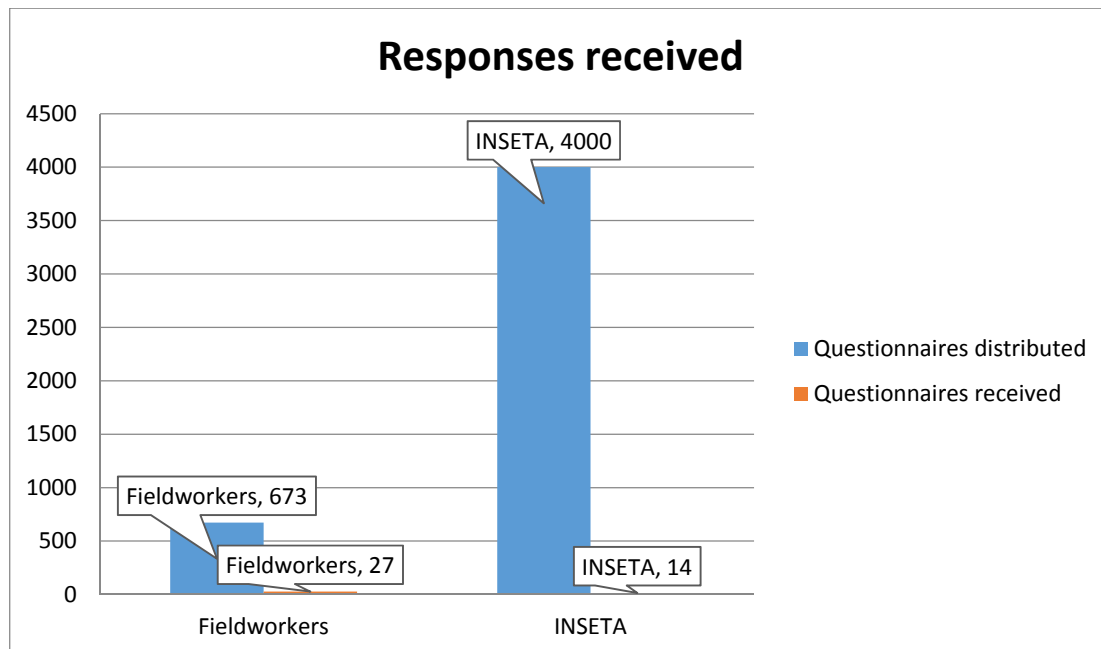


Figure 4.4 Responses received

Source: Author's own composition (2016)

Cooper and Schindler (2011) list several methods for improving the response rates to self-administered questionnaires. The following approaches to improve the response rate on this study were implemented:

- ensuring that completion directions were clear;

- communicating with as many of the prospective respondents individually and in a personalised manner through phone calls, text messages and personalised emails;
- informing the individual prospective participants (673) of the questionnaire that they will be receiving beforehand;
- checking the reliability of the contact information for these 673 prospective participants in the advance notification process;
- contacting the 673 individual respondents after the questionnaire had been sent to encourage them to respond;
- distributing reminders to complete the questionnaire to the 673 individual prospective respondents two to three weeks after sending out the questionnaire;
- reminders were accompanied by the researcher's contact information to ensure that the respondents could easily access the information in terms of where they should send their responses;
- another round of reminders was sent out two weeks later via email, text message and social media; and
- respondents were reminded that their anonymity would be ensured throughout the research process.

One of the greatest challenges faced by the researcher and fieldworkers was the reluctance and refusal of potential participants to complete the questionnaire. There was a definite emotional barrier that was encountered in contacting these respondents with some not admitting that they went through a retrenchment event, even when the researcher was aware that such an event had occurred.

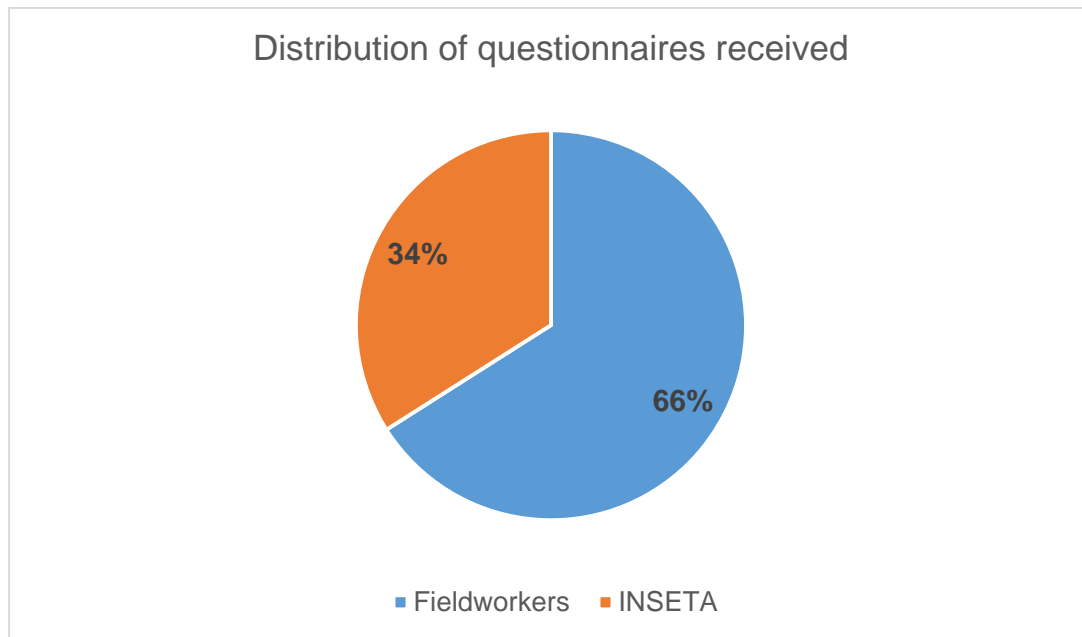


Figure 4.5 Distribution of questionnaires received (n=41)

Source: Author's own composition (2017)

As indicated in Figure 4.5 above, the total number of questionnaires that were received is 41. Of these 41 questionnaires, the majority was collected by fieldworkers, with only 34% of the questionnaires obtained from INSETA.

4.4 Analysis of primary data

An analysis of the data collected had to be conducted in order to answer the research questions and objectives. Data analysis involved descriptive and inferential statistics, as conveyed in Chapter 5 of this study.

The first phase of data analysis involved descriptive statistics. Pallant (2016) explains that descriptive statistics are utilised to describe the features and characteristics of the sample and to address specific research questions. Descriptive statistics also include information about the mean, standard deviation, range of scores, skewness and kurtosis. The descriptive statistics conveyed in Chapter 5 of this study also include a spider graph comparing the mean scores on different sets of questions.

Non-parametric tests were conducted as part of the inferential statistics section of the data analysis. This included a Mann–Whitney U test that was used to test the statistically significant differences between small business owners and non-small

business owners with regard to the importance and own skill ratings of soft skills, importance and own skill ratings of business management skills, as well as actual and perceived barriers. The Mann–Whitney U test is a non-parametric test used as an alternative for t-tests for independent samples (Pallant, 2016). This test is applied to small sample sizes, and compares the medians of two independent groups, converting scores to ranks across the two groups (Pallant, 2016). These ranks are then evaluated to determine whether the difference between the two groups is of statistical significance (Pallant, 2016). The final analysis that was conducted was a cluster analysis. Mooi and Sarstedt (2010) explain that a cluster analysis is used to identify homogenous groups of objects. In this study, the cluster analysis aimed to explore whether the small business owners comprised different profile groups with regard to their demographics (age, education, gender) and their firmographics (number of employees, annual turnover, age of business).

4.5 Ethics, reliability and validity

Before any research was conducted for this project, the project was first approved by the ethical clearance committee at the University of South Africa.

Protecting the privacy of the individual respondents is vital. The identities of all respondents were protected as far as possible. Paper-based questionnaires were assigned random numbers during the coding process. The researcher and fieldworkers approached individuals who had been retrenched from the insurance industry; however, some individuals denied this to be true. In these cases, the contact with these individuals was suspended immediately and the issues with discrepancies were not confronted in order to protect the rights and privacy of these individuals.

Ethical conduct pertaining to the analysis of the information gathered as well as the reporting of this information was extremely important. The researcher had the responsibility to be objective in her analysis and portrayal of the information gathered (Saunders *et al.*, 2016).

Saunders *et al.* (2016) explain that reliability is important in terms of the consistency and replicability of a study. In this study, replicability was promoted through the documentation of each step of the research process. Saunders *et al.* (2016) further explain that reliability could be threatened by participant error, participant bias,

researcher error and researcher bias. Furthermore, this study was focused on different soft skills, business skills and small business barriers and not predefined theoretical constructs. Calculating a Cronbach's alpha coefficient for reliability (internal consistency) was therefore not applicable.

Validity is divided into three categories, namely measurement validity, internal validity and external validity (Saunders *et al.*, 2016). **Measurement validity** is determined by face validity, construct validity, content validity and predictive validity. Face validity is determined through a pilot study whereby the goal is to determine whether the questionnaire is logical and understandable (Saunders *et al.*, 2016). Construct validity relates to whether the questionnaire actually measures what it sets out to measure (Saunders *et al.*, 2016). Content validity is related to the extent to which the questionnaire covers the content. This is informed by a literature review. Content validity in this study was of great importance and was addressed through consultation with various industry and academic experts. Predictive validity relates to how accurate the predictions are that the questions can make. Predictive validity is usually tested through statistical analysis, such as correlations (Saunders *et al.*, 2016).

Internal validity relates to the demonstration of a causal relationship between two variables in the research process. This validity can be threatened by past or recent events that alter the perception of the respondents, the effect that the testing has on the respondents' views, changes to the questionnaire or research instrument, participants withdrawing from the study, changes in the perceptions and lives of participants due to life events, and ambiguity pertaining to causal direction (Saunders *et al.*, 2016).

Saunders *et al.* (2016) explain that **external validity** applies to the generalisation of the findings of the study to other relevant groups. The validity types relevant to this study are content validity and external validity. Content validity was addressed and confirmed through consultation with various industry and academic experts. External validity could not be confirmed due to the small, realised sample.

4.6 Presenting research findings and follow-up

The research findings are presented in a master's dissertation. The contact information of all respondents was kept confidential, which means that no follow-up

communication will occur, other than sending the results of the research to those respondents who indicated that they were interested in receiving it. Other research presentations may include journal articles and conference proceedings.

4.7 Conclusion

This chapter saw a discussion of the research process, research instrument and a description of the statistical analysis that was conducted. This study adopted a descriptive research design, with a positivistic research philosophy, deductive research approach and a quantitative research method. The research strategy of this study was survey research conducted by means of the development of a survey questionnaire that was tested through a pilot study. The insights gained through the pilot study were integrated into the questionnaire before it was distributed to prospective respondents. This chapter further saw a description of the fieldworkers, the response rate and analysis techniques that were utilised.

The statistical analysis of the data gathered through the survey questionnaire is discussed in the next chapter in terms of descriptive and inferential statistics.

CHAPTER 5: RESULTS OF THE STUDY

5.1 Introduction

In this chapter, the results of this study will be discussed. The aim of the results chapter is to provide a quantitative and descriptive overview of the responses received to the questions that were asked in the questionnaire and to describe the inferential statistical analyses that were conducted to answer the research questions using the information obtained from the respondents. Figure 5.1 below provides an illustrated overview of the layout and main headings of this chapter.



Figure 5.1 Chapter 5 overview

Source: Author's own composition (2016)

The questionnaire distributed to respondents was divided into four sections, namely background information, demographics and skills, small business owner profile and experienced challenges, and finally, actual and perceived barriers. The discussion of the descriptive results in this chapter is structured according to the sequence of the questionnaire.

5.2 Background information

This section of the questionnaire addressed the qualifying questions for this study as well as questions relating to current employment, whether participants considered starting a small business after they had been retrenched and whether or not their small business was still active.

5.2.1 Qualifying questions

In order to qualify for participation in this study, respondents were asked two questions. The first was to determine whether the prospective participant had been retrenched from the insurance industry between 2000 and 2013. The second question was aimed at determining whether the respondents' main business or employment was situated in the Gauteng area. If a prospective participant replied negatively (no) to either one of these questions, he or she did not qualify to participate in the study and he or she did not receive a questionnaire to complete. The 41 respondents who replied yes to both these questions were eligible to participate in this study.

5.2.2 Small business owner

Participants were asked whether they were small business owners or not. Information described throughout this chapter is divided according to the answers that individuals provided to this question. This means that the statistics conveyed in this chapter are divided according to the answers provided by small business owners and non-small business owners. Obviously, this is a major distinguishing factor about the intention to be a small business owner, which is a contentious issue in the South African society, taking cultural stigmas into consideration. This distinction will allow for further, in-depth analysis as reflected in the inferential analysis that will follow.

As indicated in Figure 5.2 below, of the 41 individuals who completed the questionnaire, 24 (58.5%) indicated that they were small business owners and 17 (41.5%) indicated that they were not small business owners.

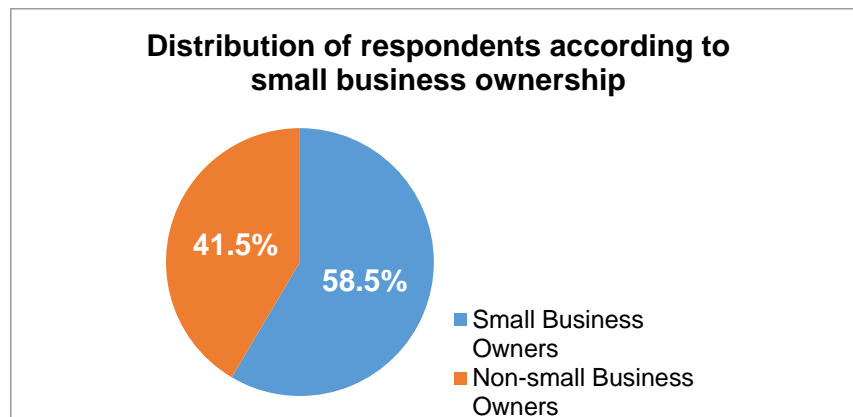


Figure 5.2 Distribution of respondents according to small business ownership (n=41)

This addressed the first research objective that this study set out to investigate – whether small business interventions were undertaken by individuals who had been retrenched in this industry. The majority (58.5%) of the respondents indicated that they did undertake small business initiatives to start their own small businesses.

5.2.3 Current employment

Respondents, who replied no to the previous question (about being a small business owner), were asked whether they were employed at the time of the research. If respondents replied yes, they were asked in which industry they were employed.

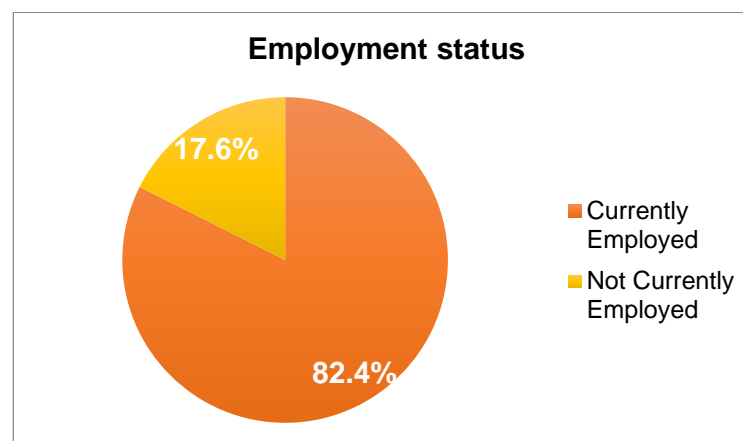


Figure 5.3 Employment status (n=17)

As illustrated in Figure 5.3, the majority of non-small business owner respondents were able to find employment elsewhere. These non-small business owner respondents, who found other employment (82.4%), were employed in different industries, as indicated in Figure 5.4 below.

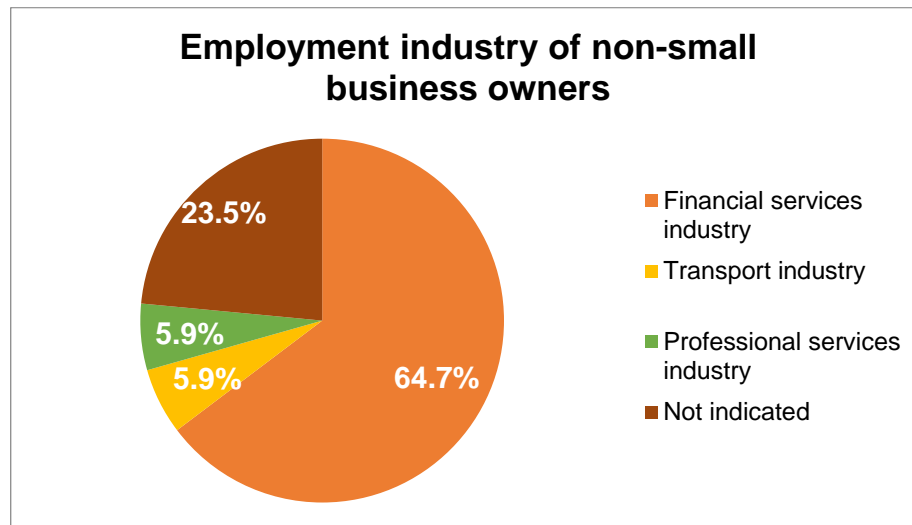


Figure 5.4 Employment industry of non-small business owners (n=17)

The majority (64.7%) of non-small business owner respondents indicated that they continued their specialist type of work done before the retrenchment and that they were employed in the financial services industry. This addressed the third research objective that was set for this study – whether there was continuity in the specialist type of work performed by the specific group of individuals.

5.2.4 Consideration to start a small business

All participants were asked whether they considered starting a small business after they had been retrenched from the insurance industry. As indicated in Figure 5.5 below, a large majority (91.7%) of small business owner respondents indicated that they considered starting a small business after they had been retrenched while just over half (58.8%) of non-small business owners indicated that they did not consider starting a small business.

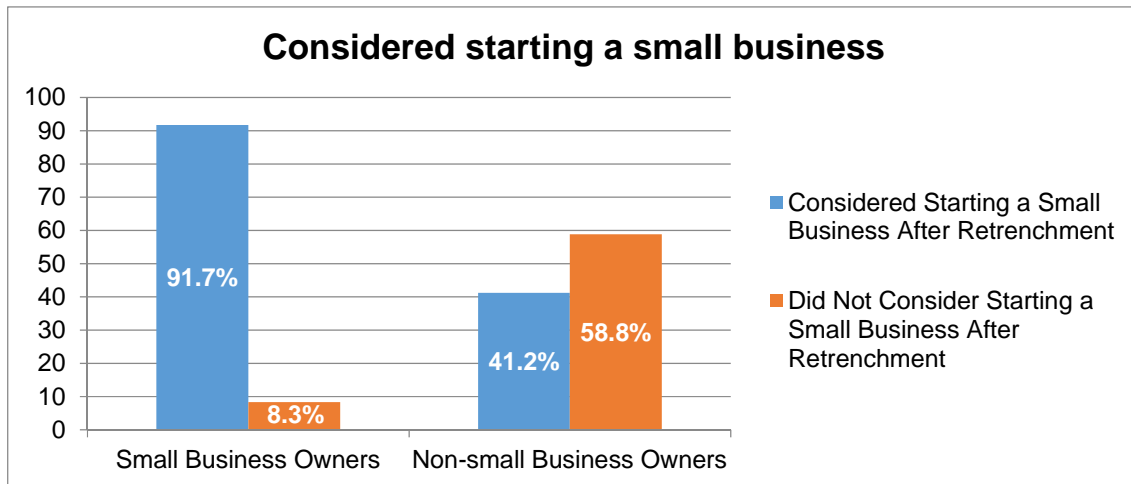


Figure 5.5 Considered starting a small business (n=41)

The responses to this question indicated that the retrenchment may have been the triggering event that motivated some of the respondents to consider seriously starting their own business. The majority of small business owners indicated that they only considered starting their own business after the retrenchment had occurred, making them necessity-driven entrepreneurs (GEM Consortium, 2014). In response to the second research objective (see section 4.2.2), it could be assumed that the retrenchment event did contribute to the development of a small business start-up intent among this group of retrenched individuals, albeit driven by necessity.

5.2.5 Small business still active

Respondents were asked whether their small businesses was still active. If they responded no, the respondents were requested to provide reasons why their businesses were no longer active. This question was answered by 30 respondents, including both small business owners and non-small business owners. The results are depicted in Figure 5.6 below:

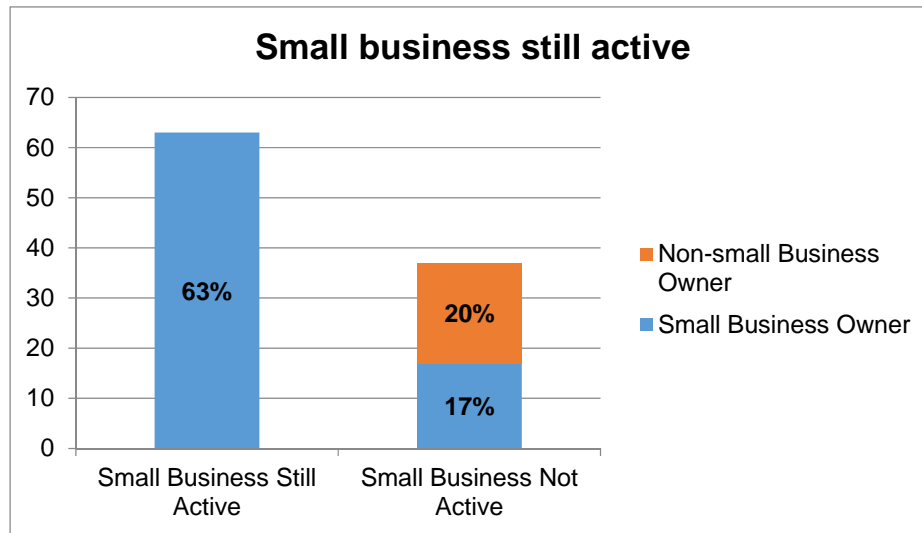


Figure 5.6 Small business activity (n=30)

One respondent completed the entire questionnaire as a non-small business owner, but on this question, he or she indicated that his or her small business was still active. This could be due to a misunderstanding of the question and this response was therefore excluded from the results summarised in this graph.

A percentage of respondents (20%), who were non-small business owners, specified that their small businesses were no longer active. This indicated that they used to own small businesses but that these small businesses had to close down. A percentage of respondents (17%) answered the questionnaire as small business owners but on this question, they indicated that their small businesses were no longer active. For the purpose of this study, these responses were included in the responses of small business owners, based on their experiences as small business owners.

When asked why their small businesses were no longer active, nine of the eleven respondents, which included both small business owners and non-small business owners as indicated in Figure 5.6 above, replied. The major issue that was clearly indicated in Figure 5.7 below, was financial problems (48% of the respondents). There was an option to mention more than one reason, and other issues listed by the respondents were health issues, family responsibilities, compliance issues in the specific industry, or that they had found full-time employment.

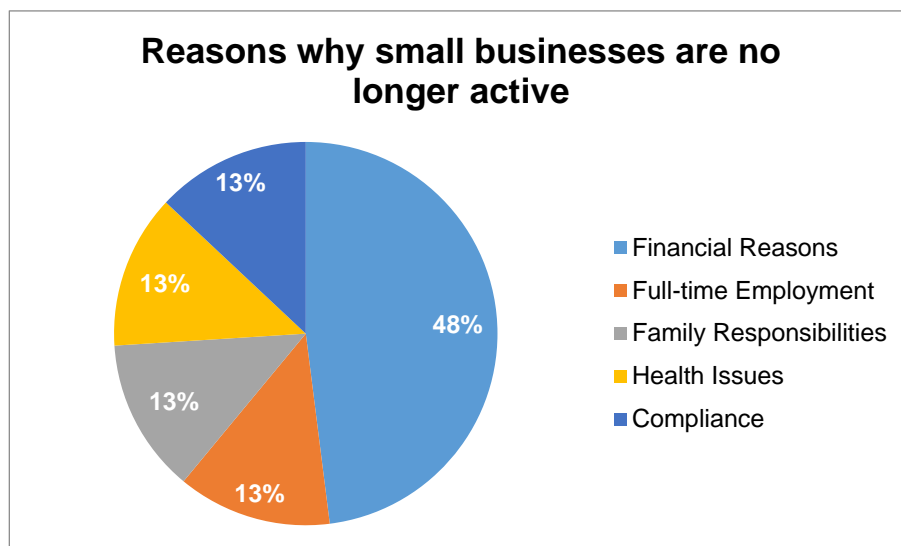


Figure 5.7 Reasons why small businesses were no longer active (n=9)

The reasons respondents provided for their small businesses failing provided insight into the daily difficulties faced by small business owners in South Africa. The economic climate creates major challenges for small business survival but personal issues, such as family responsibilities and health issues cannot be separated from the business since the life and health of the small business owner are closely linked with the small business itself.

5.3 Demographical information

The two groups of participants, small business owners and non-small business owners, were interrogated regarding their ages, race, gender, geographical location, marital status, formal education, and insurance industry qualifications.

Figure 5.8 below, which relates to the ages of the respondents who participated in this study, shows small business owners and non-small business owners. This was an open-ended question on the questionnaire, allowing the respondents to complete their exact ages instead of having to search for the applicable categories. The youngest respondent was 31 years of age and the oldest respondent was 65 years of age. It should be noted that this was not the age of the respondent at the time of retrenchment, but at the time of completing the questionnaire, which gave on average a time lag of 10 years since the initial occurrence of the retrenchment.

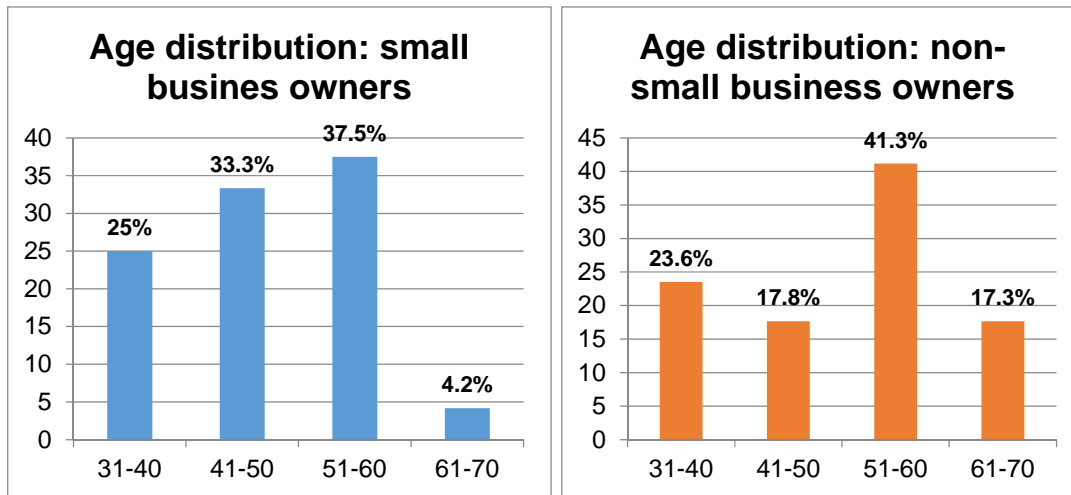


Figure 5.8 Age distribution: small business owners (n=24) and non-small business owners (n=17)

In the discussion of age distribution among entrepreneurs in Chapter 3 of this research report (see section 3.4.4.2), it was stated that the greatest percentage of entrepreneurs are aged between 25 and 44 (GEM Consortium, 2010). However, in the group of respondents in the present study, the majority (70.8%) of small business owners were aged between 41 and 60. This can be explained by the specific trigger event that these respondents had in common, namely retrenchment from the insurance industry. There is a perception that businesses terminate the employment of individuals who are closer to the age of retirement in cases where they need to conduct retrenchments and constructive dismissals.

As was the case with the age distribution of small business owners, the age group with the most respondents in the non-small business owner group was aged between 41 and 60 years with 58.6% of non-small business owner individuals falling into that age group. This indicated that the age profiles of these two groups of respondents were similar.

The next question respondents were asked, related to race. Figure 5.9 below illustrates the responses by small business owners and non-small business owners respectively.

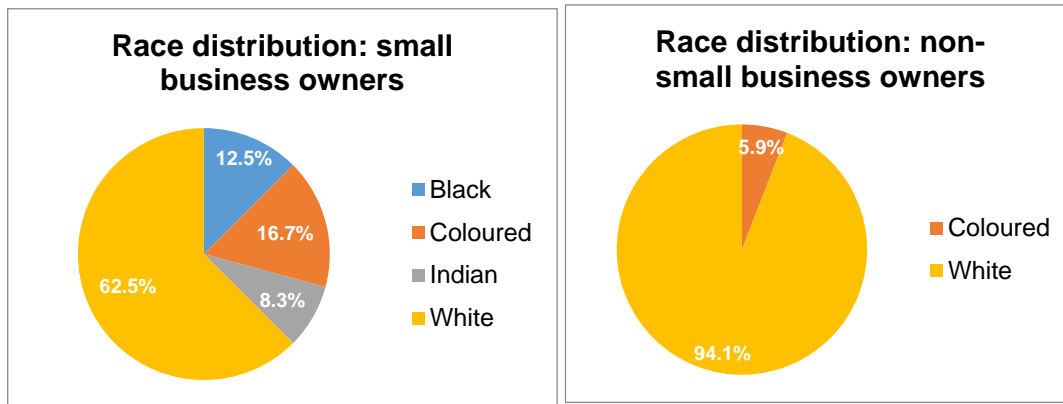


Figure 5.9 Race distribution: small business owners (n=24) and non-small business owners (n=17)

Small business owner respondents included respondents from four racial classifications with the majority indicating that they were white (62.5%) or coloured (16.7%).

The race distribution of non-small business owners was less varied with a large majority (94.1%) of non-small business owner respondents indicating that they were white and 5.9% of non-small business owner respondents were coloured.

The trend is clear, namely that the greatest percentage of retrenched individuals can be categorised as of the minority racial groups in South Africa. However, the fact that the greatest percentage of small business owners were from minority racial groups, is in line with the findings by the GEM Consortium (2010) as discussed in Chapter 3 of the literature study (section 3.4.4.3).

Respondents were also asked to indicate whether they were male or female. Figure 5.10 below indicates the responses supplied by small business owners and non-small business owners respectively.

The majority (62.5%) of small business owner respondents were male. The fact that there were more male participants than females who started small businesses is in line with the findings from the literature study (GEM Consortium, 2014).

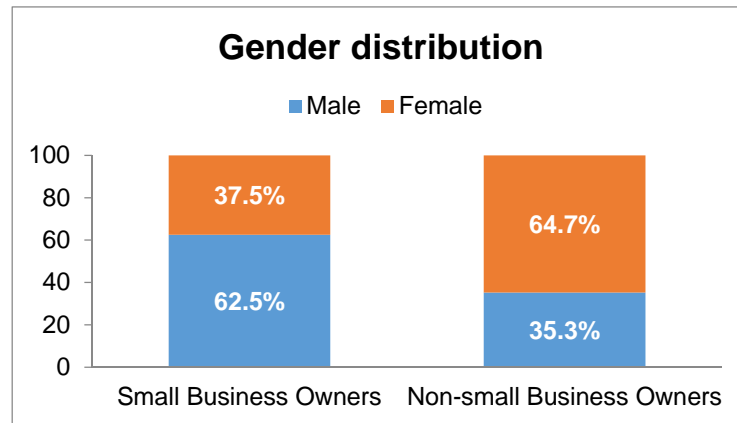


Figure 5.10 Gender distribution: small business owners (n=24) and non-small business owners (n=17)

The gender distribution of non-small business owners was quite different than the distribution of small business owners. In this category of respondents, the majority of respondents were female (64.7%). This could relate to female respondents being more risk-averse (see Agholor *et al.*, 2015) and only starting a small business when they have no other means of supporting their family as indicated in section 3.4.4.1 of the literature study.

The next question investigated the geographical location of the respondents. Respondents were given a choice between metro, non-metro and rural. Figure 5.11 below indicates the responses that were provided by small business owners and non-small business owners. Not surprisingly, the greatest percentage of respondents in both these groups indicated that they were situated in metro areas. Gauteng is mostly made up of various metropolitan areas (see GCRO, 2017) and explains this finding.

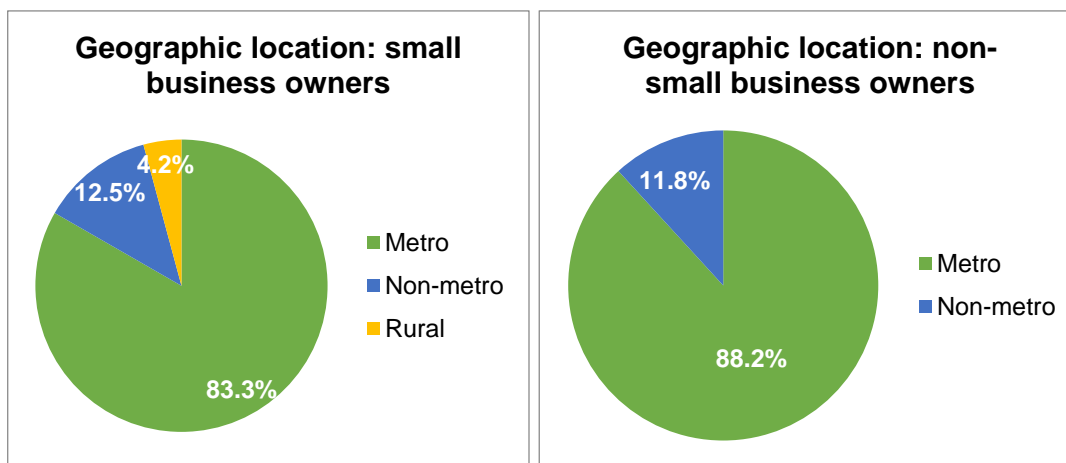


Figure 5.11 Geographic location: small business owners (n=24) and non-small business owners (n=17)

Almost all (83.3%) of the small business owner respondents were located in metro areas. Similarly, the majority (88.2%) of non-small business owner respondents also indicated that they were located in metro areas. None of the non-small business owner respondents indicated that they were located in rural areas, possibly as a result of fewer formal employment opportunities in the rural areas and due to the geography of Gauteng.

Respondents were also asked to indicate their marital status. The options provided to respondents were single, married, divorced and other. The respondents who chose the 'other' options were requested to specify. These respondents indicated living together and widowed as their marital status. Figure 5.12 below illustrates the marital status of small business owner respondents and non-small business owner respondents respectively. The greatest percentage (70.8%) of small business owners indicated that they were married.

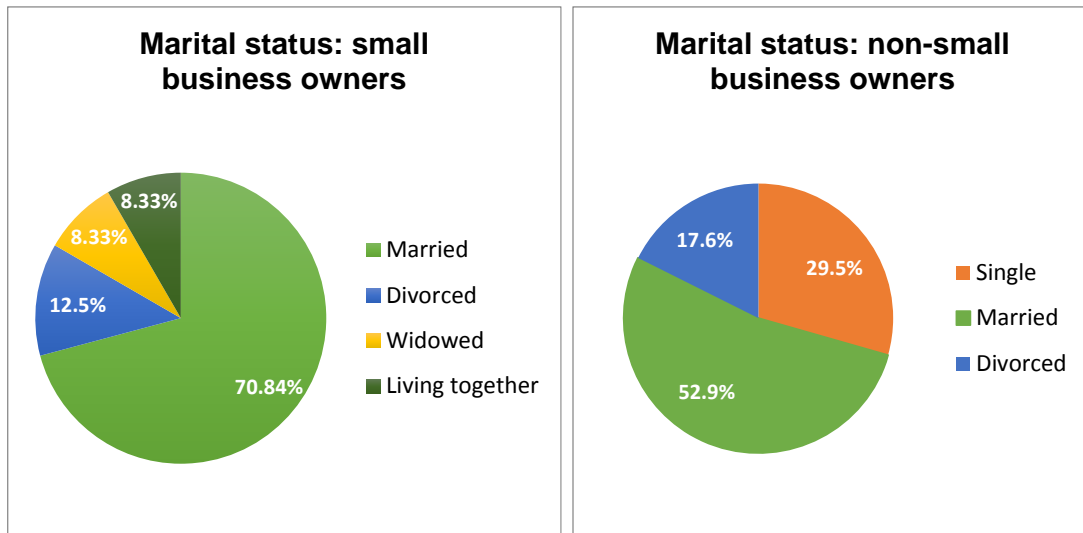


Figure 5.12 Marital status: small business owners (n=24) and non-small business owners (n=17)

Although the greatest percentage (52.9%) of non-small business owners indicated that they were married, almost half of the respondents indicated that they were single or divorced (47.1%).

Respondents were asked to indicate the highest level of formal education that they had completed. They could choose one of the following eight options: less than matric, matric, certificate, diploma, bachelor's degree, postgraduate degree/diploma or other. Figure 5.13 below provides an illustration of the responses received from small business owner respondents and non-small business owner respondents respectively.

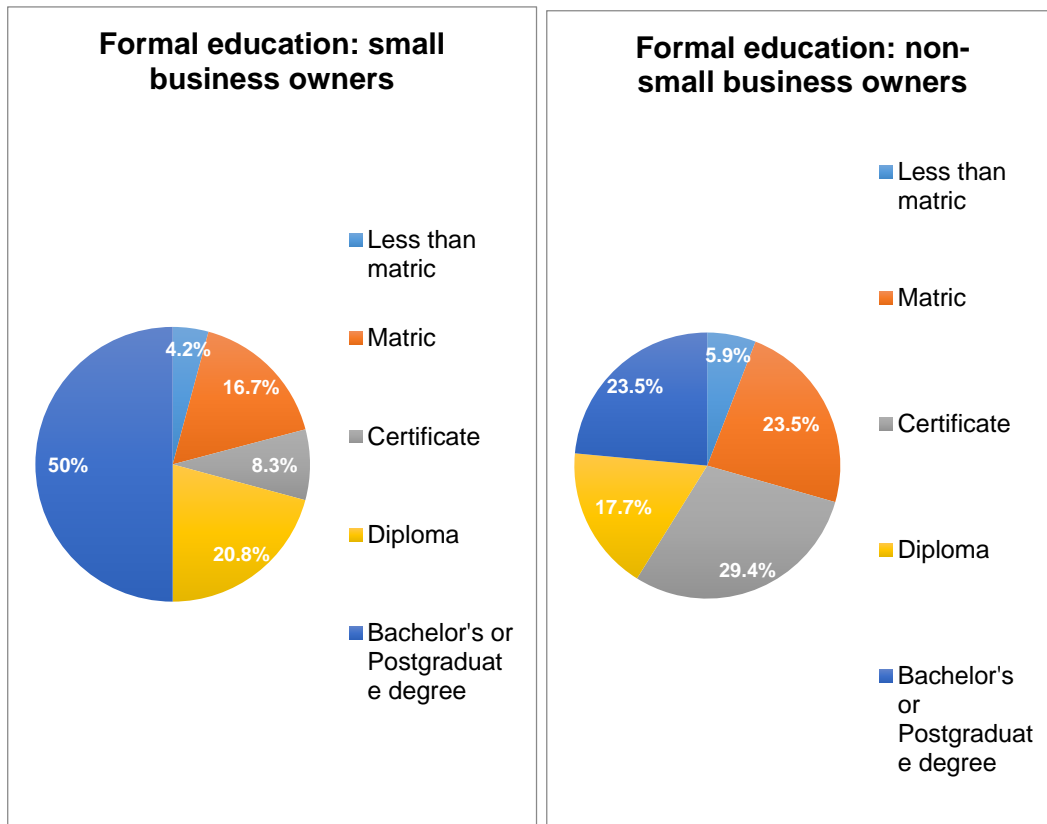


Figure 5.13 Formal education: small business owners (n=24) and non-small business owners (n=17)

Half (50%) of small business owner respondents indicated that they had bachelor's or postgraduate degrees while only 23.5% of non-small business owner respondents had bachelor's or postgraduate degrees. The majority of non-small business owners (29.4%) had certificates, indicating a clear difference in the advanced qualification levels of the two respondent groups.

Respondents were asked to indicate whether they had a formal insurance industry-specific qualification. This question related to the continuity in the specialist type of work that was performed by this group of individuals before the retrenchment had taken place. Figure 5.14 below illustrates the responses received from small business owner respondents and non-small business owner respondents respectively.

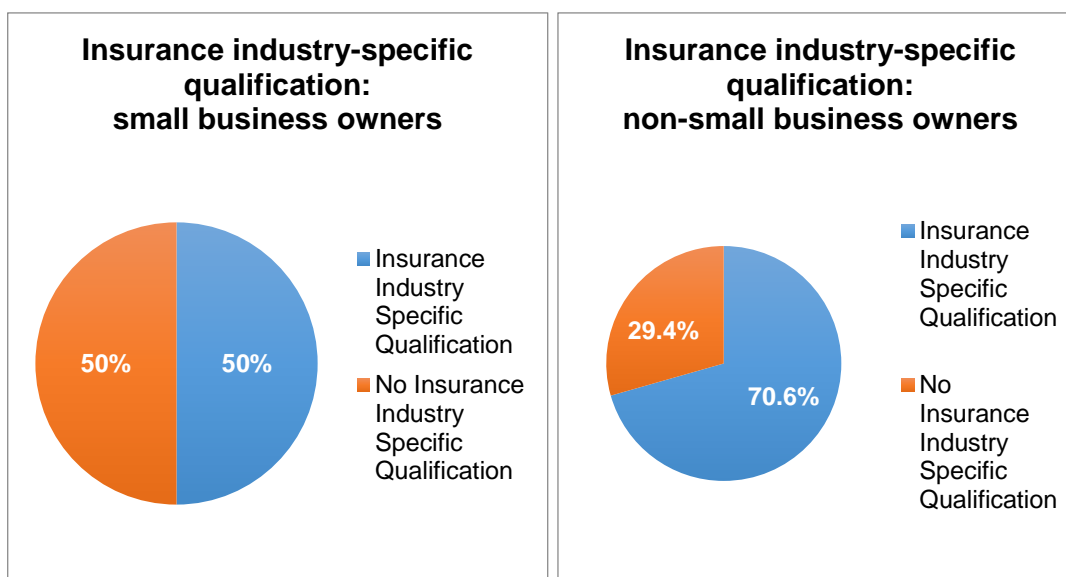


Figure 5.14 Insurance industry-specific qualifications: small business owners (n=24) and non-small business owners (n=17)

The majority (70.6%) of non-small business owners indicated that they had insurance industry-specific qualifications while the small business owner respondents were divided evenly (50%) in their response.

Individuals who indicated that they had insurance industry-specific qualifications were asked to specify what those qualifications were. This was an open-ended question and the number of responses is presented as summarised, along with the National Qualifications Framework (NQF) levels of these qualifications, illustrated in Table 5.1 below.

Table 5.1 Insurance industry-specific qualifications (n=19)

	Regulatory	NQF4	NQF5	NQF6	NQF7	NQF8
RE1 – Key individual	1	–	–	–	–	–
RE5 – Representative	4	–	–	–	–	–
Wealth management qualification	–	–	7	–	–	–
Short-term insurance qualification	–	–	2	–	–	–
Long-term insurance qualification	–	–	1	–	–	–
Advanced postgraduate diploma	–	–	–	–	–	1
Postgraduate diploma	–	–	–	–	–	1
Higher diploma	–	–	–	–	1	–
Higher certificate	–	–	2	–	–	–
Certificate	–	2	–	–	–	–

Note: RE = Regulatory examinations

Certain individuals indicated more than one qualification. As indicated in Table 5.1 above, most of the respondents completed NQF level 5 qualifications, which is the equivalent to a first-year tertiary-level qualification (see SAQA, 2015).

5.4 Soft skills

Both groups of respondents were asked to indicate whether they thought the specified soft skills were important for small business owners in South Africa. Soft skills entail people skills or personal skills that were highlighted in the literature study as being important for successful small business management. Respondents could rate these skills as irrelevant, of little importance, of moderate importance, very important or of critical importance. Responses of 'irrelevant' or 'of little importance' were grouped together, and are reflected in Figures 5.15 and 5.18 below while responses of 'very important' and 'of critical importance' were grouped together as well. Respondents were also asked how they would rate their own skills level regarding these specific soft skills.

Figures 5.15 and 5.16 below indicate the importance of the specified soft skills for small business owners in South Africa and more specifically in Gauteng, as indicated by small business owners as well as their own skill rating. This is followed by Figure 5.17, which illustrates the gap between the importance attached to soft skills and their own skill ratings for these soft skills. This relates to the fourth research objective (see section 4.2.2) pertaining to the difference with regard to the importance attached to soft skills and the level of their own soft skills related to being small business owners.

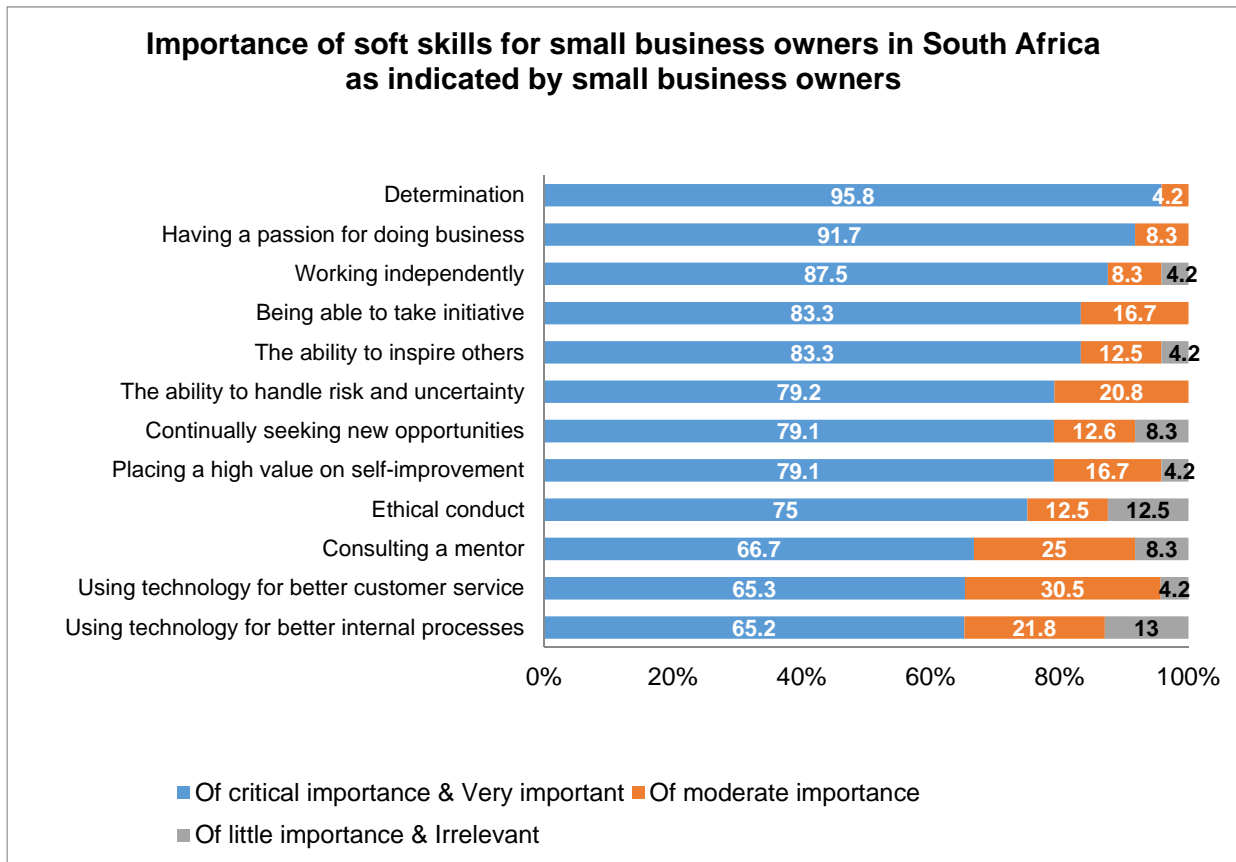


Figure 5.15 Importance of soft skills for small business owners in South Africa as indicated by small business owners (n=24)

Figure 5.15 above illustrates that in general, all these soft skills are considered very important or critically important by the majority of respondents, as at least 65% of the respondents regarded these skills as very important or critically important. Almost all of the small business owner respondents indicated that determination (95.8%) and having a passion for doing business (91.7%) were very important or critically important soft skills for business owners to have. Other soft skills that seemed to be regarded as very important or critically important by a very high percentage of respondents (83.3%) were the ability to work independently, taking initiative and being able to inspire others.

Figure 5.16 below illustrates the respondents' own ratings of their soft skills as indicated by small business owners.

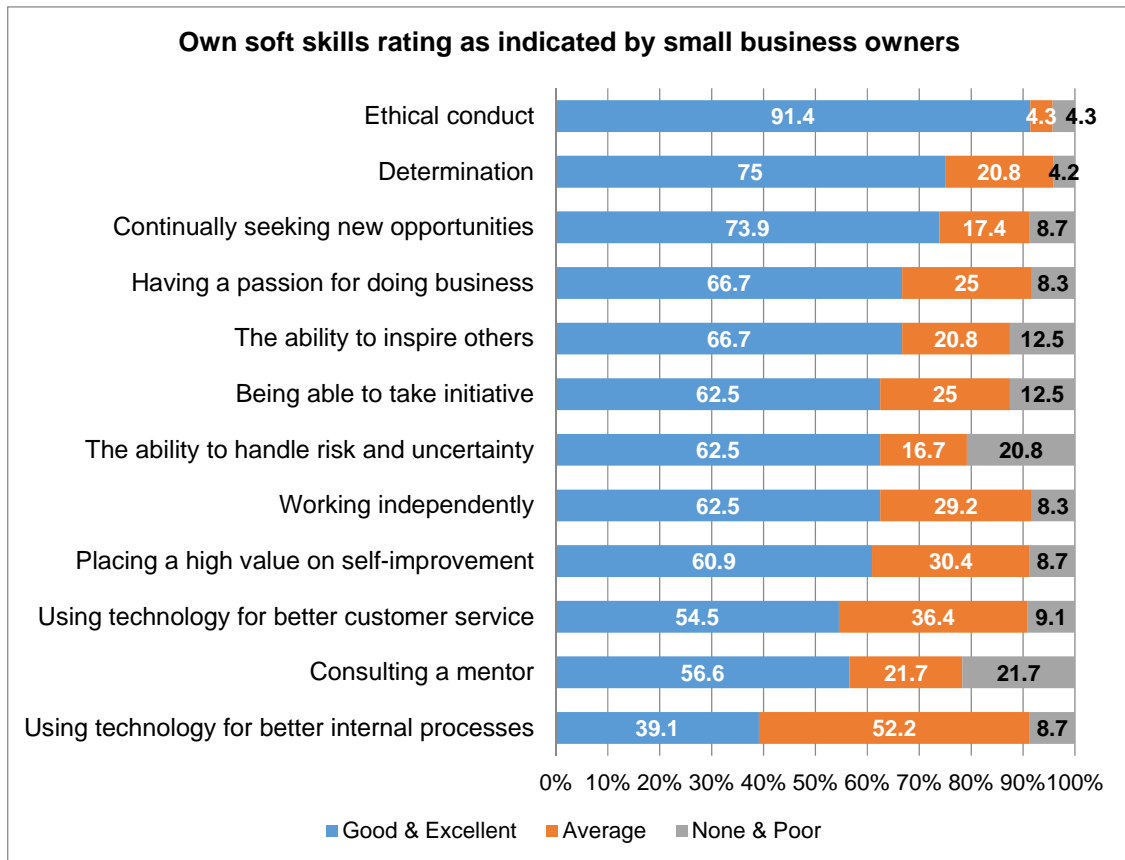


Figure 5.16 Own soft skill rating as indicated by small business owners (n=24)

The soft skills, where small business owners rated their own skills as ‘good’ or ‘excellent’, were ethical conduct (91.4%), determination (75%) and continually seeking new opportunities (73.9). However, small business owners rated themselves as ‘average’ and ‘poor’ (60.9%) on their use of technology for better internal processing and administrative purposes.

The mean values for the importance rating and their own skill rating for soft skills, as indicated by small business owners, are presented in the radar graph below, which illustrates the gap between the importance ratings and own skills ratings for soft skills. This graphic representation relates to the sixth research objective that was set for this study – to determine the gap between the importance attached to and the level of their own skill rating regarding soft skills for small business owners.

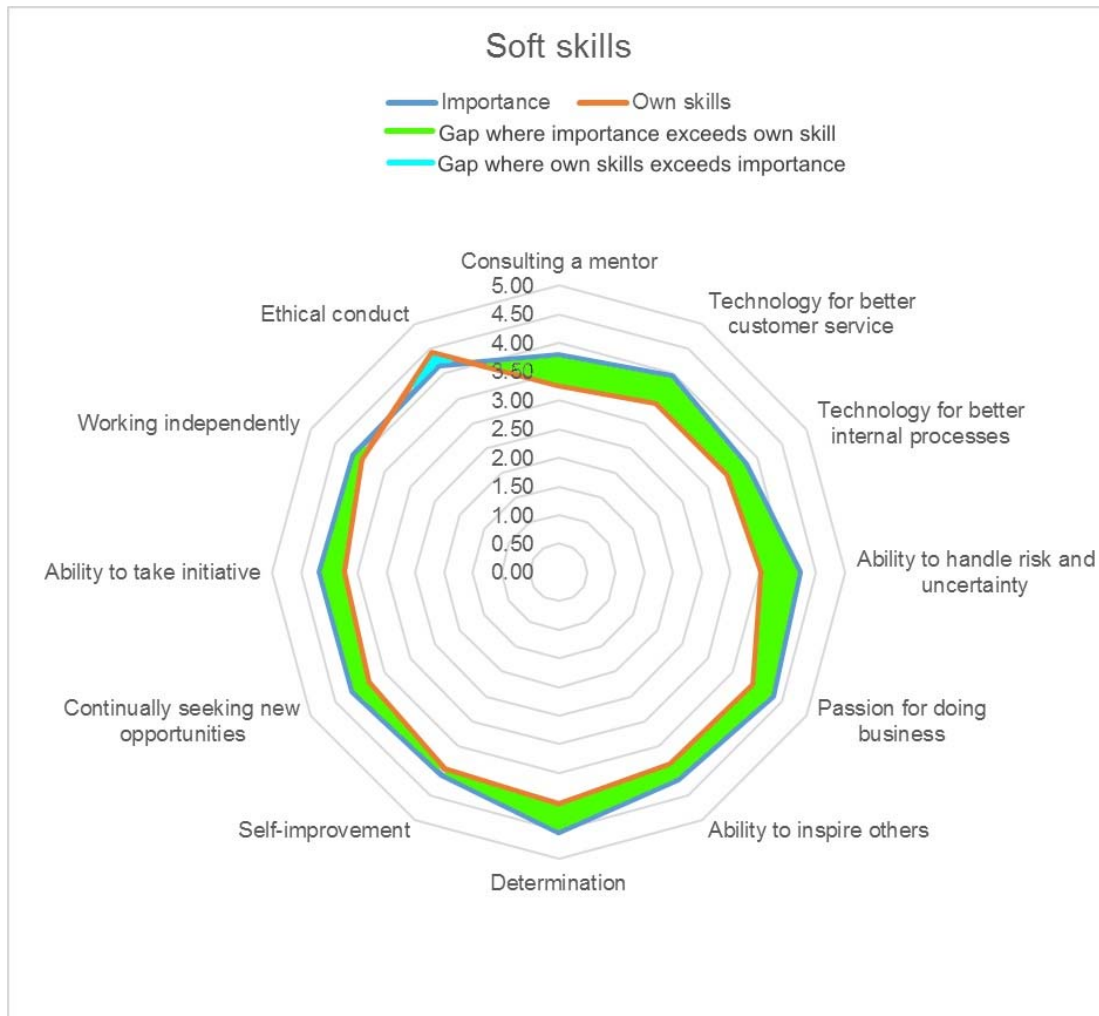


Figure 5.17 Gap between importance and own skill ratings for small business owners' soft skills

The mean value for own skills (4.43) is higher than the mean value for importance (4.17) pertaining to ethical conduct, indicating that small business owners rated the importance for ethical conduct lower than their own skill regarding ethical conduct. This means that the small business owner respondents rated their own skills regarding ethical conduct higher than how important they thought it is for small business owners. The mean value for importance for the remaining 11 soft skills is higher than the mean value for their own skills, as indicated in Figure 5.17 above. Small business owners rated the importance of the following soft skills fairly higher than they rated their own skill for these soft skills:

- consulting a mentor (mean value of importance = 3.79; mean value of own skill = 3.26);

- the ability to handle risk and uncertainty (mean importance value = 4.21; mean value of own skill = 3.54);
- having a passion for doing business (mean importance value of = 4.33; mean value of own skill = 3.92);
- determination (mean importance value = 4.54; mean value of own skill = 4.04);
- using technology for better customer service (mean importance value of = 3.79; mean value of own skill = 3.26);
- using technology for better internal processes (mean value of importance = 3.96; mean value of own skill = 3.41); and
- taking initiative (mean importance value = 4.17; mean value of own skill = 3.75).

These mean values indicate that small business owners rated themselves less skilled than they rated the importance of these skills. Additional training in these skills should address this issue or it would improve the self-esteem of the small business owners, allowing them to see their own skills more objectively.

The mean value for the remaining soft skills indicated a less pronounced difference. Small business owners also rated these soft skills as higher in terms of importance than in terms of their own skill, but the difference was less obvious for:

- the ability to inspire others (mean value of importance = 4.17; mean value of own skill = 3.88);
- placing a high value on self-improvement (mean value of importance = 4.08; mean value of own skill = 3.96);
- continually seeking new opportunities (mean value of importance = 4.17; mean value of own skill = 3.83); and finally
- working independently (mean value of importance = 4.13; mean value of own skill = 3.96).

There seems to be a convergence between the soft skills of these small business owners and the importance that they associate with these skills.

With regard to non-small business owners, the following responses transpired regarding the soft skills issue:

Figures 5.18 and 5.19 below indicate the importance of the specified soft skills for non-small business owners in South Africa and more specifically in Gauteng as indicated by non-small business owners as well as the own skill rating by non-small business owners. These two figures are in response to the fourth research objective, which aimed to determine the difference with regard to the importance attached to and non-small business owners' level of their own soft skills. This is followed by Figure 5.20, which illustrates the gap between importance and own skill ratings. Figure 5.20 answers the sixth research question, which related to the determination of the gap between the importance attached to and non-small business owners' level of their own soft skill rating.

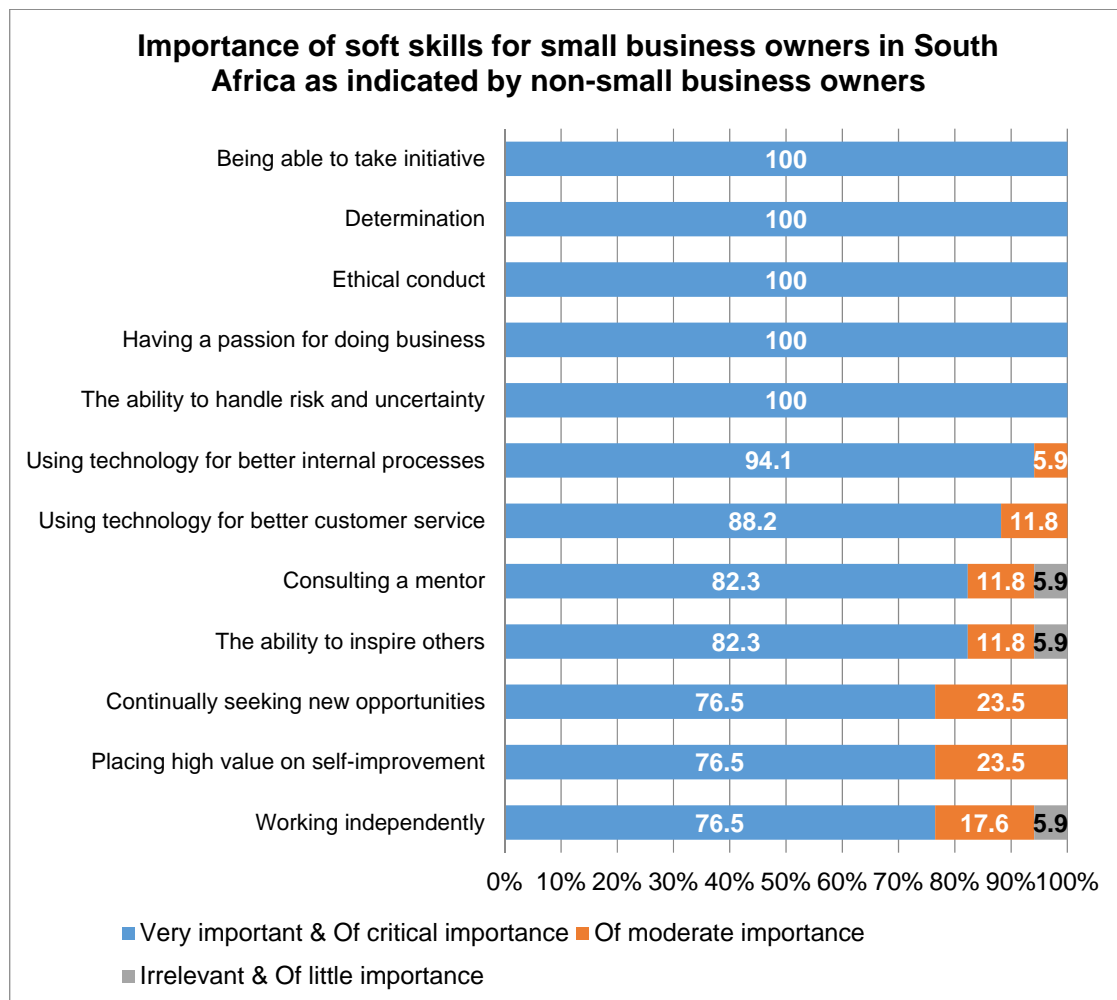


Figure 5.18 Importance of soft skills for small business owners in South Africa as indicated by non-small business owners (n=17)

In general, all these soft skills were considered very important or critically important by the majority of respondents, as more than three quarters (at least 76.5%) of the respondents regarded these skills as very important or critically important. In the case of non-small business owners, all of them (100%) regarded the ability to take initiative, determination, ethical conduct, having a passion for doing business and the ability to handle risk and uncertainty as very important or critically important.

Figure 5.19 below illustrates the own skill rating for soft skills as indicated by non-small business owners.

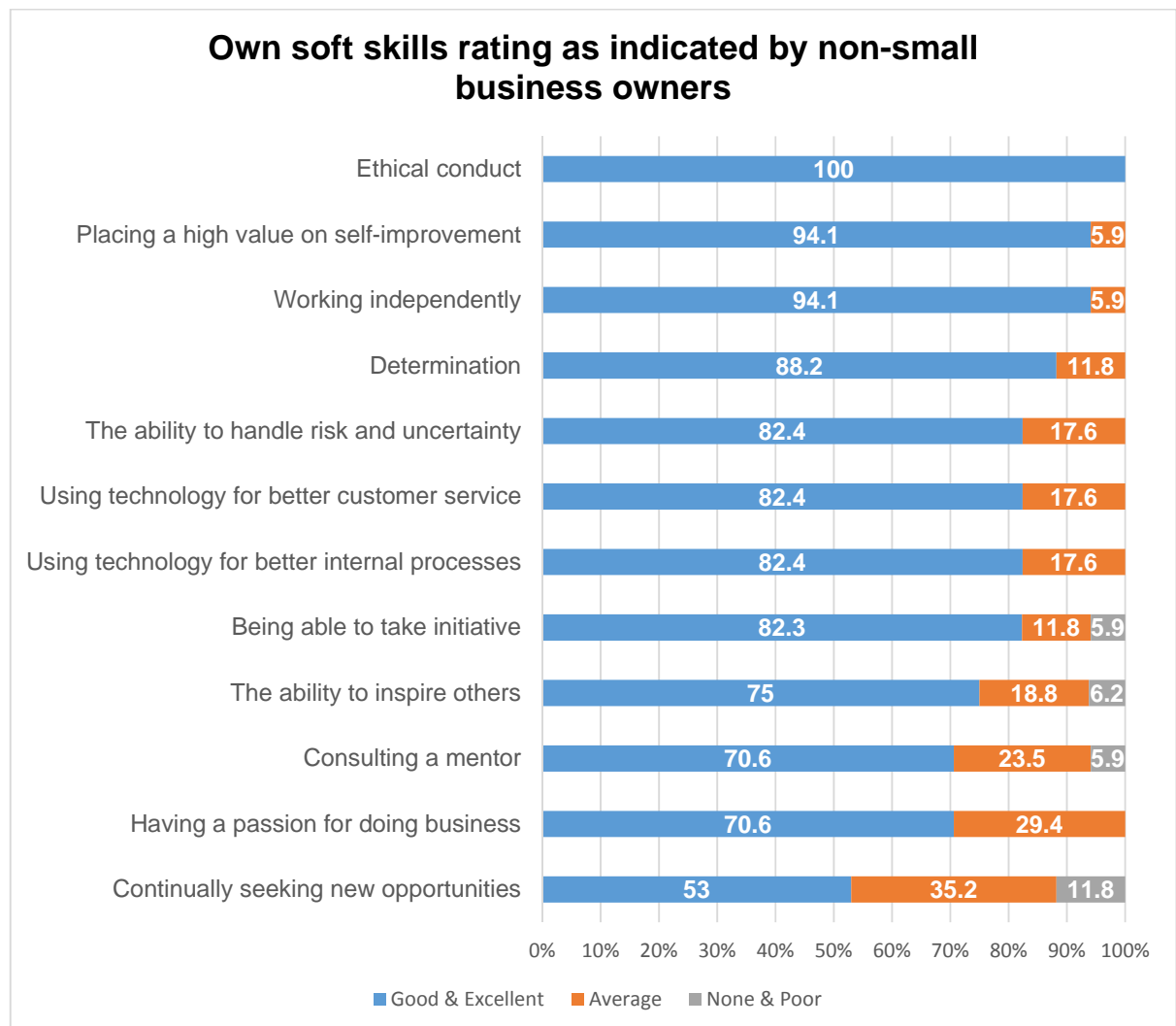


Figure 5.19 Own soft skill rating as indicated by non-small business owners (n=17)

In Figure 5.19 above, it can be observed that non-small business owners rated themselves as good or excellent for ethical conduct (100%), higher than for any other soft skill. Non-small business owners rated themselves relatively high on the majority of soft skills. However, a much lower percentage of non-small business owners (53%) viewed their skills of continually seeking new opportunities as good and excellent, followed by having a passion for doing business (70.6%). This relative lack of having a passion for doing business and the ability to seek new opportunities may explain why these respondents decided to seek formal employment rather than to follow the arduous route towards starting their own businesses.

Generally, non-small business owners rated their own soft skills higher than small business owners rated theirs, indicating that the small business owners may possibly have had a more realistic view on their own skills because they were faced with the reality of managing small businesses on a daily basis. On the other hand, this implies that the non-small business owners may possibly have had some unrealistic opinion of their soft skills levels because this was not tested in a practical business situation.

The mean values for the importance rating and their own skill rating for soft skills, as indicated by non-small business owners, are presented in the radar graph below, which illustrates the gap between the importance rating and own skill rating.

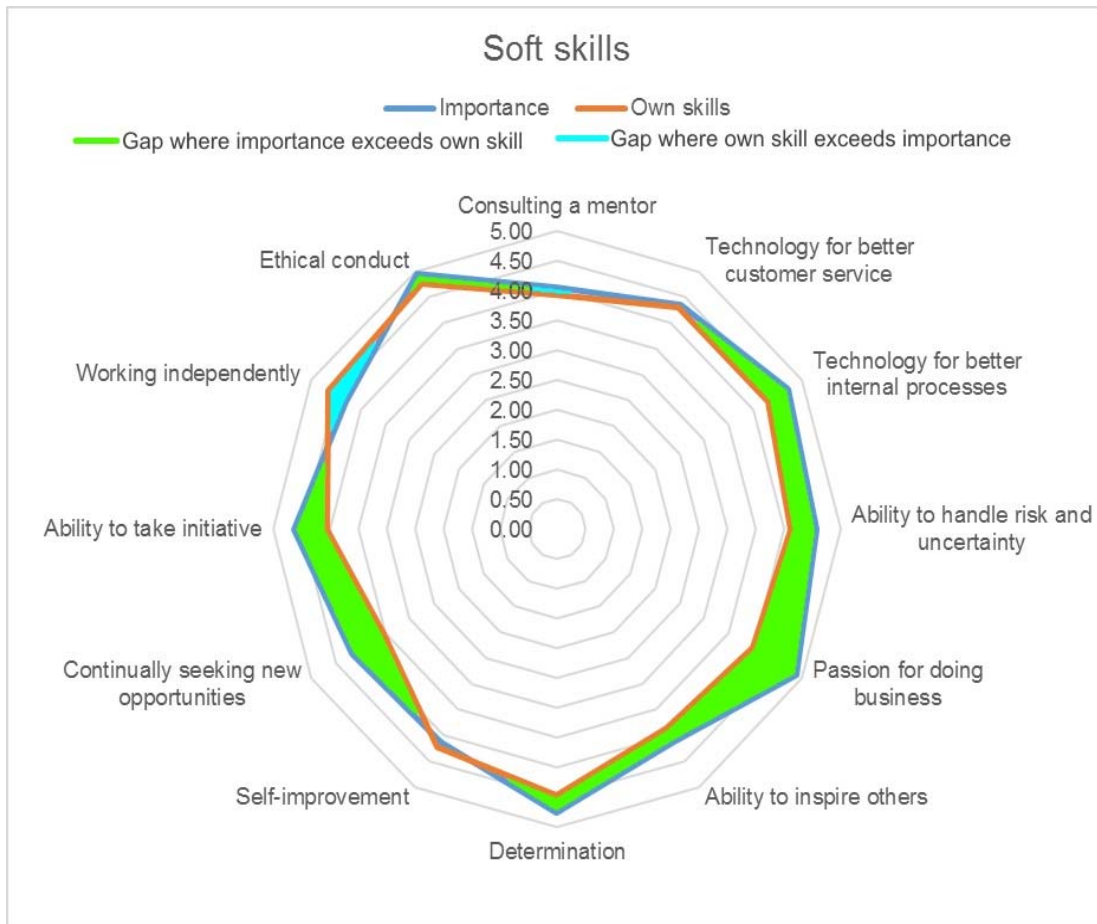


Figure 5.20 Gap between importance and own skill ratings for non-small business owner soft skills

The mean value for own skill for working independently (4.65) is higher than the mean importance value for working independently (4.29), indicating that non-small business owners rated their own ability to work independently higher than they rate the importance of working independently. Similarly, the mean value of own skill for self-improvement (4.24) is higher than the mean importance value for self-improvement (4.12), indicating that non-small business owners rated their own skill for self-improvement higher than the importance of this skill. This points to a self-inflated value regarding soft skills issues of working independently and self-improvement and begs the question why they did not start their own business if they rated themselves so high on these skills.

The mean importance value for the remaining soft skills is higher than the non-small business owners' mean own skill value as illustrated in Figure 5.20. Non-small

business owners indicated that they viewed the following soft skills of greater importance than they rated their own skills level in this regard:

- using technology for better internal processes (mean value of importance = 4.71; mean value of own skill = 4.29);
- the ability to handle risk and uncertainty (mean value of importance = 4.59; mean value of own skill = 4.12);
- having a passion for doing business (mean value of importance = 4.88; mean value of own skill = 4.00);
- continually seeking new opportunities (mean value of importance = 4.18; mean value of own skill = 3.53); and
- taking initiative (mean value of importance = 4.65; mean value of own skill = 4.06).

The difference between the importance mean value and own skills mean value for the remaining soft skills are less pronounced:

- using technology for better customer service (mean value of importance = 4.35; mean value of own skill = 4.29);
- the ability to inspire others (mean value of importance = 4.12; mean value of own skill = 3.88);
- determination (mean value of importance = 4.76; mean value of own skill = 4.47);
- consulting a mentor (mean value of importance = 4.06; mean value of own skill = 3.94) and finally,
- ethical conduct (mean value of importance = 4.94; mean value of own skill = 4.76).

Although non-small business owners tended to rate themselves high on self-improvement and working independently, they rated themselves low relative to the importance associated with skills, such as having a passion for doing business, taking initiative, and continually seeking new opportunities, all soft skills that are needed by a small business owner.

There was consensus between ratings by small business owners and non-small business owners regarding the importance of being able to take initiative, determination, having a passion for doing business, and the ability to handle risk

and uncertainty. However, the importance of ethical conduct differed between small business owners and non-small business owners, with non-small business owners indicating that it is more important (mean value = 4.94) than small business owners (mean value = 4.17). Non-small business owners rated the importance of most soft skills higher than they were rated by small business owners, as reflected in Figure 5.15.

Non-small business owners seemed to be well informed about which skills are necessary to manage a small business successfully while small business owners might be more acutely aware of the realities of having a small business and to be able to survive in the business world.

5.5 Business management skills

The two groups of respondents were requested to indicate whether they thought the specified business management skills were important for small business owners in South Africa. They were also asked to indicate their own skill ratings for these specified skills. The responses of small business owners and non-small business owners are illustrated in the two figures below.

Figures 5.21 and 5.22 below indicate the importance of the specified business management skills for small business owners in South Africa as indicated by small business owners as well as the own skill rating for small business owners. These two figures address the fifth research objective, which related to determining the difference with regard to the importance attached to and the level of business management skills for small business owners. This is followed by Figure 5.23, which illustrates the gap between these importance and own skill ratings. This figure addresses the seventh research objective, which related to determination of the gap between the importance attached to and the level of own business skill for small business owners.



Figure 5.21 Importance of business management skills for small business owners in South Africa as indicated by small business owners (n=24)

As illustrated in Figure 5.21, the most important business management skill, as indicated by small business owners, is public relations management skills and marketing skills, with 87.5% and 87% of small business owners respectively rating it as very important or as of critical importance. Small business owners also rated financial management skills above 80% with 83.3% of small business owners indicating that this skill is very important or of critical importance. The least important business management skills, as indicated by small business owners, are safety management skills, risk management skills, environmental management skills, and administration skills, all of which were rated as very important or as of critical importance by fewer than 60% of small business owner respondents. A noticeable

percentage (almost a third) of small business owners, i.e. 30.4%, indicated that safety management skills and risk management skills were of little importance or irrelevant. This might indicate these small business owners' lack of understanding of the importance of safety and risk management skills.

Figure 5.22 below illustrates the own skill ratings for business management skills as indicated by small business owners.

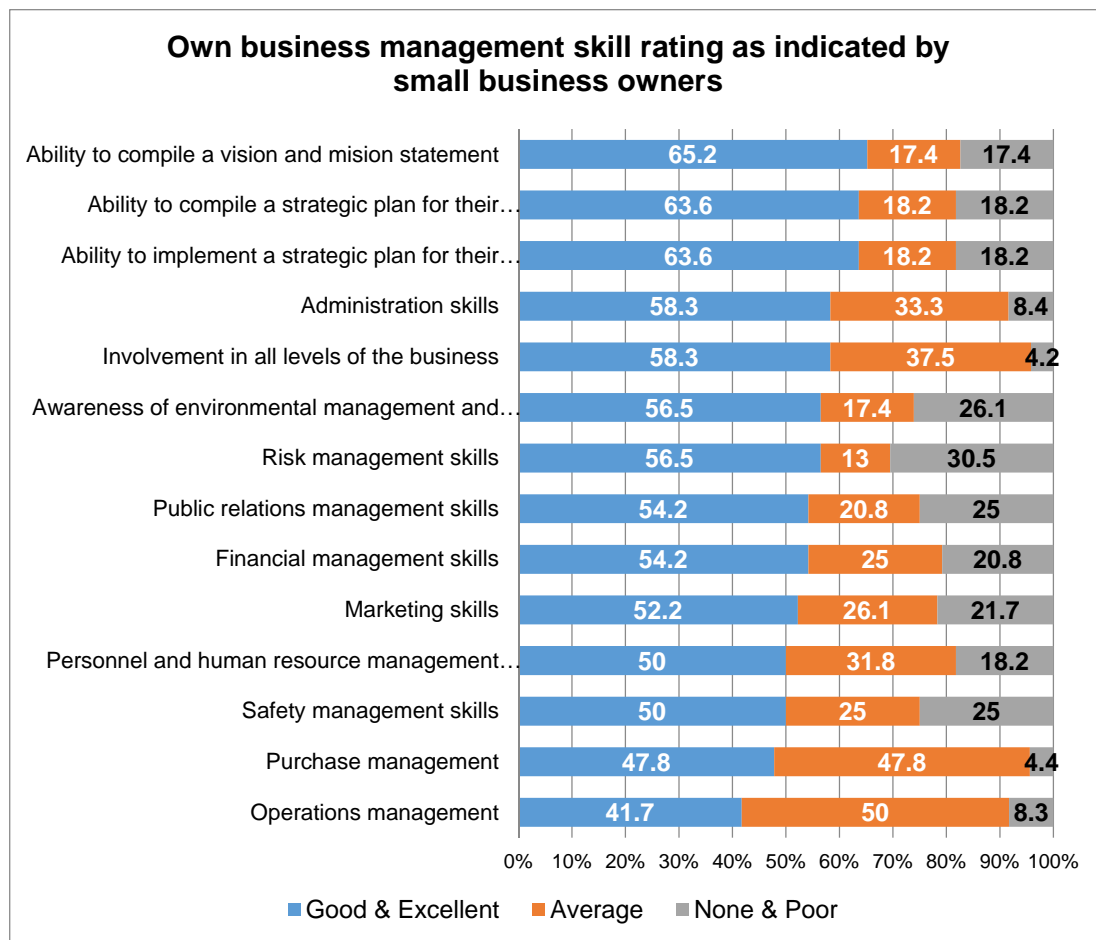


Figure 5.22 Own business management skill rating as indicated by small business owners (n=24)

Figure 5.22 illustrates that small business owners viewed themselves as most skilled in the strategic aspects of small business management, with more than 60% of small business owners indicating that their skills in this regard were good or excellent. Small business owners rated themselves lowest on risk management skills (30.5% poor or none), closely followed by safety management skills (25% poor or none), public relations management skills (25% poor or none) and awareness of

environmental management and sustainability (26.1% poor or none). These four business management skills received the most ratings of poor or none. A notable percentage of respondents between 13% and 50% indicated their own skill rating for business management skills as average. This could indicate that small business owners may require additional support and training in these business management skills.

The mean value for the importance rating and their own skill rating for business management skills, as indicated by small business owners, are presented in the radar graph below, which illustrates the gap between the importance rating and own skill rating.



Figure 5.23 Gap between importance and own skill ratings for small business owner business management skills

The mean value of own skill for administration skills (3.75) is slightly higher than the mean importance value of administration skills (3.71), indicating that small business

owners rated their administration skills slightly higher than they rate the importance of such skills. The mean value of importance for the remaining business management skills is higher than the mean value of own skills as illustrated in Figure 5.23 above. Small business owners rated the importance of the following business management skills higher than they rated their own skill:

- involvement in all levels of the business (mean value of importance = 4.08; mean value of own skill = 3.71);
- operations management skills (mean value of importance = 3.96; mean value of own skill = 3.50);
- purchasing management skills (mean value of importance = 4.04; mean value of own skill = 3.52);
- marketing skills (mean value of importance = 4.26; mean value of own skill = 3.39);
- public relations management skills (mean value of importance = 4.08; mean value of own skill = 3.38); and finally
- financial management skills (mean value of importance = 4.21; mean value of own skill = 3.26).

The difference between the mean importance value and the mean value of own skill for the remaining business management skills is less pronounced:

- the ability to compile a vision and mission statement (mean importance value = 3.78; mean value of own skill = 3.74);
- the ability to compile a strategic plan (mean value of importance = 3.82; mean value of own skill = 3.77);
- the ability to implement a strategic plan (mean importance value = 3.77; mean own skill value = 3.73);
- personnel and human resource management skills (mean value of importance = 3.77; mean value of own skill = 3.45);
- safety management skills (mean importance value = 3.30; mean own skill value = 3.13);
- risk management skills (mean value of importance = 3.52; mean value of own skill = 3.30); and

- awareness of environmental management and sustainability with the same mean values (mean value of importance = 3.39; mean value of own skill = 3.39).

The difference between the mean importance value and the mean value of own skill is most noticeable for marketing skills, financial management skills, purchasing management skills and operations management skills. These are therefore the main business skills about which respondents felt deficient in their businesses.

Regarding the non-small business owners, the following responses transpired with regard to the business skills issue.

Figures 5.24 and 5.25 below indicate the importance of the business management skills for small business owners in South Africa as rated by non-small business owners as well as the own skills assessment. These two figures report on the fifth research question, which related to the difference with regard to the importance attached to and the level of business management skill for non-small business owners. This is followed by Figure 5.26, which illustrates the gap between this importance and own skill ratings. This reflects the seventh research objective, which aimed to determine the gap between the importance attached to and the level of own business management skill for non-small business owners.

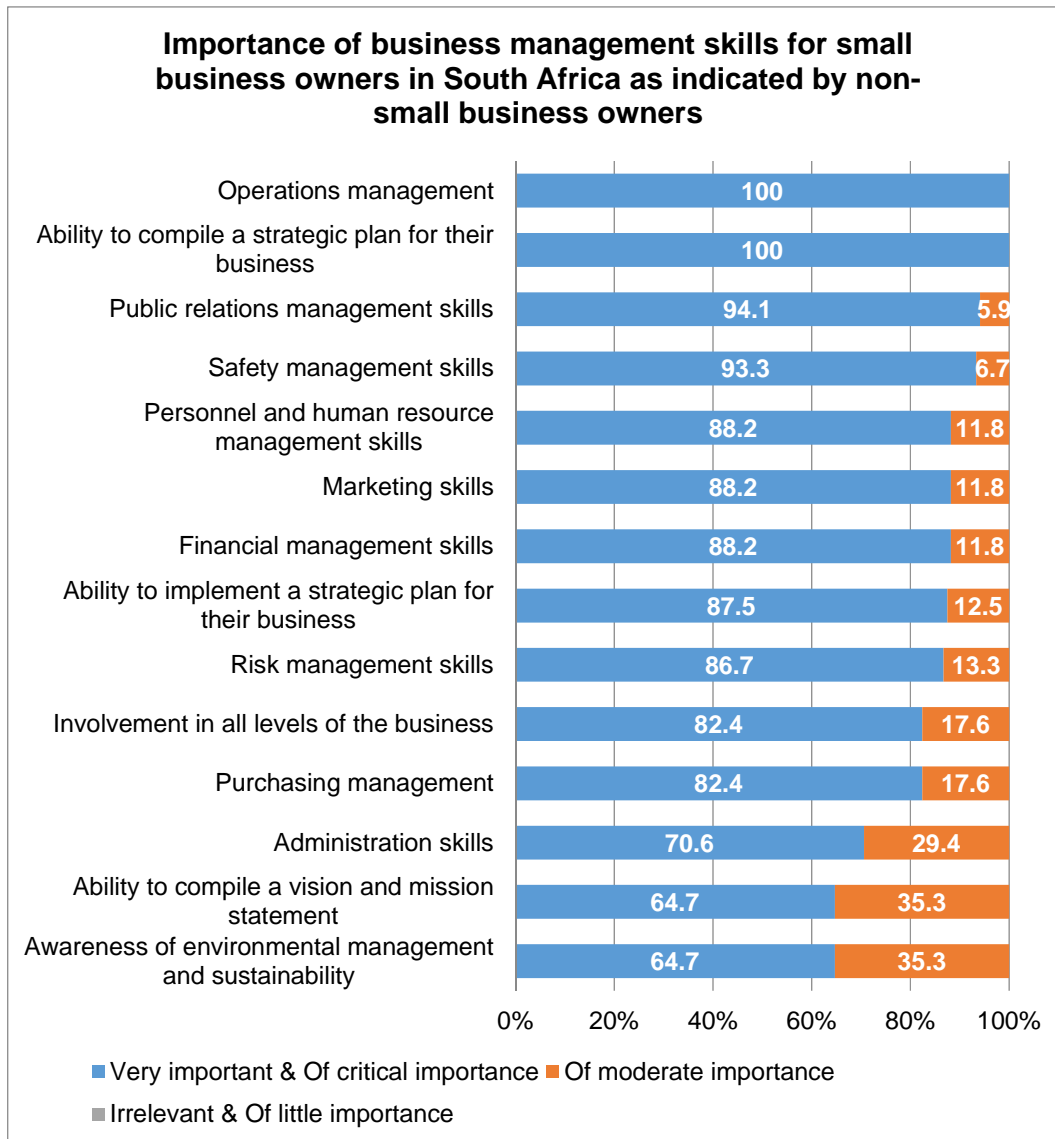


Figure 5.24 Importance of business management skills for small business owners in South Africa as indicated by non-small business owners (n=17)

Figure 5.24 above indicates that all non-small business owners (100%) viewed operations management and the ability to compile a strategic plan as the most important business management skills. In contrast, the ability to implement such strategic plans was rated as very important or critically important by a lower percentage (87.5%) of respondents. The two skills that were considered very important or critically important by the lowest percentage of respondents were the ability to compile a vision statement (64.7%), and an awareness of environmental management and sustainability (64.7%).

Next, respondents were asked to indicate how they would rate their own skills on these specified business management skills. The responses of non-small business owners are illustrated in Figure 5.25 below.



Figure 5.25 Own business management skill rating as indicated by non-small business owners (n=17)

Non-small business owners rated their own administration skills highest with 94.1% of non-small business owners indicating that their skills in this regard were good or excellent. This is followed by strategic planning and involvement in all levels of the business where over 80% of non-small business owners indicated themselves to be well skilled. However, the majority of non-small business owners (58.8%) rated their operations management skills as average indicating a large gap between deemed importance (Figure 5.24) and their own skills level (Figure 5.25). Some non-small business owners indicated that they had no or poor skills pertaining to environmental

management skills (18.7%), risk management skills (7.1%) and safety management skills (7.1%). Other non-small business owners indicated their skills as average pertaining to environmental management skills (31.3%), risk management skills (14.3%) and safety management skills (35.7%). This means that only half of the respondents rated themselves as being well or excellently skilled in environmental management (50%) and just over half (57.2%) of the respondents indicated that they were well or excellently skilled in safety management. Operations management skills received the least ratings of good and excellent with only 41.2% of respondents indicating that they considered themselves as being well skilled in this regard. With regard to purchasing management, 43.7% of respondents rated their level of skill in this regard as being average, with just over half (50.1%) of the respondents indicating that they considered their own skills in this regard as being good or excellent.

In a direct comparison between small business owners and non-small business owners the following transpired: as with the small business owners' own skill rating as good or excellent by 41.7% of respondents for operations management illustrated in Figure 5.22, an almost equal percentage of 41.2% of non-small business owners rated themselves as good or excellent. A higher percentage of non-small business owners also rated their own skill in their ability to compile a strategic plan as good or excellent (87.6%), higher than the percentage of small business owners (63.6%). The highest percentage (94.1%) of non-small business owners who rated administration skills as good or excellent was much higher than that of small business owners (58.3%). A much higher percentage of non-small business owners also rated themselves as good or excellent in involvement in all levels of the business (81.3%) than small business owners (58.3%).

The mean value for the importance rating and their own skill rating for business management skills, as indicated by non-small business owners is presented in the radar graph below, which illustrates the gap between the importance rating and own skill rating.

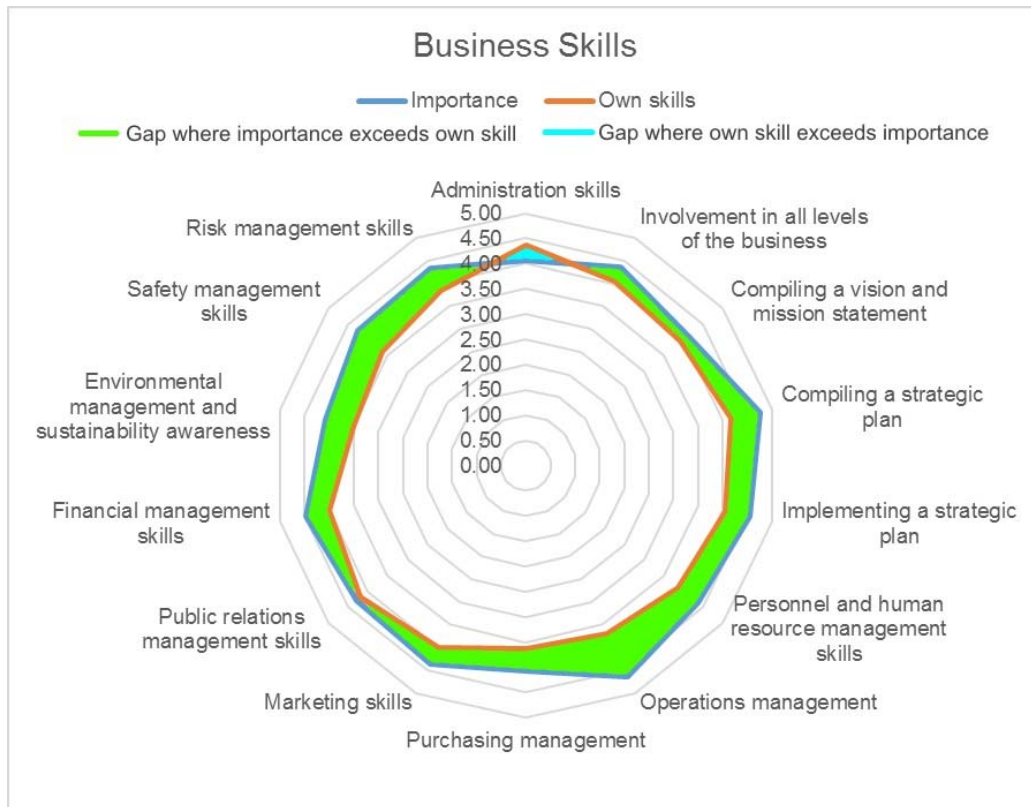


Figure 5.26 Gap between importance and own skill ratings for non-small business owner business management skills

The mean value of own skill for administration skills (4.35) is higher than the mean importance value of administration skills (4.06), indicating that non-small business owners rated their own administration skill higher than they rated the importance of administration skills. The mean importance value for remaining business management skills is higher than the mean own skill value as illustrated in Figure 5.26. The mean values with the greatest difference between mean importance and mean own skill pertain to –

- the compilation of a strategic plan (mean value of importance = 4.76; mean value of own skill = 4.19);
- the implementation of a strategic plan (mean value of importance = 4.56; mean value of own skill = 4.07);
- personnel management and human resource management skills (mean importance value = 4.35; mean own skill value = 3.88);
- operations management skills (mean value of importance = 4.65; mean own skill value = 3.71);

- purchasing management (mean value of importance = 4.06; mean own skill value = 3.63);
- financial management skills (mean importance value = 4.47; mean own skill value = 4.00);
- environmental management skills (mean value of importance = 4.06; mean value of own skill = 3.50);
- safety management skills (mean value of importance = 4.27; mean value of own skill = 3.64); and finally
- risk management skills (mean importance value = 4.33; mean own skill value = 3.86).

These mean values indicate that non-small business owners considered these business management skills as being of greater importance than they considered themselves skilled.

The difference between the mean value of importance and the mean value of own skill for the following business management skills were less pronounced:

- involvement in all levels of the business (mean value of importance = 4.35; mean value of own skill = 4.06);
- ability to compile a vision and mission statement (mean value of importance = 4.12; mean value of own skill = 3.94);
- marketing management skills (mean value of importance = 4.35; mean value of own skill = 4.00); and finally
- public relations management (mean importance value = 4.29; mean value of own skill = 4.19).

The business management skills with the greatest gap between the mean value of importance and the mean value of own skill were operations management and safety management skills.

Safety management and risk management skills were considered less important by both small business owners and non-small business owners and were also rated lower on the level of own skill by both groups of participants. This might be ascribed to the industry where they were working and to them being less exposed to these aspects of management. Small business owners indicated that marketing and public relations management were the most important business skills, while non-small

business owners indicated that operations management and strategic planning were the most important business skills.

5.6 Small business owners

Section 5.6 of this chapter reports on an investigation into the small business profile of small business owner respondents. This sections ends with a summary of the challenges experienced in small businesses as indicated by the small business owner respondents.

5.6.1 Small business profile

As part of the section pertaining to the small business profile, small business owners were requested to indicate the primary economic sector within which their business operated, the length of time they have owned the business, the number of people they employed, their annual turnover, the source of their business idea, and business registrations. The information is depicted in Figures 5.27, 5.28 and 5.29 below:

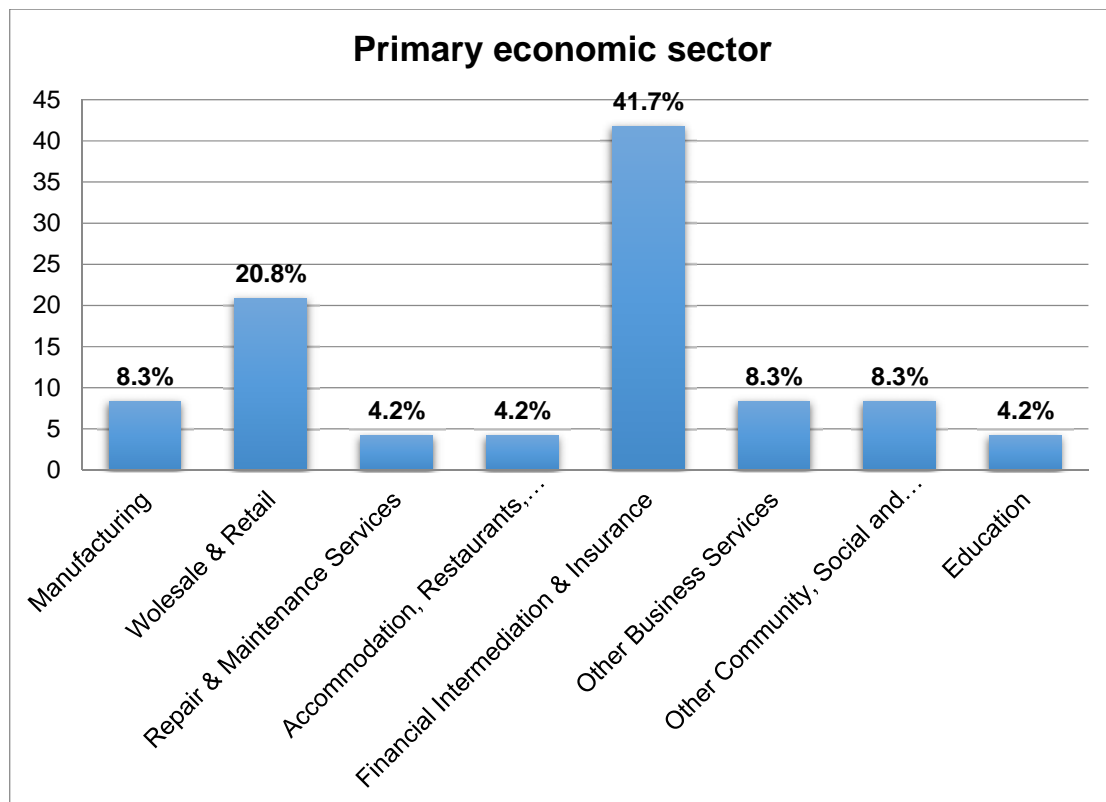


Figure 5.27 Primary economic sector (n=24)

The greatest percentage of small business owners, 41.7%, indicated that their business was in the financial intermediation and insurance industry. This implies that they stayed on in the industry where they had previously been retrenched. However, more than half (58.3%) of the small business owners indicated that they started businesses in other industries which can be seen as a form of business opportunity diversification. The majority of these respondents indicated that their businesses were in the wholesale and retail industry, as illustrated in Figure 5.27 above.

Small business owners were asked for how long their businesses had been active and their responses are indicated in Figure 5.28 below.

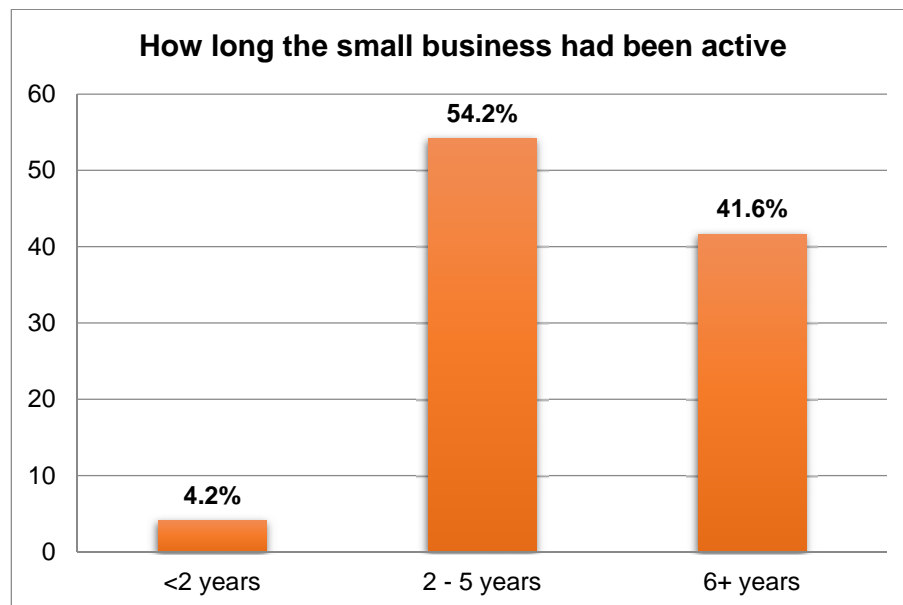


Figure 5.28 How long the small business had been active (n=24)

The majority (54.2%) of respondents indicated that their small businesses had been active for 2–5 years with a sizeable number (41.6%) who had been in business for more than 6 years. This indicates that the respondents were mostly established business owners.

Next, small business owners were asked how many employees they employed. These responses are illustrated in Figure 5.29 below.

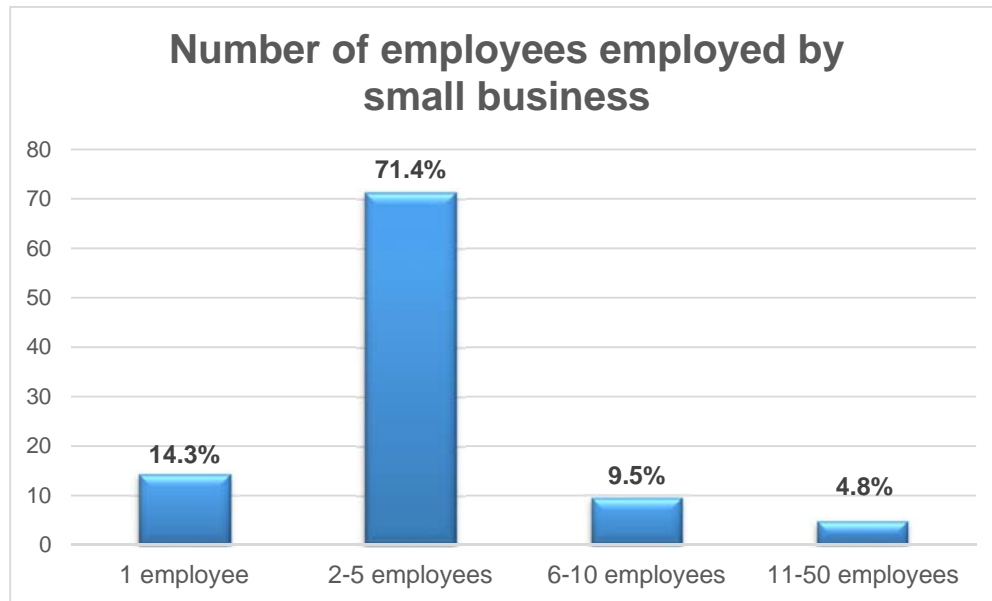


Figure 5.29 Number of employees employed by small business (n=21)

None of the participating small businesses had more than 50 employees. Three respondents indicated that their businesses were no longer active but they still wanted to complete the questionnaires as small business owners. These responses were discounted for this question. The majority (72.7%) of respondents indicated that they had between two and five employees in their businesses.

Small business owners were asked to indicate the annual turnover of their small business, as illustrated in Figure 5.30 below.

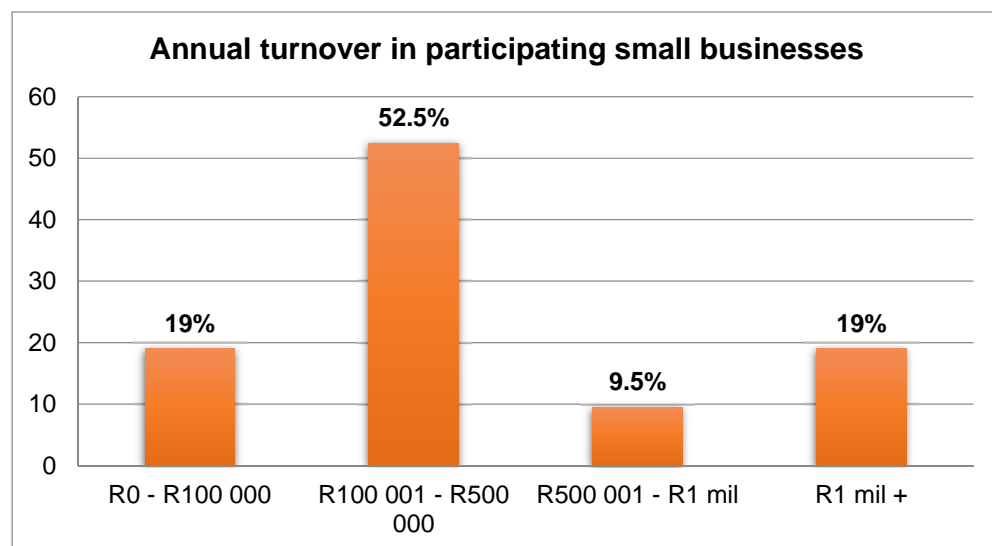


Figure 5.30 Annual turnover in participating small businesses (n=21)

Three respondents indicated that their businesses were no longer active. These responses were discounted for this question. The majority (52.5%) of current small business owners indicated that the annual turnover of their businesses was between R100 001 and R500 000.

In an open-ended question, respondents were asked about the source of their business ideas. The three themes that emerged from this question are indicated in Figure 5.31 below.

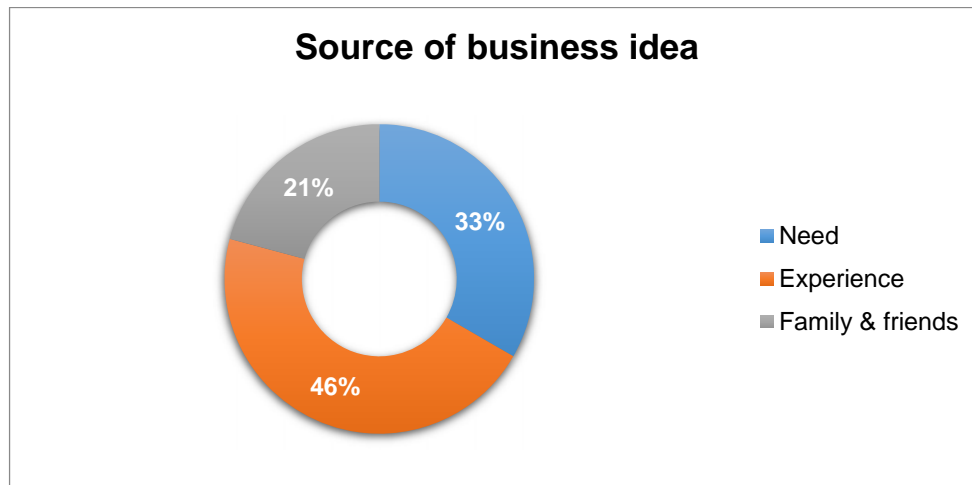


Figure 5.31 Source of business idea (n=24)

The responses received to this open-ended question can be divided into three categories: a need that was identified in the market (33%), prior experience of the small business owner (46%), and ideas or suggestions from family and friends (21%). The percentage of small business owners who indicated prior experience as the source of their business idea (46%) confirmed the findings illustrated in Figure 5.27, which indicated that 41.7% of small business owner respondents remained in the insurance industry.

Respondents were requested to indicate where they got their funding for their new business venture and to provide the percentage breakdown. The options from which respondents could choose were based on information gathered during the literature review. The respondents' replies to this question are summarised in Figure 5.32 below. Respondent numbers indicated in Figure 5.32 below were assigned randomly to protect the identities of the individual respondents.

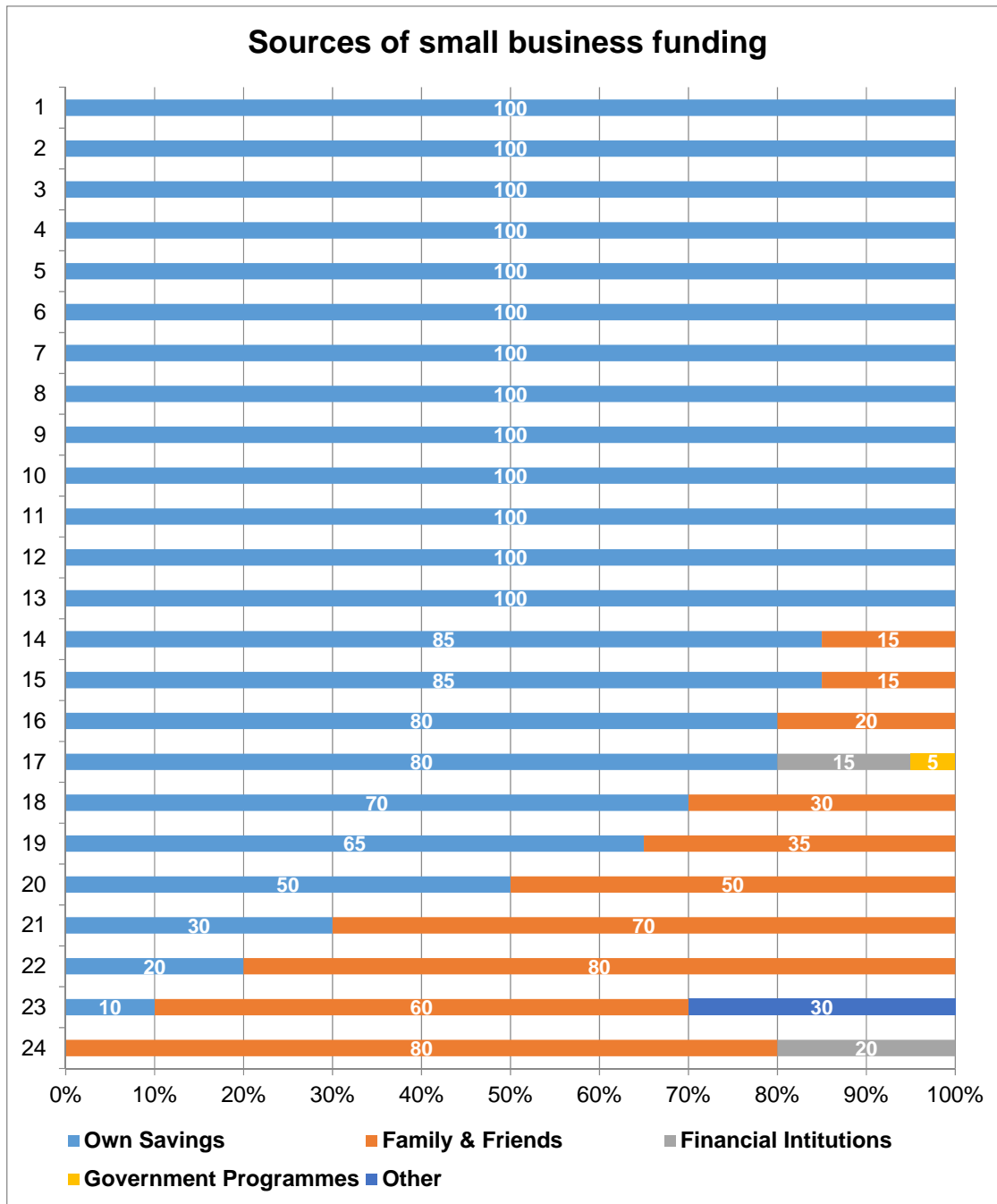


Figure 5.32 Sources of small business funding (n=24)

As illustrated in the figure above, most of the small business owners relied on their own funding for their new business ventures. This funding might have originated from their savings, pension or retrenchment packages. The second most used source of income was family and friends. The third source of funding used by small business owners was financial institutions, although only two respondents indicated

that they made use of this source of funding. Only one respondent indicated that he or she made use of government funding, and this constituted 5% of his or her total funding.



Figure 5.33 Small business registrations (n=24)

Small business owners were asked about their business registrations, and 25% of the respondents (6 of the 24 respondents) indicated that they had no formal registrations and only 66% of the respondents (16 of the 24 respondents) were registered with SARS. These respondents can be classified as informal small business owners. These results are depicted in figure 5.33.

Next, small business owners were asked to indicate which type of business they owned, as illustrated in figure 5.34..

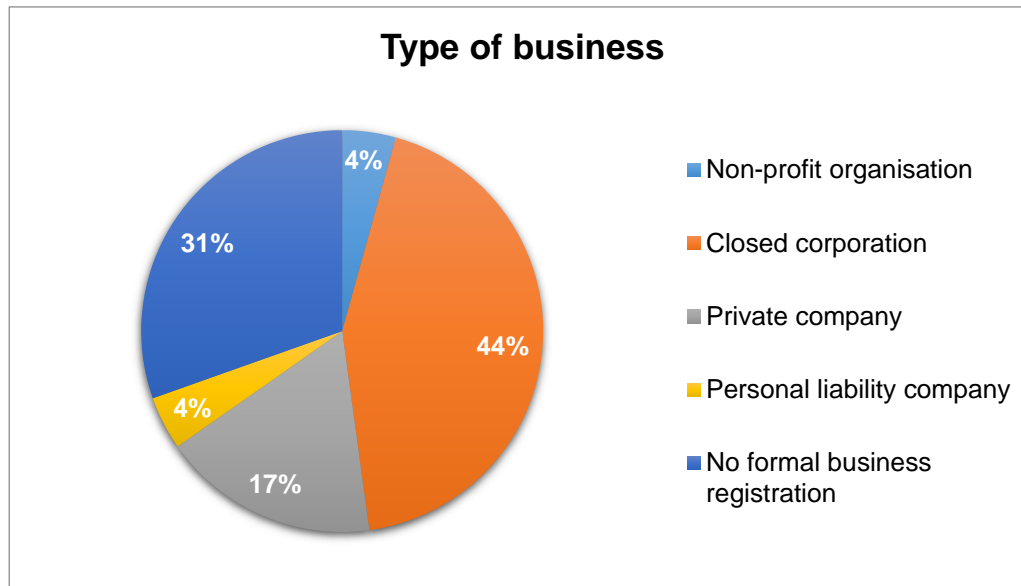


Figure 5.34 Type of business (n=24)

The majority of respondents indicated that their businesses were registered as closed corporations (44%) while 31% of respondents indicated that their businesses were not formally registered as one of these types of businesses. This means that these respondents were conducting their businesses in an informal capacity.

5.6.2 Challenges experienced by small business owners

In this section of the questionnaire, small business owners were requested to specify the greatest challenges they faced in their businesses. This was an open-ended question, aimed at encouraging honest answers. The answers provided by the respondents could be categorised as illustrated in Figure 5.35 below. The open-ended nature of the question meant that respondents had the opportunity to list more than one challenge. This addressed the eight research objective, which related to the identification of the specific challenges or barriers experienced by small business owners.

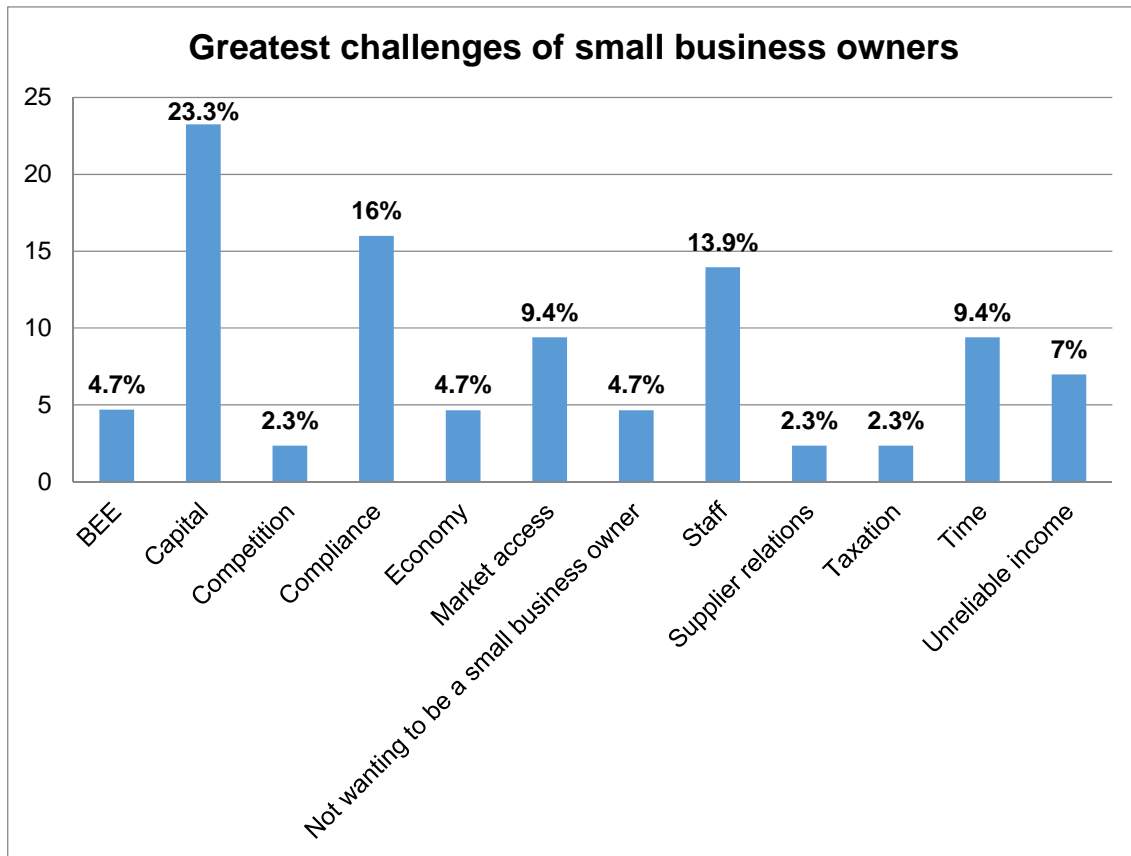


Figure 5.35 Greatest challenges experienced in small business (n=43)

The issues that were listed by the respondents were categorised as BEE issues, capital, competition, compliance, economy, and market access, not wanting to be a small business owner, staff, supplier relations, taxation, time and unreliable income. The challenge, which most small business owners listed as being an issue in their business was access to finance and capital. Next, they listed issues of compliance and bureaucracy, followed by staff issues. The staff issues experienced by small business owners were staff retention and finding qualified, motivated staff to employ in their small businesses. These issues identified by the respondents aligned with the issues explored throughout the literature study and listed in the final part of the questionnaire as perceived and experienced barriers to entry.

5.7 Actual and perceived barriers

This section was completed by both small business owners and non-small business owners in order to determine which barriers people expect to encounter as small

business owners in South Africa and which barriers were actually experienced by the small business owners in South Africa participating in this study.

5.7.1 Actual and perceived barriers

Small business owners and non-small business owners were requested to indicate whether or not they agreed with specified statements pertaining to the barriers that small business owners in South Africa may be experiencing. These 14 statements were based on information gathered from the literature study.

Figure 5.36 illustrates the actual barriers for small business owners as indicated by small business owners, while Figure 5.37 illustrates the perceived barriers for small business owners as indicated by non-small business owners as indicated on a Likert-type response scale namely a level of agreement rating scale. The options of this agreement scale were 'strongly disagree', 'disagree', 'neither agree or disagree', 'agree' and 'strongly agree'. For the purpose of reporting the data, this agreement scale was combined as follows: 'agree' and 'strongly agree', 'neither agree or disagree', 'disagree' and 'strongly disagree'. This is reflected in Figure 5.38, which illustrates the gap between actual and perceived barriers. These figures report on the ninth research objective, which aimed to determine the level of agreement regarding actual and perceived barriers pertaining to small businesses.

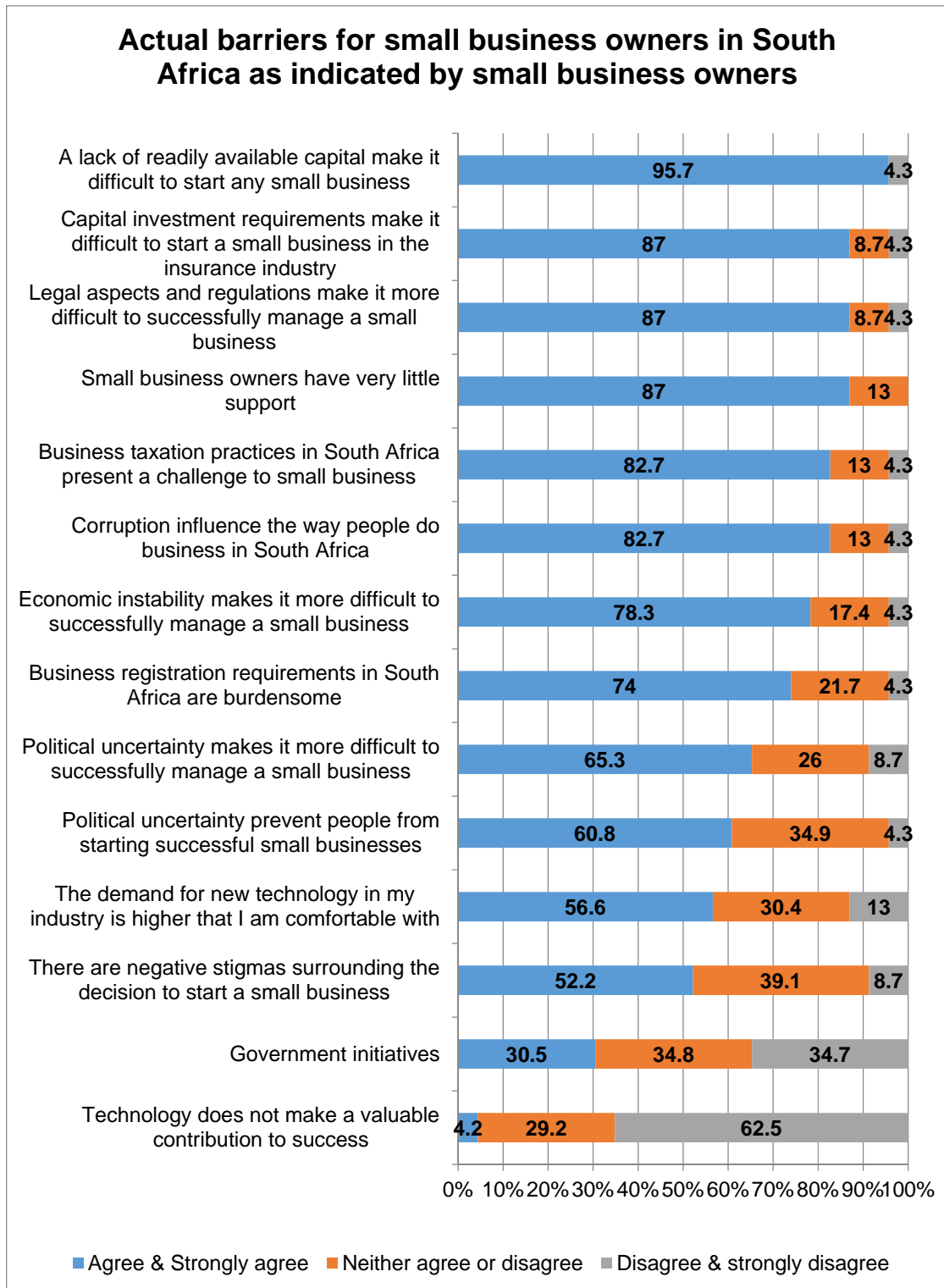


Figure 5.36 Actual barriers for small business owners in South Africa as indicated by small business owners (n=24)

Small business owners indicated that the barriers they actually experienced, with over 80% of small business owners agreeing or strongly agreeing, were a lack of readily available capital, capital investment requirements, legal aspects and regulations, a lack of support, business taxation practices and corruption. The barriers that small business owners indicated as having the least effect on their business were new technology and a lack of government initiatives with 62.5% and 34.7% of small business owners disagreeing or strongly disagreeing respectively.

As illustrated in Figure 5.36, non-small business owners indicated that capital investment requirements (88.2%), a lack of readily available capital (82.4%), corruption (82.3%), business taxation practices (82.3%) and economic instability (82.3%) were the barriers that they expected to be most prevalent in the small business environment, while new technology as a small business barrier (88.9% disagreed or strongly disagreed), high demand for new technology (58.8% disagreed or strongly disagreed), negative stigmas (35.2% disagreed or strongly disagreed), and a lack of government initiatives (22.2% disagreed or strongly disagreed, and 27.8% neutral) were not considered as key barriers.

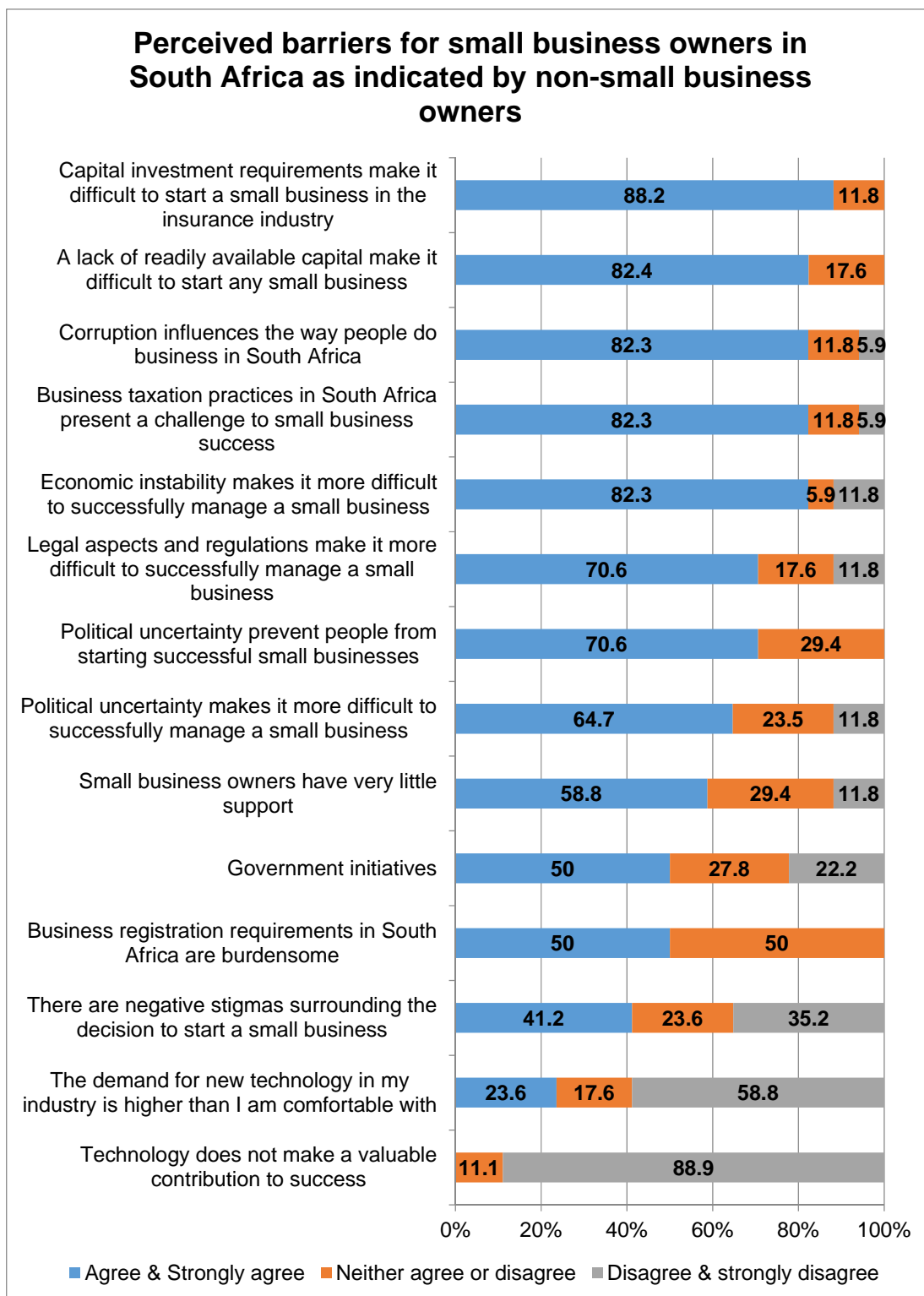


Figure 5.37 Perceived barriers for small business owners in South Africa as indicated by non-small business owners (n=17)

Figure 5.37 above indicates that the majority of non-small business owners disagreed or strongly disagreed with the statement that new technology is perceived by small businesses as a barrier for small businesses (88.9%) and that the demand for new technology is higher than that with which small business owners may be comfortable (58.8%). The majority of non-small business owners agreed or strongly agreed that capital investment requirements (88.2%), a lack of readily available capital (82.4%), corruption (82.3%), business taxation practices (82.3%) and economic stability (82.3%) are the greatest barriers faced by small businesses.

The challenges actually experienced by small business owners, as illustrated in Figure 5.36 are, similar to the perceived barriers indicated by non-small business owners, a lack of readily available capital (95.7%), capital investment requirements (87%), business taxation practices (82.7%) and corruption (82.7%). However, the other aspects that over 80% of small business owners indicated as being barriers were the lack of support that small business owners receive (87%) and legal aspects and regulations (87%). Seeing that these small business owners were at the coalface, encountering these problems on a regular basis thus makes sense. The small business barriers that received the most ratings of disagree or strongly disagree by a large percentage of respondents (and this were the least of their problems) were new technology (62.5%) and government initiatives (34.7%), similar to the perceived barriers indicated by non-small business owners.

Figure 5.38 below illustrates the gap mean agreement level for the actual and perceived barriers for small business owners and non-small business owners in South Africa, and illustrates the gap between the agreement values of small business owner and non-small business owner. The statements in this figure are an abbreviation of the statements discussed in figure 5.36 and 5.37.

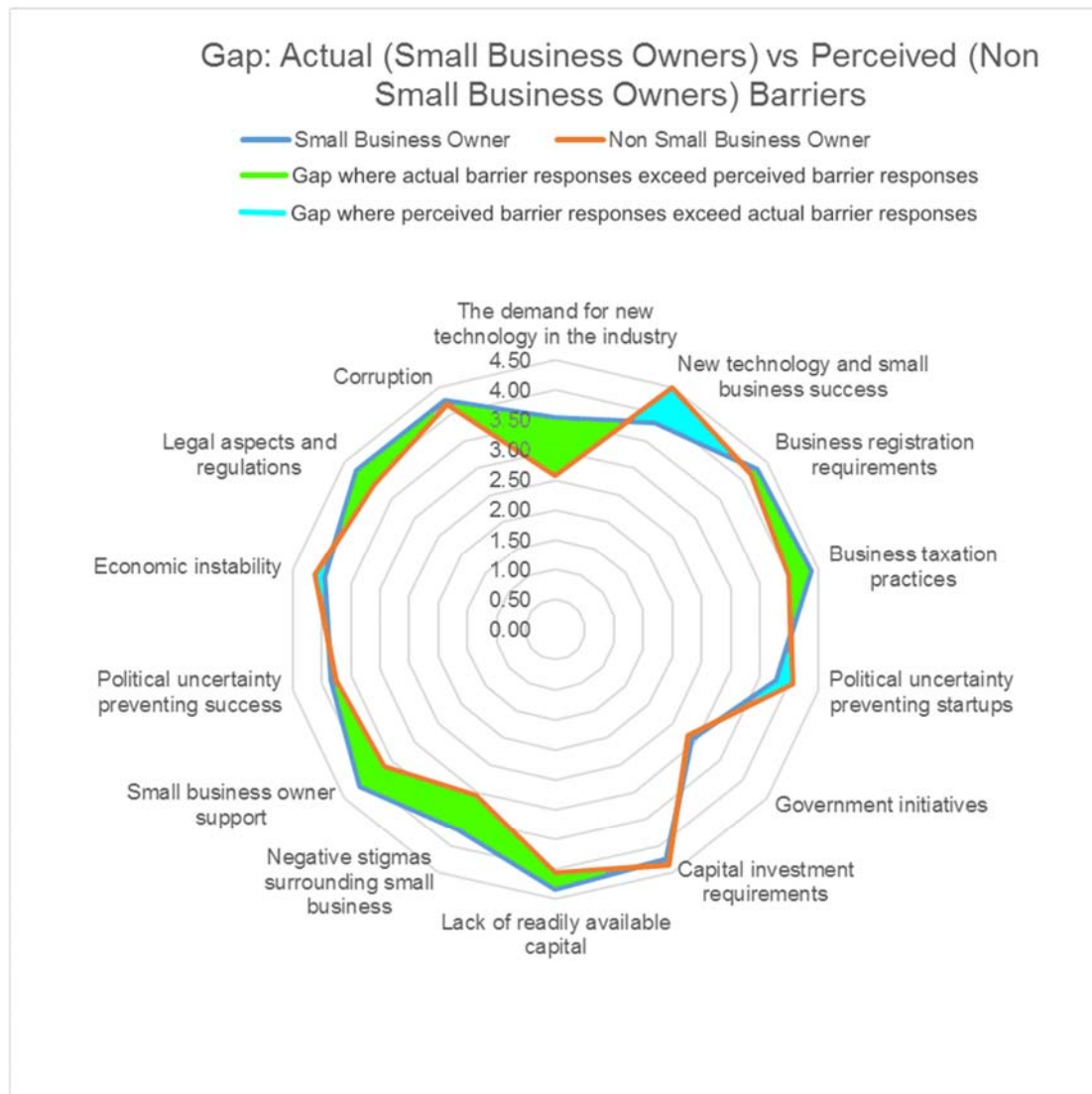


Figure 5.38 Gap between actual and perceived barriers

The perceived mean agreement value for political uncertainty preventing start-ups (4.06) was higher than the actual mean agreement value for political uncertainty (3.79). This indicates that participating non-small business owners perceived political uncertainty to present more of a barrier for potential small business owners than was actually experienced by small business owners. Similarly, the perceived mean agreement value for both government initiatives (3.22) and capital investment requirements (4.35) was higher than the actual mean agreement value for government initiatives (3.04) and capital investment requirements (4.25). This also indicates that participating non-small business owners perceived political uncertainty and capital investment to be greater barriers than was actually

experienced by small business owners. The perceived mean agreement value for economic instability (4.12) was higher than the actual mean agreement value for economic instability (3.96). There was a difference between the perception of non-small business owners and small business owners regarding the influence of economic mobility.

The actual mean agreement value for the remaining questions was higher than the perceived mean agreement value as indicated in Figure 5.38. The mean agreement value for the demand for new technology in the industry as an actual barrier (3.54) is higher than the mean agreement value as perceived barrier (2.59). This indicates that participating small business owners experienced the demand for new technology in the industry to be higher than non-small business owners perceived it to be. The actual mean agreement value for new technology and small business success (2.13) is higher than the perceived mean agreement value (1.61) for new technology and small business success. This indicates that participating small business owners experienced this to be more of a barrier than was perceived by participating non-small business owners. The mean actual barrier agreement value regarding burdensome business registration requirements (4.29) is slightly higher than the mean agreement value for the perceived barrier pertaining to business registration requirements (4.18), indicating that participating small business owners experienced business registration requirements as more of a barrier than was perceived by participating non-small business owners.

Regarding the barrier of business taxation practices in South Africa presenting a challenge to small businesses, the actual mean agreement (4.38) is higher than the perceived mean agreement value, indicating that participating small business owners experienced this barrier more than participating non-small business owners perceived it to be a barrier. The actual mean agreement value for a lack of readily available capital (4.33) is higher than the perceived mean agreement value for a lack of readily available capital (4.06) indicating that the small business barrier was experienced as more severely than it was perceived to be by participating non-small business owners. The actual mean agreement value for negative stigmas (3.71) is higher than the perceived mean agreement value for negative stigmas (3.06). This indicates that participating small business owners experienced negative stigmas

surrounding owning a small business more than non-small business owners perceive it.

The mean agreement value for the actual barrier regarding a lack of small business support (4.17) is quite high in comparison to the mean agreement value for the perceived barrier regarding the lack of small business support (3.65), indicating that participating small business owners were experiencing the lack of support more severely than participating non-small business owners perceived it to be. The mean agreement value for the actual barrier for political uncertainty preventing small business success (3.83) is slightly higher than the mean agreement value for the perceived barrier (3.76).

Regarding the barrier pertaining to legal aspects and regulations making it more difficult to manage a small business successfully, the mean agreement value for the actual barrier (4.25) is higher than the mean agreement value for the perceived barrier (3.88). Similarly, the barrier pertaining to corruption influencing the way people do business in South Africa, the mean agreement value for the actual barrier (4.25) is slightly higher than the mean agreement value for the perceived barrier (4.18). This indicates that participating small business owners experienced legal aspects and regulations as well as corruption as a greater barrier than was perceived by participating non-small business owners.

5.8 Inferential statistics

Inferential statistical analysis were conducted to gain insight into the statistically significant differences between the responses of small business owners and non-small business owners with regard to soft skills, business management skills and the perceived and actual barriers for small business owners. The hypotheses, as set in chapter 4, tested are:

H_{01} : there is no statistically significant difference between small business owners and non-small business owners with regard to the importance rating of soft skills

H_{A1} : there is a statistically significant difference between small business owners and non-small business owners with regard to the importance rating of soft skills

H₀₂: there is no statistically significant difference between small business owners and non-small business owners with regard to their own skill rating of soft skills

H_{A2}: there is a statistically significant difference between small business owners and non-small business owners with regard to their own skill rating of soft skills

H₀₃: there is no statistically significant difference between small business owners and non-small business owners with regard to the importance of business management skills

H_{A3}: there is a statistically significant difference between small business owners and non-small business owners with regard to the importance of business management skills

H₀₄: there is no statistically significant difference between small business owners and non-small business owners with regard to their own skill ratings of business management skills

H_{A4}: there is a statistically significant difference between small business owners and non-small business owners with regard to their own skill ratings of business management skills

5.8.1 Testing of statistically significant differences between small business owners and non-small business owners with regard to the importance and own skills ratings of soft skills

The Mann–Whitney U test (see Pallant, 2016) was used to test for statistically significant differences between small business owners and non-small business owners pertaining to the importance of soft skills and own skill rating for the identified soft skills in South Africa. Table 5.2 below provides a summary of the statistically significant results.

Table 5.2 Summary of Mann-Whitney U statistically significant results for Importance of soft skills for small business owners and non-small business owners in South Africa (n=41) and Mann-Whitney U result for own soft skills rating for small business owners and non-small business owners (n=41)

Mann–Whitney U statistically significant results for importance of soft skills for small business owners and non-small business owners in South Africa (n=41)			
Soft skill	Mann–Whitney U	z-value	p-value
Using technology for better internal processes	96.000	-2.951	.003***
	The mean ranks indicate that participating non-small business owners tended to regard using technology for better internal processes as more important (mean rank = 26.35) than small business owners (mean rank = 16.17).		
Having a passion for doing business	107.000	-2.997	.003***
	The mean ranks indicate that participating non-small business owners tended to regard having a passion for doing business as more important (mean rank = 26.71) than small business owners (mean rank = 16.96).		
Being able to take initiative	128.000	-2.227	.026**
	The mean ranks indicate that participating non-small business owners tended to regard being able to take initiative as more important (mean rank = 25.47) than small business owners (mean rank = 17.83).		
Ethical conduct	119.500	-2.789	.005***
	The mean ranks indicate that participating non-small business owners tended to regard ethical conduct as more important (mean rank = 25.97) than small business owners (mean rank = 17.48)		
Mann–Whitney U result for own soft skill rating for small business owners and non-small business owners (n=41)			
Soft skill	Mann–Whitney U	z-value	p-value
Consulting a mentor	127.000	-2.020	.043**
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on consulting a mentor (mean rank = 24.53) than small business owners (mean rank = 17.52).		
Using technology for better customer service	91.000	-2.894	.004***
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on using technology for better customer service (mean rank = 25.65) than small business owners (mean rank = 15.64).		
Using technology for better internal processes	93.000	-2.956	.003***
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on using technology for better internal processes (mean rank = 26.53) than small business owners (mean rank = 16.04).		
The ability to handle risk and uncertainty	139.500	-1.849	.064*
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on the ability to handle risk and uncertainty (mean rank = 24.79) than small business owners (mean rank = 18.31).		
Determination	146.000	-1.653	.098*
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on determination (mean rank = 24.41) than small business owners (mean rank = 18.58).		

Working independe ntly	128.500	-2.196	.028**
	The mean ranks indicates that participating non-small business owners tended to rate themselves higher on working independently (mean rank = 25.44) than small business owners (mean rank = 17.85).		

Statistical significance indicated by*, * denotes 10%, ** indicates 5% and *** indicates 1%

In summary, Table 5.2 above indicates that there are statistically significant differences at the 1% level of significance between participating small business owners and non-small business owners for –

- using technology for better internal processes;
- having a passion for doing business; and
- ethical conduct, with participating non-small business owners tending to agree more with these statements than small business owners did.

There is also a statistically significant difference at the 5% level of significance between participating small business owners and non-small business owners for being able to take initiative with non-small business owners once again tending to regard the statement as more important than small business owners do.

The Mann–Whitney U test was subsequently also applied to the responses from participating small business owners and non-small business owners pertaining to their own skill ratings on the identified soft skills. These results are also summarised in Table 5.2 above.

There is a statistically significant difference at the 1% level of significance between small business owners and non-small business owners for the rating of their own skills regarding use of technology for better customer services and the use of technology for better internal and administrative processes, with participating non-small business owners tending to rate themselves higher on the statement than small business owners.

There is a statistically significant difference at the 5% level of significance between participating small business owners and non-small business owners for consulting a mentor and working independently, with non-small business owners tending to rate themselves higher on these statements than small business owners did.

It was decided to include statements that showed a statistically significant difference at the 10% level of significance between participating small business owners and non-small business owners. These statements concerned the ability to handle risk,

uncertainty, and determination with non-small business owners tending to rate themselves higher on these two statements than small business owners did.

As with the first part of Table 5.2, which indicates the importance of soft skills for small business owners in South Africa, participating non-small business owners tended to rate the statements regarding their own skill ratings as higher than small business owners do.

5.8.2 Testing of statistical significant difference between small business owners and non-small business owners with regard to the importance and own skills ratings of business management skills

The Mann–Whitney U test was applied to the responses from small business owners and non-small business owners pertaining to the importance of business management skills and their own skill ratings of the identified business management skills for small business owners in South Africa. Table 5.3 below provides a summary of the statistically significant results pertaining to this test.

Table 5.3 Summary of Mann-Whitney U result for Importance of business management skills between small business owners and non-small business owners in South Africa (n=41) and Mann-Whitney U result for own skill for business management skills for small business owners and non-small business owners (n=41)

Mann–Whitney U result for importance of business management skills between small business owners and non-small business owners in South Africa (n=41)			
Business management skill	Mann–Whitney U	z-value	p-value
Ability to compile a strategic plan for their business	87.500	-3.073	.002***
	The mean ranks indicate that participating non-small business owners tended to regard the ability to compile a strategic plan for their business as more important (mean rank = 25.85) than small business owners (mean rank = 15.48) did.		
Ability to implement a strategic plan for their business	124.000	-1.699	.089*
	The mean ranks indicate that participating non-small business owners tended to regard the ability to implement a strategic plan for their business as more important (mean rank = 22.75) than small business owners (mean rank = 17.14) did.		
Personnel and human resource management skills	114.000	-2.209	.027**
	The mean ranks indicate that participating non-small business owners tended to regard personnel and human resource management skills as more important (mean rank = 24.29) than small business owners (mean rank = 16.68) did.		
Operations management	113.500	-2.608	.009***
	The mean ranks indicate that participating non-small business owners tended to regard operations management skills as more important (mean rank = 26.32) than small business owners (mean rank = 17.23) did.		
Safety management skills	101.000	-2.279	.023**
	The mean ranks indicate that participating non-small business owners tended to regard safety management skills as more important (mean rank = 24.27) than small business owners (mean rank = 16.39).		
Administration skills	129.000	-2.108	.035**
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on administration skills (mean rank = 25.41) than small business owners (mean rank = 17.88) did.		
Marketing skills	126.000	-1.751	.080*
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on marketing skills (mean rank = 23.63) than small business owners (mean rank = 17.48) did.		
Public relations management skills	112.500	-2.290	.022**
	The mean ranks indicate that participating non-small business owners tended to rate themselves higher on public relations management skills (mean rank = 25.47) than small business owners (mean rank = 17.19) did.		

Statistical significance indicated by*, * denotes 10%, ** indicates 5% and *** indicates 1%

Table 5.3 above indicates that there is a statistically significant difference at the 1% level of significance between participating small business owners and non-small business owners with regard to the importance rating regarding the ability to compile a strategic plan and operations management skills, with non-small business owners tending to regard the statements as more important than small business owners did.

There is a statistically significant difference at the 5% level of significance between participating small business owners and non-small business owners with regard to the importance rating regarding personnel and human resource management skills and safety management skills with participating non-small business owners tending to regard these statements more important than small business owners did.

There was only one statement statistically significant at the 10% level of significance, namely the statement regarding the ability to implement a strategic plan. Participating non-small business owners tended to regard this statement as more important than small business owners did.

The Mann–Whitney U test was applied to the responses from participating small business owners and non-small business owners pertaining to their own skill ratings on the identified business management skills. The second part of Table 5.3 above provides a summary of the information relating to this test.

As indicated in the second part of Table 5.3 above, there is a statistically significant difference at the 5% level of significance between participating small business owners and non-small business owners regarding their own skill rating pertaining to administration skills and public relations management skills, with non-small business owners tending to rate themselves higher in terms of these statements than small business owners did.

There is also a statistical difference at the 10% level of significance between participating small business owners and non-small business owners for their own skill rating regarding marketing skills, with non-small business owners tending to rate themselves higher on the statement than small business owners did.

5.8.3 Testing of statistical significant difference between small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers

The Mann–Whitney U test was lastly applied to the responses pertaining to respondents' level of agreement regarding actual and perceived barriers. The following hypotheses have been set in Chapter 4 pertaining to the statistically significant differences between participating small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers:

H₀₅: there is no statistically significant difference between small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers

H_{A5}: there is a statistically significant difference between small business owners and non-small business owners with regard to their level of agreement on actual and perceived barriers

Table 5.4 below provides a summary of the results pertaining to this test. The statements in this table are an abbreviation of the statements discussed in figure 5.36 and 5.37.

Table 5.4 Summary of Mann–Whitney U results for actual and perceived barriers (n=41)

Barrier	Mann–Whitney U	z-value	p-value
Demand for new technology in the industry	97.000	-2.982	.003***
	The mean ranks indicate that participating small business owners tended to agree with this statement more (mean rank = 25.46) than non-small business owners (14.74) did.		
New technology does not make a contribution to small business success	119.500	-2.382	.017**
	The mean ranks indicate that participating small business owners tended to agree with this statement more (mean rank = 24.52) than small business owners (mean rank = 16.03) did.		
Challenging business taxation practices	143.500	-1.732	.083*
	The mean ranks indicate that participating small business owners agreed with this statement more (mean rank = 23.52) than non-small business owners (mean rank = 17.44) did.		
Lack of support for small business owners	139.000	-1.872	.061*
	The mean ranks indicate that participating small business owners tended to agree with this statement more (mean rank = 23.71) than non-small business owners (mean rank = 17.18) did.		

Statistical significance indicated by*, * denotes 10%, ** indicates 5% and *** indicates 1%

Table 5.4 above indicates that there is a statistically significant difference at the 1% level of significance between the participating small business owners and non-small business owners with regard to the demand for new technology in the industry as a small business barrier. The actual barrier indicated by small business owners tended to be rated higher than the rating indicated by non-small business owners.

There is a statistically significant difference at the 5% level of significance between the participating small and non-small business owners with regard to the actual and perceived small business barrier pertaining to new technology not contributing to small business success with participating small business owners tending to agree with this statement more than non-small business owners did.

At the 10% level of significance, there is a statistically significant difference between small business owners and non-small business owners with regard to the actual and perceived small business barriers pertaining to challenging business taxation practices and the lack of small business support. The actual barrier indicated by participating small business owners tended to be rated higher than indicated by non-small business owners.

Only four of the 14 statements showed a statistically significant difference. The remaining 10 statements that did not show a statistical significance is included in the addendums of this dissertation.

Sections 5.6.1–5.6.3 above summarised the statistically significant findings of the Mann–Whitney U test that was conducted. In the following section, a two-step cluster analysis will be discussed as derived from the information discussed throughout this chapter.

5.8.4 Two-step cluster analysis

It was decided to explore whether the participating small business owners constituted different profile groups with regard to their demographics (age, education, gender) and their firmographics (number of employees, annual turnover, age of business). The two-step cluster analysis identified two clusters. This analysis addressed the final research objective of this study.



The cluster quality, measured through the silhouette measure of cohesion and separation (see Mooi and Sarstedt, 2010) was 0.2. The two clusters consisted of 58.3% (14 respondents) in cluster 1 and 41.7% (10 respondents) in cluster 2. The predictor importance of the variables in forming the clusters involved annual turnover (importance 1.0), formal education (importance 0.8), gender (importance 0.36), number of employees (importance 0.33), how long the business had been in existence (importance 0.29) and the age of the participants (importance 0.07).

Table 5.5 Two-step cluster analysis

Clusters

Input (Predictor) Importance

1.0
 0.8
 0.6
 0.4
 0.2
 0.0

Cluster	1	2
Label		
Description		
Size	 58.3% (14)	 41.7% (10)
Inputs	C19 2 (78.6%)	C19 4 (40.0%)
	B12 6 (60.0%)	B12 2 (40.0%)
	B9 2 (78.6%)	B9 1 (60.0%)
	C18 2 (71.4%)	C18 2 (60.0%)
	C17 7 years (21.4%)	C17 3 years (30.0%)
	B7 48.21	B7 46.20
	A3 1 (100.0%)	A3 1 (100.0%)

The two cluster profiles identified show that cluster one consisted predominantly of males, with an average age of 48 years and they primarily had bachelor degrees. The small businesses or the participating small business owners predominantly had a turnover of between R100 001 and R500 000, with 2 to 5 employees, and they had primarily been in business for 7 years.

The second cluster consisted primarily of females, with an average age of 46 years with predominantly matric qualifications. These small businesses had a higher

turnover of over R1 million, with between two and five employees and they had been in business for approximately 3 years.

This section, summarising the findings of the inferential analysis (see Pallant, 2016), conveyed statistically significant differences between the responses of participating small business owners and non-small business owners regarding the importance of soft skills and business management skills as well as their own skill rating of soft skills and business management skills. This section also described the statistically significant differences between the level of agreement of small business owners and non-small business owners regarding actual and perceived barriers. The section concluded with a summary of the two-step cluster analysis that clearly indicated two distinct profiles of small business owners pertaining to demographics and firmographics.

5.9 Conclusion

This chapter reflected a discussion of the empirical results obtained in the present study and how these results were analysed. The relationships between the results and the research objectives were also highlighted.

Chapter 6 comprises a summary of the results and the relevance of these to the study as well as a discussion of recommendations.

CHAPTER 6: SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

The concluding chapter of this study provides a review of the research questions, the research objectives, the purpose and the main findings of this study. From this will follow the synchronisation of the theory and the empirical findings as well as the recommendations based on the findings of the study, purpose and findings of this study. The limitations of this study are discussed, and this is followed by suggestions for future study. The outline of this chapter is illustrated in Figure 6.1 below.



Figure 6.1 Chapter 6 overview

Source: Author's own composition (2017)

6.2 Purpose of the study

This section revisits the purpose and significance of the study. It also presents a summary of the research questions and research objectives.

6.2.1 Purpose of the study

The purpose of this study was to conduct exploratory research into the small business initiatives undertaken by people who had been retrenched or who had taken severance packages from the insurance industry in Gauteng during the years 2000 to 2013. This study tracked the economic activity of these workers regarding finding re-employment and focusing on the business sectors in which they furthered their careers. An additional focus of the study was to describe the barriers to entry into the small business environment that were encountered by the respondents. The effect of legislation, retrenchment and other environmental factors on small businesses and entrepreneurs was investigated. This research provides information about actual and perceived barriers as experienced by small business owners, and what retrenched workers or unemployed people did in these difficult times.

6.2.2 Research questions and objectives

The research questions below, as first stated in 1.5, provided the roadmap for this study. These research questions were:

- Were small business initiatives undertaken by people who had been retrenched from the insurance industry between the years 2000 and 2013?
- Which employment initiatives were undertaken by people retrenched from the insurance industry between the years 2000 and 2013?
- Was there continuity in the specialist type of work of the specific group of individuals?
- Is there a difference between the importance attached to soft skills and the level of their own soft skills between small business owners and non-small business owners in this group?
- Is there a difference between the importance attached to business management skills and the level of their own business management skills between small business owners and non-small business owners in this group?
- Is there a gap between the importance attached to soft skills and the level of their own soft skill, for small business owners and non-small business owners respectively in this group?

- Is there a gap between the importance attached to business management skills and the level of their own business management skill, for small business owners and non-small business owners respectively in this group?
- What are the actual and perceived barriers to entry that influenced the decisions of this group to undertake small business initiatives?
- What is the difference between the level of agreement regarding actual and perceived barriers between small business owners and non-small business owners?
- Does the small business owner group of respondents comprise specific distinguishable group profiles in terms of their demographical and small business characteristics?

In order to answer these research questions, research objectives have been set. Table 6.3 will show the synchronisation of the research objectives, the findings and the linking up with the theory in Table 6.3.

6.3 Findings of the study

The questionnaire that was used to collect primary data for this study was divided into the following sections:

- Section A consisted of the qualifying questions and background information
- Section B addressed demographical information and gathered information about the importance of soft skills and the own skill ratings of small business owners and non-small business owners pertaining to soft skills and business management skills
- Section C comprised the firmographics that were completed by small business owners
- Section D investigated the actual and perceived barriers for small businesses in South Africa as indicated by both small business owner respondents and non-small business owner respondents.

6.3.1 Qualifying questions and background information

In order to qualify for this study, respondents had to have been retrenched from the insurance industry between 2000 to 2013 (question 1), they had to reside in Gauteng, and the main business activities of respondents needed to be based in

Gauteng (question 2). There were 41 respondents who qualified and participated in this study. The remaining questions in section A were used to determine whether the respondents were small business owners or not (question 3), whether the non-small business owners were employed and in which industry (question 4), and whether the respondents considered starting a small business after the retrenchment (question 5). More than half of the respondents (58.5%) indicated that they were small business owners. The remaining respondents (41.5%) constituted the non-small business owner respondents, and the majority of these respondents (64.7%) indicated that, at the time of this research, they were employed in the financial services industry. This response points toward a continuity in the specialist type of work with which the respondents were previously being involved. The majority of small business owner respondents (91.7%) indicated that they considered starting a small business after the retrenchment. The majority of non-small business owners (58.8%) did not consider starting a small business after the retrenchment.

Finally, respondents were asked whether their small businesses were still active, and they had to indicate the reason for termination if these businesses were no longer active (question 6). The majority of respondents who indicated that their businesses are no longer active (48%) indicated that this was due to financial reasons. The other reasons that were indicated for why the small businesses were no longer active were: having found full-time employment, family responsibility, health issues and compliance problems in the insurance industry.

6.3.2 Demographical information

Respondents were asked about their age (question 7), race (question 8), gender (question 9), geographical area (question 10), marital status (question 11), highest level of formal qualification (question 12), and whether they had an insurance industry-specific qualification (question 13). The demographical information obtained from the respondents is summarised in Table 6.1 below:

Table 6.1 Summary of demographical information

Demographical information	Small business owners	Non-small business owners
Age	41–60 years	41–60 years
Race	Minority racial groups	Minority racial groups
Gender	Male	Female
Geographical area	Metro areas	Metro areas
Marital status	The majority (70.8%) were married	Just over half (52.9%) were married
Highest level of formal qualification	Bachelor's or postgraduate degrees	Grade 12 or certificates
Insurance industry-specific qualifications	Half of small business owner respondents had insurance industry-specific qualifications	The majority of non-small business owner respondents had insurance industry-specific qualifications

The majority of small business owners (70.8%) were aged between 41 and 60 years of age, with the majority of non-small business owners (58.8%) in the same age grouping. This points to a contradiction in the findings reflected in section 3.4.4.2 based on the GEM report. The GEM Consortium (2010) explained that the greatest percentage of entrepreneurs were aged between 25 and 44. This discrepancy can however be explained by the trigger event, which this group of respondents had in common, namely the retrenchment that occurred late in the working life of most of these individuals.

The race distribution of small business owners and non-small business owners indicated that the majority of respondents were of the minority racial groups. The fact that the majority of small business owners were part of these minority racial groups supports the theoretical discussions in section 3.4.4.3.

The majority of the small business owner respondents (62.5%) were male. The fact that there were more male participants who started small businesses than females is in line with the findings in section 3.4.4.1 (see also GEM Consortium, 2014). The gender distribution of non-small business owners was quite different. In this category of respondents, the majority of respondents were female (64.7%). According to the literature study, female entrepreneurs were likely to start small businesses only if they had no other option (Williams *et al.*, 2006). Becoming an entrepreneur and small business owner was not a serious consideration for these

female participants, and they resorted to finding alternative employment rather than attempting to start a small business. However, those who did start a small business were however successful as reflected in the size of turnover, as will be indicated later in this section.

The majority of small business owners and non-small business owners (83.3% and 88.2% respectively) were located in metro areas, which is not surprising since this would be the location where the greatest job and business opportunities are available, and due to the geography of Gauteng.

Just over half of non-small business owners (52.9%) indicated that they were married, while a greater percentage of small business owners were married (70.8%). This could be explained by the important role that family and a spouse play in supporting the business owners to be successful, as indicated in section 3.4.5.

Half of the small business owner respondents (50%) indicated that they had bachelor's or postgraduate degrees while the majority of non-small business owner respondents (52.9%) indicated that they had Grade 12 certificates or certificates. This indicates a clear difference in the qualification levels of the respondents.

Only half of small business owners indicated that they had insurance industry-specific qualifications, while 70.6% of non-small business owners indicated that they had insurance industry-specific qualifications. This supports the earlier finding that there was continuity in the specialist type of work by non-small business owners since the majority of these respondents remained in the financial services industry and obtained industry-specific qualifications. On the other hand, some of the small business owners diversified out of the insurance sector where the insurance qualifications were not required.

6.3.3 Importance and own skill ratings of small business owners and non-small business owners pertaining to soft skills

In Chapters 2 and 3, certain soft skills were identified as being pertinent to successful small business owners. Small business owners and non-small business owners were asked to indicate their perception of the importance of these skills as well as the rating they would assign towards their own skill in this regard. The soft skills that were identified are discussed below.

6.3.3.1 Consulting a mentor

The advantages of consulting a mentor, as highlighted in section 2.3.2.2 comprise helping the small business with new ideas, obtaining resources, and maintaining focus (Lussier *et al.*, 2015). Consulting a mentor was rated by the third lowest percentage of small business owner respondents (66.7%), as being very important or critically important, in contrast with the majority of non-small business owner respondents (82.3%) who indicated that this is a very important or critically important skill for small business owners to have. Small business owner respondents also rated their own skill in this regard relatively poor, in comparison to non-small business owners. This is confirmed by the findings of the inferential statistics, where the higher own skill rating of non-small business owners was statistically significant. There is a gap between the perceived importance of this skill and their own skill rating in this regard for both small business owners and non-small business owners. It is possible that, when faced with a real small business environment, the small business owners just do not know who they can consult for mentorship or that they do not have the time for such activities while trying to survive. On the other hand, the non-small business owners could have a possible inflated esteem about their own ability in this regard.

6.3.3.2 Using technology for better customer service

As reflected in section 2.4.3.2, Skinner (2015) points out that entrepreneurs and small business owners in the insurance industry have the power to influence the development of new technologies that are user-friendly for the younger generation of technology-savvy customers. This skill is the second of the three soft skills that the lowest percentage of small business owner respondents indicated as being very important or critically important while they acknowledged that they were relatively poorly skilled in this regard. As with the section enquiring about the use of technology for better internal processes, more non-small business owner respondents (88.2%) compared to small business owners (65.3%) indicated that this skill is very important or critically important for small business owners while the majority (54.5%) rated their own skill regarding this issue as being good or excellent. This was also confirmed by the inferential statistics, where it was found that there is a statistically significant difference between the own skill ratings of small

business owners and non-small business owners, with non-small business owners rating themselves higher than small business owners did. This indicates that employed individuals were working in environments with established technological systems and using these on a daily basis while small business owners deemed this as not being a vital skill for the survival of their businesses.

6.3.3.3 Using technology for better internal processes

The literature study (see section 3.7.3) indicated that access to technology is one of the challenges faced by small business owners (Botha & Musengi, 2012). This skill is one of the soft skills that the lowest percentage of small business owners indicated as being very important or critically important for small business owners in South Africa, and they indicated their own skill rating in this regard as average or poor. It might be that this skill is irrelevant in a small business environment where the small business owner has to make do without many of the technological luxuries that employed individuals take for granted. A greater percentage of non-small business owner respondents (94.1%) indicated the importance of using technology for better internal processes as being very important or critically important than the percentage of small business owners (65.2%). Similarly, in terms of the own skill ratings of these two groups of statements, non-small business owners regarded themselves as better skilled than small business owners. The inferential analysis conducted in this study found that there was a statistically significant difference in the responses of small business owners and non-small business owners both in terms of importance and their own skill (see section 5.8.1). Non-small business owners rated this aspect as being more important and themselves as being better skilled than small business owners did. This once again points to the fact that these respondents were working in an environment that had established technological systems in place of which they made use on a daily basis. It also points to the factor that a substantial number of small business owners had moved outside the insurance industry where their use of technology could have been less important.

6.3.3.4 Ability to handle risk and uncertainty

There is much uncertainty and risk involved in owning a small business, and small business owners do not have the advantage of a predictable income like their employed counterparts have. Section 3.5 indicated that there is a clear difference

between the risk tolerance of small business owners and employed individuals (Antonites & Wordsworth, 2009). Although none of the small business owners indicated that the ability to handle risk and uncertainty is an irrelevant skill for small business owners, the majority (79.2%) indicated that it is a very important or critically important skill. All of the non-small business owners indicated that this is a very important or critically important skill for small business owners. Of the small business owner respondents, one fifth (i.e. 20.8%) indicated that they had no or poor skill in this regard. It might be that actually handling the daily uncertainties of being a small business owner inured the small business owner to the issue of handling risk and uncertainty. Non-small business owners rated their own skill higher than the small business owners did with the majority of these respondents (82.4%) indicating that they were good or excellent at handling risk and uncertainty. This was confirmed by the inferential analysis conducted in this study, which found a statistically significant difference between the own skill ratings of small business owners and non-small business owners with non-small business owners rating themselves higher than small business owners. Again, this could be ascribed to a possible false sense of self-worth sitting in a somewhat protected working environment.

6.3.3.5 Passion for doing business

Having a passion for their business helped the small business owner to remain interested and focused on the business. It also gave them the ability to inspire others, as discussed in section 3.5 (see also Botha & Musengi, 2012). Non-small business respondents agreed with small business owners that having a passion for doing business is very important or critically important, although a statistically significantly higher percentage of non-small business owners (82.3%) indicated this skill as more important than small business owners did. Although both these groups of respondents seemed to be aware of the importance of this soft skill, they did not rate themselves as very skilled. The less skilled rating, as indicated by the majority small business owner respondents (100%) can be the result of the daily grind for survival, which they were facing in their businesses. On the other hand, the less skilled rating indicated by the majority of non-small business owner respondents (70.6%) might have contributed to their decision not to start their own business.

6.3.3.6 Ability to inspire others

In section 3.5, it is explained that in order to get investors, an entrepreneur needs to have the ability to convince others that their business is a viable investment (Botha & Musengi, 2015). The same goes for customers. A small business owner needs to convince customers that his or her product or service is the best option available. The majority of both of small business owner respondents and non-small business owner respondents (83.3% and 82.3% respectively) indicated that the ability to inspire others is very important or critically important for small business owners. However, both groups acknowledged that they are not well enabled to perform this soft skill.

6.3.3.7 Determination

Determination allows an entrepreneur to continue pursuing his or her business idea in the face of adversity (Strydom & Nieuwenhuizen, 2012). The majority of both small business owners and non-small business owners (95.8% and 100%) indicated that determination is very important for small business owners in South Africa. The majority of both groups rated their determination skill levels as good or excellent, although a statistically significant percentage of non-small business owners (88.2%) rated themselves higher than small business owners in terms of their own skill in this regard.

6.3.3.8 Placing a high value on self-improvement

Self-improvement and the drive to better themselves were identified in the literature study as one of the key characteristics of an entrepreneur (see section 3.5). A high percentage (79.1%) of small business owner respondents indicated that placing a high value on self-improvement is very important or critically important for small business owners while a fairly similar percentage of non-small business owner respondents (76.5%) indicated that this is a very important or critically important soft skill. Only two thirds of small business owners indicated that they were well or excellently skilled while almost all of non-small business owner respondents indicated that their own skill rating was good or excellent. Non-small business owners had a very high skill rating of themselves in the area of self-improvement.

6.3.3.9 Continually seeking new opportunities

The ability to seek new opportunities continually is highlighted as one of the characteristics of an entrepreneur as reflected in section 3.5 (see in this regard also UNCTAD, 2008). A high percentage of small business owner respondents (79.1%) indicated that seeking new opportunities is very important or critically important for small business owners in South Africa. However, a small group of small business owner respondents (8.3%) indicated that this skill is irrelevant. This concerning response might be explained if the small business has one or two long-term service delivery contracts with a big corporation or government institution. It should be noted that not seeking new opportunities reduces the possibility of the small business for both growth and long-term survival. A similar percentage of non-small business owner respondents (76.5%) indicated that this skill is very important or critically important for small business owners in South Africa. However, only just more than half of these individuals (53%) rated their own skill in this regard as good or excellent. This possible lack of confidence in their own ability to seek new opportunities might explain why these individuals sought employment opportunities instead of pursuing their own business.

6.3.3.10 Being able to take initiative

A greater percentage of non-small business owners (100%) indicated that being able to take initiative is very important or critically important in comparison with the percentage of small business owners who did (83.3%). This was also confirmed by the inferential analysis conducted in this study, which found a statistically significant percentage of non-small business owners rating these skills as more important than small business owners did. Non-small business owners also rated themselves as being more skilled at taking initiative than small business owners did. It could be that the realities of actually taking initiative in a small business environment and lacking the time and resources to do so influenced the small business owners' lower skill ratings of themselves in this regard. On the other hand, there seems to be a trend for non-small business owners to overrate their soft skills in this regard.

6.3.3.11 Working independently

Small business owners indicated that the ability to work independently is quite important, with the majority of small business owners (87.5%) indicating that it is important or very important. However, only two thirds of small business owners indicated that they were well or excellently skilled in this area. Although almost all of the non-small business owners indicated that they were well or excellently skilled at working independently, only three quarters of the non-small business owner respondents indicated that this skill was important. The inferential analysis conducted in this study found a statistically significant difference between the own skill ratings of small business owners and non-small business owners, with non-small business owners rating themselves higher than small business owners in this regard. Sections 3.4.4.4 and 3.5 indicate that working independently is one of the reasons why people are motivated to start their own businesses (Hatten, 2016). This discrepancy in the results can also be explained by the difference between actually experiencing the realities of working in an isolated small business environment versus working in a corporate environment alongside other employees on a daily basis.

6.3.3.12 Ethical conduct

Although sections 2.3.1 and 2.3.2.6 illustrate the importance of ethical conduct for the continued survival of a small business, it was also found that many small business owners tended to value profit higher than ethical conduct. This flexible view on ethics can be explained by the small business owners' focus on survival. More voluntary aspects of business then become a secondary focus. A smaller percentage of small business owners (75%) rated ethical conduct as very important or critically important than non-small business owners (100%) did. This was confirmed by the inferential analysis that was conducted in this study, and which found a statistically significant difference in the importance assigned to this skill, with non-small business owners indicating that it is more important than small business owners did. Small business owners did however rate themselves as quite skilled regarding ethical conduct, which was in contrast with the low importance rating

indicated for this skill, indicating that it is not such an important skill for business owners to have.

Small business owners who were previously employed in the insurance industry were used to working in a team. They were used to having this team of individuals around to consult whenever they were faced with challenges that they could not confront on their own. When starting their own small businesses, they found themselves less skilled in certain areas as no individual is equally skilled in all areas of managing a business. The small business owner participants may have had a more realistic view of their own skills and abilities because they were faced with the challenges of managing a small business on a daily basis.

6.3.4 Importance of business management skills and own skill ratings of small business owners and non-small business owners pertaining to business management skills

The two groups of respondents were requested to indicate whether they thought the specified business management skills were important for small business owners in South Africa. The respondents were then asked to indicate how they would rate their own skills on the specified list of business management skills. The business management skills were derived from the information in Chapters 2 and 3. These business management skills are discussed further.

6.3.4.1 Administration skills

Administration skills are indicated as very important or critically important by quite a low percentage of small business owners in South Africa (58.3%) in comparison to other business management skills, and own skill ratings indicated by these respondents were relatively low as well (58.3%). All of the respondents in this study used to be employed in the insurance industry. This means that somebody else was responsible for a large percentage of the administration that needed to be completed by them due to the specialisation of work in these businesses. It should also be noted that, from the perspective of a small business owner, administrative tasks are seen as unproductive time-consuming work and it takes the individual away from the core business functions on which he or she would rather focus on, such as marketing (section 2.3.2.7). Small business owners would rather pay somebody to take this task off their hands and usually, the first employee who is appointed in a

small business is an administrative personnel member. Non-small business owners rated their administration skills quite high, with almost all of these respondents (94.1%) rating themselves as good or excellent. This was confirmed by the inferential analysis that was conducted in this study, which found a statistically significant difference between the own skill ratings of small business owners and non-small business owners with non-small business owners rating themselves higher in terms of this skill. This might have been true in the environment within which they used to function. However, once in a small business, these administrative tasks might have changed small business owners' own skill rating.

6.3.4.2 Involvement in all levels of business

One of the aspects marking the life of a small business owner is an involvement at all levels of the business, as illustrated in section 3.5. This involvement highlights the importance of the small business owner's knowledge of each of the functional areas of the business. Almost a third of small business owner respondents (29.2%) indicated that this management function was of little or moderate importance to them. These small business owners possibly have an entrepreneurial mind-set, as they are interested in starting a business but do not have much interest in the day-to-day management of the business as explained in section 3.4.5 and 3.5. However, when comparing this rating with the own skill rating of this group of respondents, only just more than half of small business owners indicated that they had the skill to be involved at all levels of their business. This indicates a gap in their skills base that needs to be addressed.

6.3.4.3 Ability to compile vision and mission statement

The purpose of a vision and mission statement is to explain what makes a business unique and what the core business objectives are that drive the business (Brevis & Vrba, 2014; Du Toit *et al.*, 2010). Two thirds of small business owner respondents rated this ability as very important or critically important. They rated their actual skill in this business management function similarly. There was not really a difference between the importance rating by small business owner respondents and non-small business owner respondents when it comes to compiling a vision and mission for a small business.

6.3.4.4 Ability to compile strategic plan

There is a different set of skills involved in the compilation of a strategic plan and the implementation of a strategic plan. Although the strategic planning in small businesses is usually conducted in an informal manner, it still influences the success of the small business and the ability of a small business owner to move from being a survivalist to being a successful business owner as indicated in sections 2.3.1 and 2.3.2.1. A greater percentage of non-small business owner respondents (87.6%) indicated that they were well or excellently skilled than the percentage of small business owners (63.6%). Non-small business owners also rated their own skills higher than the small business owner respondents rated themselves. All non-small business owner respondents indicated that the ability to compile a strategic plan is very important or critically important, compared to just fewer than two thirds of small business owners. This is confirmed by the inferential analysis that was conducted for this study, which found a statistically significant difference in the responses of these two groups of responses with non-small business owners indicating this skill as being more important than small business owners did. Small business owners are in a position where they need to prioritise which business management activities are vital to the survival of their businesses, and the compilation of a strategic plan is not regarded as being sufficiently important to spend time on it as explained in section 2.3.1 and 2.2.3.1.

6.3.4.5 Ability to implement strategic plan

As discussed in section 2.3.1, the quality of the strategic implementation efforts by the small business owner directly correlates with the success of the small business (Cordeiro, 2013). Inferential analysis found that there was a statistically significant difference between the importance ratings of small business owners and non-small business owners, with non-small business owners indicating this skill as being more important than small business owners did. Small business owners gave the ability to implement a strategic plan a similar rating to how they rated the ability to compile the strategic plan, with two thirds of small business owner respondents indicating that this is a very important or critically important skill to have in a small business. They also rated their own skill similar to their own skill rating provided for the compilation of a strategic plan as discussed in the previous section. On the other

hand, the majority of non-small business owner respondents (87.5%) indicated that this is a very important or critically important skill, compared to the fact that all of the non-small business owners indicated that the ability to compile a strategic plan is very important or critically important. There was a discrepancy between the importance they indicated for the ability to compile a strategic plan versus the ability to implement this plan.

6.3.4.6 Personnel and human resource management skills

In section 2.3.2.2, obtaining and retaining personnel were highlighted as two of the key challenges faced by small business owners in South Africa. Being skilled in personnel and human resource management practices enables the small business owner to improve his or her employee retention and to ensure that his or her employees are applicably skilled. With so many of the small business owner respondents indicating that personnel-related issues are one of the key challenges that they are facing in their business, there is a concerning low percentage of small business owners who indicated this as being very important or critically important and who considered themselves as being well skilled in this regard. The inferential analysis conducted in this regard found a statistically significant difference between the importance ratings of small business owners and non-small business owners, with non-small business owners rating this skill as being more important than small business owners did.

6.3.4.7 Operations management

Operations management is a management function that considers the whole process from product design to product delivery with the aim of improving the productivity of the small business and ensuring that the organisational resources are spent wisely as discussed in section 2.3.2.3. Although the operations management function was rated as very important or critically important by both the majority of small business owners (75%) and all of the non-small business owners, their skill rating was quite poor with only half of small business owner respondents indicating that their skill was average. A slightly higher percentage (58.8%) of non-small business owner respondents indicated the same. There was however a statistically significant difference between the importance ratings of small business

owners and non-small business owners, with more non-small business owners rating this skill as being important than small business owners.

6.3.4.8 Purchasing management

Purchasing management is a management function that allows the small business owner to determine what the business needs to purchase, identify which suppliers can best deliver the product and to negotiate a competitive price, as described in section 2.3.2.4. A greater percentage of non-small business owners (82.4%) rated this management function as very important or critically important than small business owners with just over two thirds of small business owners rating this function as very important or critically important. However, almost half of small business owner respondents (47.8%) indicated their own skill rating in this management function as being average, and almost half of non-small business owner respondents indicated similarly. This points to a concerning lack of skills with regard to this business management function.

6.3.4.9 Marketing skills

Marketing skills seemed to be the one management function of which both small business owners and non-small business owners realised the value and importance since it directly links to the success of the small business measured in terms of pursuing sales and increased turnover. The importance ratings associated with this business function confirmed its importance for small business success with the majority of small business respondents (87.5%) and of non-small business respondents (88.2%) indicating that marketing skills are very important or critically important. However, only just over half of small business owner respondents indicated that they were well or excellently skilled in this area. The inferential analysis conducted in this study found that non-small business owners rated themselves statistically significantly higher skilled in this regard than small business owners did.

6.3.4.10 Public relations management

The support of the community and their perception of a business are vital for business success. This pertains to how the small business earns the trust of the community around it (Van Zyl *et al.*, 2012). A greater percentage of respondents indicated that public relations management is very important or critically important

than was indicated for human resource management, purchasing management and marketing management. A great majority of small business owners (87.5%) and of non-small business owners (94.1%) indicated that this management function is very important or critically important in a small business. However, only just over half of small business owners rated themselves as being well or excellently skilled in public relations management. This raised the question of whether there is a common understanding of the place of the marketing function in their businesses, and points to the importance attached to presenting the small business to the customer in a face-to-face situation. The inferential analysis that was conducted in this study found that there was a statistically significant difference in the own skill ratings of small business owners and non-small business owners, with non-small business owners rating themselves higher in terms of their skill in this regard than small business owners did.

6.3.4.11 Financial management

Financial management is another management function of which both small business owners and non-small business owners see the importance. This management function was discussed in section 2.3.2.9. Knowledge of financial management will assist the small business owner to obtain capital, adjust prices, negotiate better prices with suppliers and expand his or her business successfully (Van Zyl *et al.*, 2012). The financial management function is rated quite important by both small business owners and non-small business owners, with the majority of respondents (83.3% and 88.2% respectively) indicating it to be very important or critically important. However, small business owners rated their own skill relatively low with only just more than half of small business owner respondents (54.2%) indicating that they were well or excellently skilled in this function. Non-small business owners rated their financial management skills higher, with three quarters of this group of respondents indicating that they were well or excellently skilled in this business function. It should however be noted that it was possible for these participants to be well versed in the financial management functions that they encounter every day in their position of employment, but they might have rated their skill level differently when confronted with the realities of financial management within the context of a small business.

6.3.4.12 Environmental management and sustainability, safety management and risk management

Environmental management and sustainability, safety management and risk management was rated as very important or critically important by quite a low percentage of small business owners (56.6%), and similarly, a low percentage of small business owners indicated that they were well or excellently skilled in this management function. This is of concern since all business owners are required by law to be aware of these factors in their businesses (see RSA, 1993) as reported in 2.3.2.9. It is possible that the respondents did not understand what these terms entail, or that these truly were the three lowest priorities for these small business owners, with only just more than half of respondents indicating that it is important. Many small business owner respondents rated these three skills as irrelevant, and their own skill as poor. Of these factors, non-small business owners rated environmental management and sustainability as the lowest priority, which corresponds with the finding in the literature review as reflected in section 2.3.2.9. In the light of green movements and sustainability practices that form part of the requirements of the King Report (IoDSA, 2009; 2016), this indicates a concerning disregard for this management function. This could have resulted because participating small business owners did not view these skills as directly contributing to the bottom line. Risk management is a vital skill in small businesses because it allows the small business owner the opportunity to adjust his or her strategic plans to allow for changes in the business environment (Brustbauer, 2014). In terms of safety management, the inferential analysis conducted for this study found a statistically significant difference between the importance ratings of small business owners and non-small business owners, with non-small business owners indicating this skill as being more important than small business owners did.

The majority of non-small business owner respondents indicated that they did not consider starting a small business after the retrenchment. Although participating non-small business owner respondents had the skills to manage a small business as indicated above, they may have lacked entrepreneurial intent and key personal characteristics, such as having a passion for doing business, the ability to seek new opportunities continually and the ability to inspire others. Lacking these key personal characteristics, the retrenchment was not a trigger event for these respondents to

enter the small business world. The GEM Consortium (2014) indicates that South Africa does not have a strong entrepreneurial culture as discussed in section 3.4.2.5. This certainly rings true for this group of non-small business owner respondents.

6.3.5 Small business firmographics

The next section of the questionnaire investigated the firmographics of the small businesses. The respondents were asked to indicate:

- the primary economic sector within which their businesses operated (question 16);
- how long the business had been active (question 17);
- the number of people employed by the small business (question 18);
- the annual turnover of the business (question 19);
- source of business idea (question 20);
- source of funding (question 21);
- small business registration (question 22);
- type of business (question 23); and
- their experienced challenges (question 24).

The responses received to these questions are summarised in Table 6.2 below.

Table 6.2 Summary of small business firmographics

Firmographics	Majority of responses
Primary economic sector	Less than half remained in financial intermediation and insurance
How long the business had been active	2–5 years
Number of employees	2–5 employees
Annual turnover	R0–R500 000
Source of business idea	Prior work experience
Source of funding	Own funding
Small business registration	One third was not registered at all
Type of business	Closed corporations but one third was not registered
Experienced challenges	Capital requirements

The majority of small business owners indicated that their small businesses were in primary economic sectors other than financial intermediation and insurance. This

meant that less than half of small business owners (41.7%) decided to continue with the specialist type of work in which they were involved before the retrenchment had occurred. Numerous factors could have contributed to this decision by small business owners,. It is possible that the onerous registration and capital requirements of staying in the insurance industry had discouraged them. Another option could be that these small business owners saw opportunities to start afresh in another business field.

The majority of small businesses had been active for 2–5 years and a notable percentage for six years or more. The majority of small business owners had been in business long enough to be well aware of the challenges that are faced by small businesses in South Africa.

Despite having been in business for so long, the majority of small businesses (72.7%) only employed between two and five employees and had relatively low turnovers of R0–R500 000. This means that, according to the small business categories identified by SARS and in the Small Business Amendment Act (29 of 2004), these businesses are classified as micro-enterprises.

In an open-ended question, respondents were asked to indicate what the source of their business idea was. The responses were categorised into three groups: experience, a perceived need in the market, and suggestions from family and friends. The literature indicates that the source from which most entrepreneurs get their business idea is their own experience. This was confirmed by the respondents in this study, as 46% indicated that their prior experience was the source of their business idea. This confirms the findings illustrated in Figure 5.27, which indicated that less than half of small business owner respondents remained in the insurance industry.

The other source of business ideas that was identified in the literature study was needs in the community. This was also confirmed by the respondents who participated in this study, a third of whom indicated that they derived their business idea from a need that was identified in the market. Identifying a need in the market corresponds with the basic marketing management skills that a small business owner requires, and was discussed in section 2.3.2.5.

Lastly, of the small business owners, 21% indicated that the source of their business ideas was family and friends. This statement highlights the importance of family support for a small business owner – as argued in section 3.4.5.

When asked about the sources of funding for their small businesses, the majority of small business owner respondents indicated that they had made use of their own funding, which would have originated from their savings, pensions or severance packages. The second most used form of small business funding was family and friends, once again highlighting the vital role of the support of family and friends in the lives of small business owners as discussed in section 3.4.5.

A third of small business owners indicated that their businesses were not registered with SARS, CIPC, FSB, COID, or other related institutions. The majority of small business owners indicated that their businesses were registered as closed corporations but once again, 31% of respondents indicated their business was not registered. These small business owners may fall into the survivalist category of small business owners that was discussed in section 3.6.2. Ligthelm (2013) indicates that informal entrepreneurs remain in a necessity-driven state and do not make a contribution to the economy over the long term.

In an open-ended question, small business owners were asked to indicate what their greatest challenges were. The answers provided by respondents were categorised as: capital, compliance, staff, market access, time, BEE, unreliable income, economy, not wanting to be a small business owner, competition, supplier relations and taxation issues. These barriers were discussed in Chapter 2 based on the different business environments as illustrated in Figure 6.2 below:

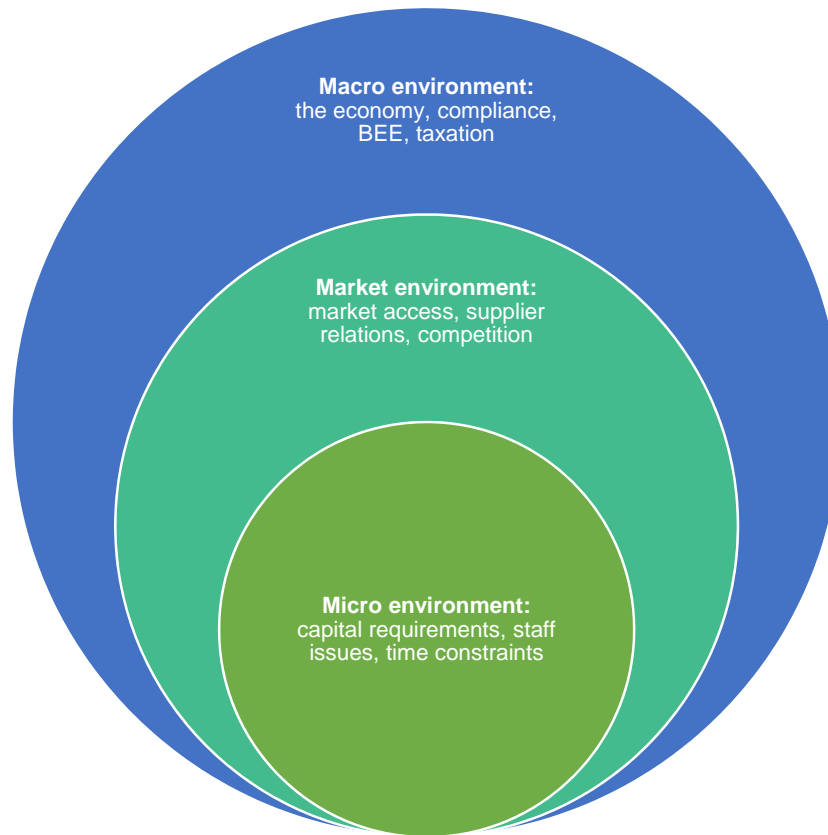


Figure 6.2 Experienced barriers and place in the business environment

Source: Author's own composition (2017)

6.3.6 Actual and perceived barriers for small businesses in South Africa

The barriers that were experienced by participating small business owners were identified in the theoretical discussion in Chapters 2 and 3. Small business owners and non-small business owners were requested to indicate whether or not they agreed with specified statements pertaining to the barriers that small business owners in South Africa may be experiencing. These statements are discussed below:

The demand for new technology in my industry is higher than I am comfortable with: non-small business owners work in an environment where they are dependent on outside sources for the development and implementation of the new technologies needed. The majority of non-small business owners indicated that they did not see the demand for new technology as being higher than they were comfortable with. The inferential analysis that was conducted found that small business owners tended to agree with this statement more than non-small business owners did. Small

business owners seemed to be in a survival mode, making new technology and mastering this new technology a low priority with 56.6% of small business owners agreeing or strongly agreeing that it presented a challenge.

Technology does not make a valuable contribution to the success of small businesses: small business owners seemed to be more aware of the fact that one can have a successful business without all the technological gadgets and processes of which larger business make use with 62.5% of small business owners and 88.9% of non-small business owners indicating that they disagreed with the statement and that they did not perceive new technology as being a small business barrier in this regard. Participating non-small business owners were working in a system-driven and technology-driven environment and it made sense that they saw technology as an integral function of small business success. The inferential analysis conducted in this regard found a statistically significant difference between the responses of small business owners and those of non-small business owners, with small business owners viewing this as more of a barrier than non-small business owners did.

Business registration requirements in South Africa are burdensome: Participating small business owners experienced business registration requirements as being more burdensome than non-small business owners perceived it to be. However, only 50% of the non-small business owners agreed or strongly agreed with this statement while 74% of small business owners indicated that they agreed or strongly agreed with this statement.

Business taxation practices in South Africa present a challenge to small businesses: The majority of both small business owners and non-small business owners participating in this research indicated that business taxation practices in South Africa present a challenge to small businesses. The inferential analysis conducted in this study found a statistically significant difference between the responses of small business owners and those of non-small business owners, with small business owners tending to agree with this statement more than non-small business owners did.

Political uncertainty prevents people from starting successful small businesses: according to the majority of both small business owners (60.8%) and non-small business owners (70.6%), political uncertainty is less of a barrier than economic

instability and the effect on the regulatory environment with fewer respondents agreeing or strongly agreeing with this statement.

There are no initiatives undertaken by government to encourage small business success: of the responses received to this statement, more than a third of small business owner respondents and almost a quarter of non-small business owner respondents indicated that they either disagreed or strongly disagreed with the statement. Only a third of small business owners agreed or strongly agreed with the statement indicating that, at the time of this study, there were no government initiatives undertaken to ensure the success of small businesses in South Africa. Of the non-small business owners, 50% agreed or strongly agreed that there were no government initiatives. The inferential analysis that was conducted for this study found that there was a statistically significant difference between the responses of small business owners and those of non-small business owners, with small business owners tending to agree with the statement more than non-small business owners did. Although more small business owners were aware of these initiatives, the percentage agreement is cause for concern. There are government initiatives available but it seemed that this specific group of individuals did not experience the benefit of these initiatives. This is a further reason for concern seeing that there is a dedicated government department dealing solely with the upliftment of small business ventures.

Capital investment requirements make it difficult to start a small business in the insurance industry: As with the availability of capital, the capital requirements to start a small business in the insurance industry seemed to be a concerning barrier with the majority of small business owners (87%) and non-small business owners (88.2%) agreeing or strongly agreeing with the statement indicating that this is a barrier in South Africa. This could explain why the majority of small business owners decided not to stay in the insurance industry when they started their businesses.

A lack of readily available capital makes it difficult to start any small business: both small business owners and non-small business owners were aware of the problems that a lack of readily available capital causes for small businesses. Small business owners seemed to struggle with this barrier more than with any other barrier, with almost all of the small business owners (95.7%) agreeing or strongly agreeing with

the statement, indicating that this is a barrier experienced in the small business environment of South Africa.

There are negative stigmas surrounding the decision to start a small business: participating small business owners seemed to be more aware of any negative stigmas that surrounded their decision to start a small business with 52.2% of small business owner respondents agreeing or strongly agreeing with this statement as opposed to 41.2% of non-small business owners agreeing or strongly agreeing with this statement. In certain communities, there seems to be a stigma that a person is only a reliable and qualified financial advisor if he or she works for a well-known business such as Sanlam, Old Mutual or Momentum. People also seem to think that they are victims of retrenchment, implying that they did something wrong or that there is something wrong with them and that is why they lost their jobs. Owning a small business was not part of the life plan of these individuals, who were raised to get a stable job, work hard and retire from this job to a comfortable retirement. Retrenchment meant that this life plan was no longer a viable option and the retrenched individuals had to pursue other options.

Small business owners have very little support: only 58.8% of non-small business owners agreed or strongly agreed with this statement, indicating that, at the time of this research, they thought small business owners has very little support. This can be compared to 87% of small business owners who agreed with the statement. One explanation for this difference is that there are various support options available during the start-up process; however, when small businesses are operational, the support significantly decreases and the small business owner feels bereft of support. It should also be noted that small business owners should be acutely aware of the lack of support since they are actually dealing with this problem on a daily basis.

Political uncertainty makes it more difficult to manage a small business successfully: respondents were asked whether they thought the political uncertainty in South Africa prevents people from starting small businesses. Almost two thirds of small business owners agreed with this statement, indicating that it does, while 70.6% of non-small business owners agreed and indicated that the political uncertainty in South Africa prevented people from starting their own businesses. With the majority

of non-small business indicating this aspect as a perceived barrier, this could have contributed to their decision not to start a small business.

Economic instability makes it more difficult to manage a small business successfully.

The majority of both small business owners and non-small business owners seemed to be aware of the effect that economic instability has on the success of small businesses. However, small business owners seemed to experience this less than expected, with only 78.3% of small business owners agreeing or strongly agreeing with this statement.

Legal aspects and regulations make it more difficult to manage a small business successfully.

A large percentage of participating non-small business owners indicated that they agreed or strongly agreed with the statement as opposed to 87% of small business owners. This difference could indicate that the problems encountered were worse than they were perceived to be from outside the small business environment.

Corruption influences the way people do business in South Africa:

small business owners and non-small business owners were unanimous about the influence of corruption on the way that people do business in South Africa. Of the participating small business owners, 82.7% and 82.3% of the non-small business owners indicated that they agreed or strongly agreed with the statement. This is of concern not only from an ethical perspective but also from an economic perspective, since the prevalence of corruption does not encourage people to start their own businesses.

6.4 Synchronising the research objective, the research findings and the theoretical underpinning of the study

The research objectives described in Chapter 1, are synchronised in the table below with the information gathered in the literature study to provide a concise summary of the findings. The table below indicates how each of these objectives have been met:

Table 6.3 Synchronising the research objectives with the findings and linking it up with the literature examined

Research objectives	Research findings	Summary of literature examined
To determine whether small business initiatives were undertaken by the specific group of individuals	<ul style="list-style-type: none"> • More than half of respondents indicated that they were small business owners (Figure 5.2). • These responses indicated that the majority of respondents undertook small business initiatives. 	<ul style="list-style-type: none"> • Chapter 2: the small business environment • Chapter 3: personal characteristics and background of entrepreneurs and small business owners
To determine whether the retrenchment event contributed to the decision to start a small business	<ul style="list-style-type: none"> • Almost all of the small business owner respondents indicated that they considered started a small business after their retrenchment (Figure 5.5). • Almost half of non-small business owner respondents indicated that they considered starting a small business after the retrenchment event (Figure 5.5). • These responses indicate that the retrenchment event contributed to the decision of small business owners to start a small business. It also indicates that a significant percentage of individuals who did not start small businesses considered to do so due to the retrenchment event. 	<ul style="list-style-type: none"> • Chapter 3, section 3.3: the entrepreneurship process consists of the innovation stage, a triggering event, the small business management process. The trigger event for this population might be an occurrence, such as downsizing or job losses
To determine whether there was continuity in the specialist type of work performed by the specific group of individuals, that is, whether they continued in the same line of work than before or not	<ul style="list-style-type: none"> • The majority of non-small business owners indicated that they had been employed in the financial services industry previously (Figure 5.4), indicating a continuity in the specialist type of work. • Less than half of small business owners indicated that their businesses were in the financial intermediation and insurance industries. This means that 58.3% of small business owner respondents did not continue in the specialist type of work. • Half of small business owners indicated that they had insurance industry-specific qualifications, as illustrated in Figure 5.14, while over 70% of non-small business owners indicated that they had insurance industry-specific qualifications. This could point towards a link between industry-specific qualifications and continuity in specialist type of work with respondents continuing to work in the insurance industry because they have qualification in that specific industry. • Almost half of small business owners indicated that the source of their business idea was their previous experience, also pointing toward continuity in the specialist type of work. This is illustrated in Figure 5.31. However, the rest of the small business owners indicated that their 	<ul style="list-style-type: none"> • Chapter 3, section 3.4.4: the most common source of a business idea is prior work experience. Other sources include the formal and informal training that they received, a person's hobby, or suggestions by other people or identified needs • Education relates to the skills with which an individual can enter the workforce (section 3.4.3.4) • Family and friends as a source of business ideas highlights the vital role of this support system in the lives of small business owners (section 3.4.5)

Research objectives	Research findings	Summary of literature examined
	business ideas originated from a need identified in the community and from family and friends.	
To determine the difference between small business owners and non-small business owners in this group with regard to the importance attached to soft skills and their own level of soft skills	<ul style="list-style-type: none"> When comparing the importance ratings of small business owners (Figure 5.15) and non-small business owners (Figure 5.18) in terms of soft skills, as confirmed by the inferential analysis conducted for this study, a significant percentage of non-small business owners indicated the following four soft skills as very important or critically important: <ul style="list-style-type: none"> using technology for better internal processes; having a passion for doing business; being able to take initiative; and ethical conduct. More non-small business owners (Figure 5.19) rated themselves as being well or excellently skilled than small business owners (Figure 5.16) in terms of the following soft skills, as confirmed by the inferential analysis conducted for this study: <ul style="list-style-type: none"> consulting a mentor; using technology for better customer service and better internal processes; their ability to handle risk and uncertainty; determination; and working independently. 	<ul style="list-style-type: none"> Chapter 3, section 3.4.2.5: Entrepreneurial culture. South Africa does not have a strong entrepreneurial culture, affecting the way people perceive themselves, their abilities, their attitudes towards start-ups and their ability to see business opportunities. Although this section of the research findings did not indicate that non-small business owners viewed themselves as being less skilled in the selected soft skills, this could be explained by an aversion to risk that would be higher than the risk aversion of the small business owners.
To determine between small business owners and non-small business owners in this group the difference with regard to the importance attached to, and their own level of business management skills.	<ul style="list-style-type: none"> When comparing the own skill ratings of small business owners (Figure 5.21) and non-small business owners (Figure 5.25) indicated ratings of well or excellently skilled than small business owners for the majority of business management skills. A greater percentage of non-small business owners (Figure 5.20) indicated the following business management skills as being very important or critically important than small business owners (Figure 5.24), as confirmed by the inferential analysis conducted for this study: <ul style="list-style-type: none"> ability to compile a strategic plan; ability to implement a strategic plan; personnel and human resource management skills; operations management; and safety management skills. As confirmed by the inferential analysis conducted for this study, more non-small business owners rated themselves as being well or excellently skilled in administration skills, marketing skills and public relations management skills than small business owners. This can be explained by the fact that non-small business owners, who are mainly employed in the insurance industry, practiced these three skills on 	<p>Chapter 2, section 2.3: Functional areas of business management skills:</p> <ul style="list-style-type: none"> general management; personnel and human resource management; operations management; purchasing management; marketing management; public relations; admin management; financial management; and safety, risk and environmental management.

Research objectives	Research findings	Summary of literature examined
	<p>a daily basis and were very comfortable with their own ability in this regard, when backed by corporate administrative systems. Because small business owners found themselves in the reality of managing a small business previously, they may have had a better understanding of their skills.</p>	
<p>To determine the gap between small business owners and non-small business owners in this group regarding the importance attached to soft skills and the level of their own soft skill.</p>	<ul style="list-style-type: none"> • There was a noticeable difference between the importance that small business owners associated with selected soft skills and their own skill ratings in this regard as illustrated in Figure 5.17. A significant percentage of small business owners indicated these skills as being very important or critically important than those who rated themselves well or excellently skilled in this regard: <ul style="list-style-type: none"> ○ consulting a mentor; ○ using technology for better customer service and better internal processes; ○ the ability to handle risk and uncertainty; ○ having a passion for doing business; ○ the ability to inspire others; ○ determination; ○ self-improvement; ○ continually seeking new opportunities; ○ the ability to take initiative; and ○ working independently. • This could indicate that these small business owners, when faced with the reality of managing their business on a daily basis, were aware of their own shortfalls in this regard. The one soft skill where a greater percentage of small business owners rated themselves as being well or excellently skilled than those who rated the skill as very important or critically important was ethical conduct. This seemed to indicate that small business owners perceived their own standard of work as being more ethical than what they saw in the industry. • Similarly, there were noticeable differences between the importance that non-small business owners associated with small business-related soft skills and their own skill ratings in this regard, as illustrated in Figure 5.20. However, it was evident that the lowest percentage of non-small business owners rated themselves as well or excellently skilled regarding: <ul style="list-style-type: none"> ○ their ability to seek new opportunities continually; ○ having a passion for doing business; ○ consulting a mentor; and • the ability to inspire others, despite rating these aspects as very important. 	<ul style="list-style-type: none"> • Section 2.3.2.2 elucidates the important role of mentors in small businesses. • The remaining soft skills are discussed in Chapter 3 and forms part of the core soft skills that a small business owner should have. • Ethics forms an integral part of the culture within a country and more specifically, within an organisation. The importance of ethics is highlighted in sections 2.3.1, 2.3.2.6, and 3.4.3.1. • Issues pertaining to the importance of seeking new opportunities, having a passion for doing business and inspiring others are discussed in section 3.5.

Research objectives	Research findings	Summary of literature examined
	This may shed some light on the reasons why they did not start a small business.	
To determine the gap between small business owners and non-small business owners in this group regarding the importance attached to business management skill and their level of own business management skill.	<ul style="list-style-type: none"> There was a noticeable difference between the importance that small business owners associated with selected business management skills and their own skill ratings in this regard as illustrated in Figure 5.23. A greater percentage of small business owners rated these skills as very important or critically important than those who rated themselves as well or excellently skilled in this regard: <ul style="list-style-type: none"> involvement at all levels of the business; ability to compile a vision and mission statement; compiling a strategic plan; implementing a strategic plan; personnel and human resource management skills; operations management; purchasing management; marketing skills; public relations management skills; financial management skills; environmental management and sustainability awareness; safety management skills; and risk management skills higher than their own skill ratings. <p>Administration skill was the only business management skill where a greater percentage of small business owners rated themselves as being well or excellently skilled than those who rated this skill as being very important or critically important.</p> <ul style="list-style-type: none"> Fewer small business owners rated safety management skills and risk management skills as being very important or critically important. This could be because small business owners did not view these skills as directly contributing to the bottom line. Similarly, there were noticeable differences between the importance that non-small business owners associated with small business-related business management skills and their own skill ratings in this regard, as illustrated in Figure 5.26. The only business management skill where more small business owners rated themselves as being well or excellently skilled than those who indicated it as being very important or critically important was administration skills. 	<ul style="list-style-type: none"> The selected business management skills that were identified as being of great importance are discussed in Chapter 2 as part of the small business environment in South Africa. The value of administration skills is discussed in section 2.3.2.2.
To determine the actual and perceived barriers to entry that this group of	<ul style="list-style-type: none"> Respondents whose small businesses were no longer active were requested to indicate why their small businesses were no longer active as illustrated in Figure 5.7. Almost half of respondents indicated that their businesses were no longer 	<ul style="list-style-type: none"> Barriers discussed in the literature study from the different environments. Chapter 2, section 2.3: micro environment: capital

Research objectives	Research findings	Summary of literature examined
<p>retrenched individuals faced in starting small businesses.</p>	<p>active due to financial reasons. Other reasons listed by respondents included being employed full-time, family responsibilities, health issues and compliance.</p> <ul style="list-style-type: none"> • Small business owner respondents were also asked to indicate the greatest challenges they faced in their small businesses as illustrated in Figure 5.35. The majority of small business owners indicated that capital requirements, compliance and staff issues were their greatest challenges. The challenges experienced by small business owners were: <ul style="list-style-type: none"> ○ market access; ○ time constraints; ○ unreliable income; ○ black economic empowerment; ○ the economy; ○ an unwillingness to be a small business owner; ○ taxation; ○ supplier relations; and ○ competition. <p>The answers to this open-ended question confirm the aspects that were investigated in other parts of the questionnaire.</p>	<p>requirements, staff issues, time constraints.</p> <ul style="list-style-type: none"> • Chapter 2, section 2.4: market environment: market access, supplier relations, competition. • Chapter 2, section 2.5: macro environment: the economy, compliance, BEE, taxation.
<p>To determine the difference in the level of agreement regarding actual and perceived barriers between small business owners and non-small business owners.</p>	<ul style="list-style-type: none"> • As illustrated in Figure 5.37, the most significant perceived barriers were – <ul style="list-style-type: none"> ○ capital investment requirements; ○ a lack of readily available capital; ○ corruption; ○ business taxation practices; and ○ economic instability. • The majority of non-small business owners did not perceive new technology as being a small business barrier and they did not perceive that there were stigmas surrounding the decision to start a small business. Since these respondents did not start small businesses, they would not have had personal experience pertaining to such stigmas. • Small business owners were asked to indicate to what extent they experienced the selected barriers as being a challenge in their small business. These responses are illustrated in section 5.36. The greatest experienced barriers were – <ul style="list-style-type: none"> ○ a lack of readily available capital and capital investment requirements; ○ legal aspects and regulations; ○ a lack of support; ○ business taxation practices; and ○ corruption. 	<ul style="list-style-type: none"> • Chapter 2, section 2.6: barriers to entry • Chapter 3, section 3.4.3.5: technology, especially in the insurance industry, is becoming more vital with a new generation of technology-savvy customers who prefer to do business online and who are able to do their own research.

Research objectives	Research findings	Summary of literature examined
	<p>The majority of small business owners did not view new technology as being a small business barrier.</p> <ul style="list-style-type: none"> When comparing the responses of small business owners and non-small business owners, the following barriers were experienced more severely by small business owners than they were perceived by non-small business owners, as confirmed by the inferential analysis for this study: <ul style="list-style-type: none"> the demand for new technology in the industry; new technology not making a contribution to small business success; challenging business taxation practices; and the lack of support for small business owners. <p>This is illustrated in Figure 5.38.</p> <ul style="list-style-type: none"> These results indicate that the perception of non-small business owners and the experience of small business owners pertaining to barriers were similar for capital investment requirements, a lack of readily available capital, the influence of corruption, and business taxation requirements. However, small business owners experienced legal aspects and regulations and a lack of support as barriers more seriously than non-small business owners perceived them to be. Small business owners did not have the advantage of referring their problems to a specialised department within their organisation. Small business owners had to deal with these matters themselves. From outside of a small business, it may appear that there are numerous sources of support available. However, in practice, access to these support structures may be limited. Non-small business owners may therefore view technology as being more of a barrier than small business owners because small business owners work with the reality of limited available and affordable technology. Non-small business owners have a lot of their technological platforms supplied by an employer and may be taking it for granted. 	
<p>To determine whether the small business owner group of respondents consisted of specific distinguishable group profiles in terms of their demographical and small business characteristics.</p>	<p>As indicated in Table 5.5, there were two clearly different groups of small business owner groups. The first cluster consisted of older male small business owners who had owned their businesses for seven years. The turnover of these small businesses was relatively low. The second cluster consisted of female small business owners with only a Grade 12 qualification level who have not owned their businesses for very long but whose businesses showed a higher turnover than the male grouping. The training needs for these small business owners are very different and need to be addressed in a manner that would allow these small business owners to make a continued contribution towards the South African economy.</p>	

6.5 Recommendations

From the findings that have been discussed in this chapter and the insights gained from the literature in the preceding chapters, the recommendations that can be made from this study are discussed below.

- As indicated earlier, the majority of non-small business owner respondents indicated that they did not consider starting a small business after their retrenchment. Although participating non-small business owners had the skills to manage a small business as indicated above, they lacked entrepreneurial intent and key personal characteristics, such as a passion for doing business, the ability to seek new opportunities continually and the ability to inspire others. Lacking these key personal characteristics, the retrenchment was not a trigger event for these respondents. The weak entrepreneurial culture in South Africa will need to be addressed on a national scale in order for non-small business owners to consider events, such as retrenchment, as a trigger to consider establishing a small business.
- As indicated by the results of this study, the following barriers play an extensive role in the decision to start a small business and in the successful management of small businesses in SA:
 - capital requirements and a lack of readily available capital;
 - the legal aspects and regulations;
 - a lack of support;
 - business taxation practices;
 - corruption;
 - economic stability; and
 - registration requirements.

In order to improve small business growth and new venture creation, potential and existing small business owners need to ensure that they are well equipped in the skills of obtaining capital, complying with regulations and business taxation practices, and navigating their small business successfully through economic instability. However, government and the private sector

can also make a significant contribution in this regard by ensuring that small businesses receive more extensive support, and finally that capital-related problems be addressed with the aim of improving new venture creation rates as well as small business survival.

- Environmental awareness, sustainability and environmental management are becoming more important in the business environment and small business owners need to be more informed regarding these aspects and how these aspects can be addressed in their businesses.
- Risk management skills are vital to the strategic readiness of small businesses to survive in a changing business environment. The lack of importance associated with this business management skill is concerning and small businesses owners will require further training in this regard if their small businesses are to survive and grow towards making a tangible contribution to the economy.
- Safety management skills are also deficient, which affect the safety of employees but customers and other stakeholders as well. Placing other people at risk would be a quick way of shutting a small business down. Safety management as a business management skill is much more vital to the survival and success of small businesses than the respondents of this study indicated. Further education and training in this regard would be required. Occupational health and safety-related government programmes would need to look at targeting small businesses specifically.
- Many of the soft skills and business management skills that were discussed in this study related to non-small business owners who rated their own skills higher than small business owners, despite small business owners having to exercise these skills on a daily basis. However, despite viewing themselves as being more skilled in many ways, the majority of non-small business owners still did not attempt to start a small business and to attempt their own thing. This points to an inflated sense of skills knowledge, which could put these would-be entrepreneurs at risk pointing to further wide-ranging education and enlightenment to the broad public regarding what it takes to be a small business owner.

- As indicated in the two-step cluster analysis (Table 5.5), there were two clearly different groups of small business owners. The first cluster consisted of older male small business owners who have owned their businesses for seven years. The turnover of these small businesses is relatively low. The second cluster consisted of female small business owners with only a Grade 12 qualification level who have not owned their businesses for very long but whose businesses showed a higher turnover than the male grouping. The training needs for these small business owners are very different for the different groups. The first cluster of small business owners requires specialised training that will enable them to grow their businesses past the survivalist stage in which they seemed to be stuck. The second cluster of small business owners have not been small business owners very long and may require training that would equip them with the skills to continue to grow their small businesses, create more employment opportunities and make an active contribution to the economy of South Africa.

6.6 Limitations of the study

This study faced pertinent limitations. Some of these limitations directly affect the generalisability of this study. The limitations related to this study are:

- Only 41 respondents participated in this study. This limited the statistical analysis techniques that could be applied. The small sample size also limits the generalisability of the findings of this study.
- The focus on Gauteng only, could affect the applicability of the results to South Africa in general, since the geographical structure of Gauteng differs from that of other provinces in terms of metropolitan areas.
- Another limitation could be the fact that this study limited its focus on the period between 2000 and 2013, which could negatively affect the response rate since there may have been a significant number of retrenchments before the year 2000 and after 2013.
- Due to the emotionally loaded nature of the trigger event investigated in this study, in other words the retrenchment or marginalisation event, people were reluctant to complete the questionnaires. This response barrier and the

disinclination of people who went through retrenchment to re-experience this event contributed to the low response rate of this study.

- It was very challenging to define the nature of the target population since it consisted of independent contractors, brokers, franchisors, representatives and administrative personnel. In South Africa, insurance products are sold by individuals employed at grocery chain stores, clothing stores, motor vehicle dealerships and furniture stores. This is further complicated by the fact that there is no employer or employee associations allied to this industry. In addition, statistical information is difficult to find since the relevant SIC code combines the fields of financial intermediaries, insurance, real estate and business services.
- Many of the terms that were used in this questionnaire are business management-specific and may have required a working knowledge of business management as a field of study leading to a situation where respondents may have misunderstood some of the questions. Steps were taken to clear up the meaning of these terms in the communication with participants, but such misunderstanding could have influenced the responses received.
- This study utilised one measuring instrument, a questionnaire, which means that findings were not confirmed by the information gathered through the use of triangulation measures.
- The questionnaire was developed based on information gathered in the literature review and did not present an exhaustive list of soft skills, business management skills, actual and perceived barriers.

6.7 Areas for further study

Areas for future research have been highlighted by this study and are discussed below.

- The event that these respondents had in common, the retrenchment, acted as a trigger event for a portion of the respondents. However, a noticeable percentage of the respondents did not consider starting a small business after their retrenchment. Further investigation is required to determine why a

life-changing event led to action to investigate starting a small business for some and not for others.

- Small business owners rated safety management skills and risk management skills as being of the least importance. This could be because small business owners did not view these skills as directly contributing to the bottom line, but it would require further study to determine why such vital business management skills were regarded as being less important by small business owners.
- The majority of small business owners did not continue with their specialist type of work but started their small businesses in other primary economic sectors. More research could be conducted to determine the motivating factors that led to this occurrence.
- Future research is needed to conduct an in-depth investigation into the fact that the participating small business owners did not comprise a homogenous group of individuals and why there are differences based on gender regarding success in starting a small business.
- Future studies will need to investigate ways of improving the entrepreneurial culture in South Africa.
- The emotional effect of retrenchment needs to be investigated as there was evidence of myopic behaviour and total denial of the occurrence of the event.
- The one soft skill where small business owners rated their own skill as higher than the importance thereof was ethical conduct. This seemed to indicate that participating small business owners perceived their own standard of work as being more ethical than what they see in the industry. This aspect warrants further research both into the perceptions of small business owners and into the business environment in which they operate since this is an aspect that is regarded by industry associations and industry-specific legislation as being of great importance.

6.8 Conclusion

The purpose of this study was to conduct exploratory research on the small business initiatives undertaken by people who had been retrenched or who had taken

severance packages from the insurance industry in Gauteng. Of the issues that were considered related to tracking the actions of these workers regarding finding employment and business sectors within which they furthered their careers. The research also focused on the entry barriers (actual and perceived) encountered by the respondents.

Definite trends emerged in the findings of this study. The majority of respondents indicated that they undertook small business initiatives after the retrenchment event but there was a distinct lack of continuity in the specialist type of work by the small business owner respondents in the insurance and finance-related industries since the majority of small business owners indicated that they started small businesses in other industries. The sources of business ideas, as indicated by the participating small business owners, included previous work experience, an identified need in the community and ideas from family and friends. There was, however, continuity in the specialist type of work for the non-small business owner respondents as the majority of non-small business owner respondents indicated that they had industry-specific qualifications.

Non-small business owners did not perceive their small business-related soft skills and business management skills to be lacking. In fact, they mostly rated themselves as better skilled than small business owners did. It may be easier to be overconfident in their own abilities and knowledge while being employed instead of being faced with the challenges of managing a small business. The group of respondents were all people who used to be employed in a professional capacity, which explains their high ratings of their own skills in terms of soft and business management skills. However, the fact that non-small business owner respondents did not start small businesses may point toward a higher aversion to risk than the risk aversion of the small business owners. This study also found that small businesses were facing pronounced though not surprising barriers within the South African small business environment.

In conclusion it can be stated that a small business development dividend did occur in certain cases due to the drastic intervention in the work-life of these retrenched employees of the insurance industry but that the results cannot be generalised due to the limited size of the study.

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ADDENDUM 1: QUESTIONNAIRE

Small business owners – please answer the following sections: **A, B, C, D**

Non-small business owners – please answer the following sections: **A, B, D**

Section A: Background information

1. Were you retrenched from the insurance industry from 2000 to 2013?

Yes	1
No	2

2. Is your primary business based in Gauteng?

Yes	1
No	2

3. Are you a small business owner?

Yes	1
No	2

4. If no, are you currently employed?

Yes, Please specify industry:.....	1
No	2

5. Did you consider starting a small business after the retrenchment?

Yes	1
No	2

6. Is this small business still active?

Yes	1
No, Please state reason for termination:.....	2

Section B: About you

The goal of this section is to determine the demographics of our participants and the skills and knowledge that they have.

7. Age

.....

8. Race

Black	1
Coloured	2
Indian	3
White	4
Other (specify).....	5

9. Gender

Female	1
Male	2

10. Geographical area

Metro	1
Non-metro	2
Rural	3

11. Marital status

Single	1
Married	2
Divorced	3
Other (specify).....	4

12. What is the highest level of formal education you have completed?

Less than matric	1
Matric	2
Certificate	3
Diploma	4
Bachelor's Degree	6
Postgraduate Degree / Diploma	7
Other (specify)	8

13. Do you have a formal insurance industry specific qualification?

Yes, Please specify specific qualification:.....	1
No	2

14. Please provide some detail on the position that you were employed in before the retrenchment took place ...

Job description	Time in position (years)	Employer organisation

15. Please indicate the importance of each of the following skills and characteristics on a scale of 1 – 5, as you think they would apply to small business owners in South Africa. (where 1=irrelevant, 2=of little importance, 3=of moderate importance, 4=very important and 5=of critical importance)? If you are unsure, please indicate DK=don't know. Please also indicate how you would rate your own skills on a scale of 1 – 5 (where 1=no skill; 2=poor; 3=average; 4=good; 5=excellent) on the right hand side.

Soft skills	Importance For Small Business Owners In South Africa						Own Skill Rating					
	Irrelevant	Of little importance	Of moderate importance	Very important	Of critical importance	DK	None	Poor	Average	Good	Excellent	DK
Consulting a mentor	1	2	3	4	5	DK	1	2	3	4	5	DK
Using technology for better customer service	1	2	3	4	5	DK	1	2	3	4	5	DK
Using technology for better internal processes	1	2	3	4	5	DK	1	2	3	4	5	DK
The ability to handle risk and uncertainty	1	2	3	4	5	DK	1	2	3	4	5	DK
Having a passion for doing business	1	2	3	4	5	DK	1	2	3	4	5	DK
The ability to inspire others	1	2	3	4	5	DK	1	2	3	4	5	DK
Determination	1	2	3	4	5	DK	1	2	3	4	5	DK
Placing a high value on self-improvement	1	2	3	4	5	DK	1	2	3	4	5	DK
Continually seeking new opportunities	1	2	3	4	5	DK	1	2	3	4	5	DK
Being able to take initiative	1	2	3	4	5	DK	1	2	3	4	5	DK
Working independently	1	2	3	4	5	DK	1	2	3	4	5	DK
Ethical conduct	1	2	3	4	5	DK	1	2	3	4	5	DK

Business skills	Importance For Small Business Owners In South Africa						Own Skill Rating					
	Irrelevant	Of little importance	Of moderate importance	Very important	Of critical importance	DK	None	Poor	Average	Good	Excellent	DK
Administration skills	1	2	3	4	5	DK	1	2	3	4	5	DK
Involvement in all levels of the business	1	2	3	4	5	DK	1	2	3	4	5	DK
Ability to compile a vision and mission statement	1	2	3	4	5	DK	1	2	3	4	5	DK
Ability to compile a strategic plan for their business	1	2	3	4	5	DK	1	2	3	4	5	DK
Ability to implement a strategic plan for their business	1	2	3	4	5	DK	1	2	3	4	5	DK
Personnel and human resource management skills (<i>this includes the procurement, development, compensation of personnel in a business</i>)	1	2	3	4	5	DK	1	2	3	4	5	DK

Business skills	Importance For Small Business Owners In South Africa						Own Skill Rating					
	Irrelevant	Of little importance	Of moderate importance	Very important	Of critical importance	DK	None	Poor	Average	Good	Excellent	DK
Operations management (<i>this includes designing products and services, planning for capacity and demand, planning and controlling production</i>)	1	2	3	4	5	DK	1	2	3	4	5	DK
Purchasing management (<i>this includes the procurement of resources and management of suppliers</i>)	1	2	3	4	5	DK	1	2	3	4	5	DK
Marketing skills (<i>products, sales, customer satisfaction, customer retention</i>)	1	2	3	4	5	DK	1	2	3	4	5	DK
Public relations management skills (<i>customer and supplier relationships, public perception</i>)	1	2	3	4	5	DK	1	2	3	4	5	DK

Business skills	Importance For Small Business Owners In South Africa						Own Skill Rating					
	Irrelevant	Of little importance	Of moderate importance	Very important	Of critical importance	DK	None	Poor	Average	Good	Excellent	DK
Financial management skills (this includes planning, organising and controlling all financial activities in a business)	1	2	3	4	5	DK	1	2	3	4	5	DK
Awareness of environmental management and sustainability (protecting the environment and stakeholders through responsible decision-making on issues directly and indirectly influencing the natural environment)	1	2	3	4	5	DK	1	2	3	4	5	DK
Safety management skills (protecting all stakeholders through responsible decision making on issues involving safety management)	1	2	3	4	5	DK	1	2	3	4	5	DK

Business skills	Importance For Small Business Owners In South Africa						Own Skill Rating					
	Irrelevant	Of little importance	Of moderate importance	Very important	Of critical importance	DK	None	Poor	Average	Good	Excellent	DK
Risk management skills (<i>protecting all stakeholders through responsible decision making on issues involving risk management</i>)	1	2	3	4	5		1	2	3	4	5	DK

Section C: Small business owners

This section of the questionnaire focuses on the primary small business that you started after the retrenchment.

16. Which do you regard as the primary economic sector that your business operates in? (Select only one)

Manufacturing	1
Construction	2
Wholesale & Retail	3
Repair & Maintenance Services	4
Accommodation, Restaurants, Catering & Conference	5
Transport, Storage & Communication	6
Financial Intermediation & Insurance	7
Business Services – Professional (attorneys, accountants, consulting engineers, architects, quantity surveyor)	8
Business Services – Other	9
Real Estate	10
Community, Social & Personal Services – Professional (medical practitioners, dentists, psychologists, veterinarians)	11
Community, Social & Personal Services – Other	12
Other: Please specify	13

17. How long have you owned this business?

.....

18. Number of employees

1	1
2 – 5	2
6 – 10	3
11 – 50	4
51 – 100	5
101+	6
Business no longer active	7

19. Annual turnover

R0 – R100 00	1
R100 001 – R500 000	2
R500 001 – R1 mil	3
R1 mil+	4
Business no longer active	5

20. What was the source of your business idea?

.....
.....
.....
.....
.....
.....
.....
.....

21. Please indicate the sources of funding that you made use of to start your small business by providing the percentage (out of 100%) that was provided from that source.

Source of funding	Percentage
Family and friends	
Own savings	
Government programmes	
Financial institutions	
Other (please specify):.....	
.....	

22. At which of the following places is your small business registered? Please tick all that apply.

COID	1
SARS	2
CIPC	3
FSB	4
Other (please specify)	5

23. What type of business do you have?

Non-profit organisation	1
Closed corporation	2
Private company	3
Personal liability company	4
No formal business registration	5

24. Please complete the following statement.
The greatest challenge I face in my business is...

.....
.....
.....
.....
.....
.....

Section D: Actual and Perceived Barriers

25. Please rate the following statements on a scale of 1 – 5 as it relates to your small business, or on the right hand side if your decision was not to start a small business, (where 1=strongly disagree, 2=disagree, 3=neither agree or disagree, 4=agree and 5=strongly agree)? If you are unsure, please indicate DK=don't know.

	Small Business Owners In South Africa					Non-small Business Owners				
	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
The demand for new technology in my industry is higher that I am comfortable with	1	2	3	4	5	1	2	3	4	5
New technology makes a valuable contribution to the success of a small business	1	2	3	4	5	1	2	3	4	5
Business registration requirements in South Africa are burdensome	1	2	3	4	5	1	2	3	4	5
Business taxation practices in South Africa present a challenge to small businesses	1	2	3	4	5	1	2	3	4	5
Political uncertainty prevent people from starting successful small businesses	1	2	3	4	5	1	2	3	4	5
There are initiatives undertaken by government to encourage small business success	1	2	3	4	5	1	2	3	4	5

	Small Business Owners In South Africa					Non-small Business Owners				
	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
Capital investment requirements make it difficult to start a small business in the insurance industry	1	2	3	4	5	1	2	3	4	5
A lack of readily available capital make it difficult to start any small business	1	2	3	4	5	1	2	3	4	5
There are negative stigmas surrounding the decision to start a small business	1	2	3	4	5	1	2	3	4	5
Small business owners have very little support	1	2	3	4	5	1	2	3	4	5
Political uncertainty makes it more difficult to successfully manage a small business	1	2	3	4	5	1	2	3	4	5
Economic instability makes it more difficult to successfully manage a small business	1	2	3	4	5	1	2	3	4	5
Legal aspects and regulations make it more difficult to successfully manage a small business	1	2	3	4	5	1	2	3	4	5

	Small Business Owners In South Africa					Non-small Business Owners				
	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
Corruption influences the way people do business in South Africa	1	2	3	4	5	1	2	3	4	5

Thank you for taking the time to complete this questionnaire. Your input is greatly appreciated.

Please provide your email address in the space below if you would like to receive the research findings.

Email address:

.....

ADDENDUM 2: COVER LETTER

Questionnaire on the consequences of retrenchment in the insurance industry.

To be completed by people who were retrenched from the insurance industry.

Dear Prospective Participant,

The survey you have received is interested in studying the business endeavours undertaken by people who were retrenched from the insurance industry between the years 2000 and 2013. By completing this survey, you agree that the information you provide may be used for research purposes. You have been selected to participate in this survey because you were identified as a suitable candidate for this study. You are, however, under no obligation to complete the survey and can withdraw from the study prior to submitting the survey. Also note that the survey is developed to be anonymous and we as researcher(s) will have no way of connecting the information you provide to you personally. You will not be able to withdraw from the study once you have completed the survey. If you choose to participate in this survey it will take up no more than 20 minutes of your time. We do not foresee that you will experience any negative consequences by completing this questionnaire. Nevertheless, the researcher undertakes to keep any individual information provided herein confidential, not to let it out of their possession, and to analyse the feedback received only on group level. The records will be kept for seven years for publication purposes where after it will be permanently destroyed (electronic versions will be permanently deleted from the hard drive of the computer).

It is hoped that the information we gain from this survey will help us in obtaining data that can result in further research within this field that has yet to attain the attention of subject matter experts. You will not be reimbursed or receive any incentives for your participation in the survey. Should you require any further information, want feedback on the study or need to contact the researcher about any aspect of this study, please contact Leonie Louw via email on louwlb@unisa.ac.za or telephonically at 012 429 4799 & 078 800 1101.

ADDENDUM 3: PARTICIPANT INFORMATION SHEET

13 October 2015

Title: Consequences of retrenchment in the insurance industry: the small business development dividend

Dear Prospective Participant

My name is Leonie Louw and I am doing research with Prof Johan Strydom, a professor in the Department of Business Management towards a MCom at the University of South Africa. We have funding from the University of South Africa to conduct this research. We are inviting you to participate in a study entitled: *Consequences of retrenchment in the insurance industry: the small business development dividend*.

WHAT IS THE AIM/PURPOSE OF THE STUDY?

The aim of this study is to investigate the business decisions that a group of respondents made in the aftermath of retrenchment. I am conducting this research to find out which business sectors these respondents chose to enter, what barriers to entry they faced and the extent to which they made use of the support of external business consultants during the start-up and growth phases of their small businesses.

WHY AM I BEING INVITED TO PARTICIPATE?

Approximately 170 respondents are invited to participate in this study. All participants were retrenched from the insurance industry between the years 2000 and 2013. We received your contact information from a colleague in the insurance industry, who indicated that you could add value to this study.

WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY / WHAT DOES THE RESEARCH INVOLVE?

The study involves an online survey. You can expect standard demographical questions, as well as questions about your business decision after the retrenchment event. The survey also includes questions on the barriers to entry experienced by

small business owners and the skills and characteristics a successful small business owner needs.

The survey should take **10 minutes** to complete.

CAN I WITHDRAW FROM THIS STUDY?

Being in this study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time when completing the survey and without giving a reason. Once you have completed the online survey, it will not be possible to withdraw from this research project.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

Since the insurance industry makes up 8% of global GDP (RiskAfrica 2015), the information of this study can result into further research within this field that has yet to attain the attention of subject specialists.

WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

There is no anticipated inconvenience of taking part in this study and all possible measures have been taken to protect the privacy of participants.

WILL WHAT I SAY BE KEPT CONFIDENTIAL?

Your name will not be recorded anywhere and no one will be able to connect you to the answers you give. Your answers will be given a fictitious code number and you will be referred to in this way in the data, any publications, or other research reporting methods such as conference proceedings.

Your answers may be reviewed by people responsible for making sure that research is done properly, including the external coder, and members of the Research Ethics Committee. Records that identify you will be available only to people working on the study.

The anonymous data collected in this survey may be used to write a research report, journal articles, and conference presentations. Although the results of this study may

be submitted for publication, individual participants will not be identifiable in such results.

HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Hard copies of your answers will be stored by the researcher for a period of seven years in a locked filing cabinet for future research or academic purposes; electronic information will be stored on a password protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval if applicable. Electronic copies will be deleted after seven years.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

Participants will not receive any payment or incentives to participate in this study.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study has received written approval from the Research Ethics Committee of the College of Economic and Management Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS?

If you would like to be informed of the final research findings, please contact Leonie Louw on 012 429 4799, 078 800 1101 or louwlb@unisa.ac.za.

Should you require any further information or want to contact the researcher about any aspect of this study, please contact Leonie Louw on 012 429 4799 or louwlb@unisa.ac.za.

Should you have concerns about the way in which the research has been conducted, you may contact Prof. J.W. Strydom on 012 429 4455 or strydjw@unisa.ac.za.

Thank you for taking time to read this information sheet and for participating in this study.

Leonie Louw

ADDENDUM 4: INFORMED CONSENT

CONSENT TO PARTICIPATE IN THIS STUDY

I, _____ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet.

I have had sufficient opportunity to ask questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable).

I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I have received a signed copy of the informed consent agreement.

Participant name & surname..... (please print)

Participant signature.....Date.....

Researcher's name & surname.....(please print)

Researcher's signature.....Date.....

Witness name & surname.....(please print)

Witness's signature.....Date.....

ADDENDUM 5: CONFIDENTIALITY AGREEMENT (STATISTICIAN)

Confidentiality Agreement Template: Statistician

This is to certify that I, _____, the statistician of the research project entitled: Consequences of retrenchment in the insurance industry: the small business development dividend agree to the responsibilities of the statistical analysis of the data obtained from participants (and additional tasks the researcher(s) may require in my capacity as statistician).

I acknowledge that the research project is/are conducted by Leonie Barbara Louw of the Department of Business Management, University of South Africa.

I understand that any information (written, verbal or any other form) obtained during the performance of my duties must remain confidential and in line with the UNISA Policy on Research Ethics.

This includes all information about participants, their employees/their employers/their organisation, as well as any other information.

I understand that any unauthorised release or carelessness in the handling of this confidential information is considered a breach of the duty to maintain confidentiality.

I further understand that any breach of the duty to maintain confidentiality could be grounds for immediate dismissal and/or possible liability in any legal action arising from such breach.

Full Name of Statistician: _____

Signature of Statistician: _____

Date: _____

Full Name of Primary Researcher: Leonie Barbara Louw

Signature of Primary Researcher: _____

Date: _____

ADDENDUM 6: CONFIDENTIALITY AGREEMENT (FIELDWORKERS)

Confidentiality Agreement Template: Fieldworkers

This is to certify that I, _____, a fieldworker of the research project entitled: Consequences of retrenchment in the insurance industry: the small business development dividend, agree to the responsibilities of the administration and collection of completed questionnaires from participants (and additional tasks the researcher(s) may require in my capacity as fieldworker).

I acknowledge that the research project is conducted by Leonie Barbara Louw of the Department of Business Management, University of South Africa.

I understand that any information (written, verbal or any other form) obtained during the performance of my duties must remain confidential and in line with the UNISA Policy on Research Ethics.

This includes all information about participants, their employees/their employers/their organisation, as well as any other information.

I understand that any unauthorised release or carelessness in the handling of this confidential information is considered a breach of the duty to maintain confidentiality.

I further understand that any breach of the duty to maintain confidentiality could be grounds for immediate dismissal and/or possible liability in any legal action arising from such breach.

Full Name of Fieldworker: _____

Signature of Fieldworker: _____

Date: _____

Full Name of Primary Researcher: Leonie Barbara Louw

Signature of Primary Researcher: _____

Date: _____

ADDENDUM 7: ETHICAL CLEARANCE



COLLEGE OF ECONOMIC AND MANAGEMENT SCIENCES RESEARCH ETHICS REVIEW COMMITTEE

4 February 2016

Ref #: 2015_CRERC_040(FA)
Name of applicant: Ms Leonie Louw
Staff #: 90185714

Dear Ms Louw

Decision: Ethics Approval

Name: Ms Louw, lubbelb@unisa.ac.za, 012-429-4799

Proposal: Consequences of retrenchment in the insurance industry: the small business development dividend

Qualification: MCom (Business Management)

Thank you for the application for research ethics clearance by the College of Economic and Management Sciences Research Ethics Review Committee for the above mentioned research. Final approval is granted for the duration of the project.

For full approval: The revised application was reviewed in compliance with the Unisa Policy on Research Ethics by the CRERC on 09th November 2015.

The proposed research may now commence with the proviso that:

- 1) *The researcher/s will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.*
- 2) *Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology,*



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should be communicated in writing to the CRERC.

- 3) *An amended application could be requested if there are substantial changes from the existing proposal, especially if those changes affect any of the study-related risks for the research participants.*
- 4) *The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study.*

Note:

The reference number **2015_CRERC_040(FA)** should be clearly indicated on all forms of communication [e.g. Webmail, E-mail messages, letters] with the intended research participants, as well as with the CRERC.

Kindly accept my personal apology for the delay in the feedback.

Kind regards,



Prof JS Wessels

Chairperson of the CRERC, CEMS, UNISA
012 429-6099 or wessejs@unisa.ac.za



Prof M.T. Mogale

Executive Dean: CEMS
012 429 4805 or mogalm@unisa.ac.za



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ADDENDUM 8: COMPLETE RESULTS OF STATISTICAL ANALYSIS

Table 1: Summary of Mann-Whitney U results for Importance of soft skills for small business owners and non-small business owners in South Africa (n=41)

Soft Skill	Mann-Whitney U	z-value	p-value
Consulting a mentor	174.500	-.835	.404
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for consulting a mentor (p = 0.404).		
Using technology for better customer	149.500	-1.340	.180
	The results indicate that there is no statistical significant difference between importance ratings of small business owners and non-small business owners regarding the use of technology for better customer service (p = 0.180).		
Using technology for better internal processes	96.000	-2.951	.003
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for using technology for better internal processes (p = 0.003). The mean ranks indicates that non-small business owners tend to agree more with the statement (mean rank = 26.35) than small business owners (mean rank = 16.17).		
The ability to handle risk and uncertainty	151.500	-1.531	.126
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for the ability to handle risk and uncertainty (p = 0.126).		
Having a passion for doing business	107.000	-2.997	.003
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for having a passion for doing business (p = 0.003). The mean ranks indicates that non-small business owners tend to agree with the statement (mean rank = 26.71) more than small business owners (mean rank = 16.96).		
The ability to inspire others	198.500	-.158	.875
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for the ability to inspire others (p = 0.875).		

Determination	165.000	-1.249	.212
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for determination (p = 0.212).		
Placing a high value on self-improvement	202.500	-.043	.966
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for placing a high value on self-improvement (p = 0.966).		
Continually seeking new opportunities	197.500	-.184	.854
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners relating to continually seeking new opportunities (p = 0.854).		
Being able to take initiative	128.000	-2.227	.026
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners relating to the ability to take initiative (p = 0.026). The mean ranks indicates that non-small business owners tend to agree more with the statement (mean rank = 25.47) than small business owners (mean rank = 17.83).		
Working independently	166.500	-1.073	.283
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners regarding working independently (p = 0.283).		
Ethical conduct	119.500	-2.789	.005
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for ethical conduct (p = 0.005). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 25.97) than small business owners (mean rank = 17.48)		

Table 2: Summary of Mann-Whitney U result for own soft skills rating for small business owners and non-small business owners (n=41)

Soft Skill	Mann-Whitney U	z-value	p-value
Consulting a mentor	127.000	-2.020	.043
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners for their own skill ratings regarding consulting a mentor ($p = 0.043$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 24.53) than small business owners (mean rank = 17.52).		
Using technology for better customer service	91.000	-2.894	.004
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for their own skill ratings regarding the use of technology for better customer service ($p = 0.004$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 25.65) than small business owners (mean rank = 15.64).		
Using technology for better internal processes	93.000	-2.956	.003
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for their own skill rating relating to the use of technology for better internal processes ($p = 0.003$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 26.53) than small business owners (mean rank = 16.04)		
The ability to handle risk and uncertainty	139.500	-1.849	.064
	The results indicate that there is a statistical significant difference, at the 10% level of significance between small business owners and non-small business owners for their own skill ratings regarding the ability to handle risk and uncertainty ($p = 0.064$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 24.79) than small business owners (mean rank = 18.31).		
Having a passion for doing business	199.000	-.139	.889
	The results indicate that there is no statistical significant difference between own skills rating of small business owners and non-small business owners for having a passion for doing business ($p = 0.889$).		
The ability to inspire others	191.500	-.015	.988
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for the ability to inspire others ($p = 0.988$).		

Soft Skill	Mann-Whitney U	z-value	p-value
Determination	146.000	-1.653	.098
	The results indicate that there is a statistical significant difference, at the 10% level of significance between small business owners and non-small business owners for their own skill rating relating to determination ($p = 0.098$). The mean ranks indicate that non-small business owners tend to agree with the statement more (mean rank = 24.41) than small business owners (mean rank = 18.58).		
Placing a high value on self-improvement	174.500	-.610	.542
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for placing a high value on self-improvement ($p = 0.542$).		
Continually seeking new opportunities	152.000	-1.275	.202
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for continually seeking new opportunities ($p = 0.202$).		
Being able to take initiative	168.000	-1.011	.312
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for being able to take initiative ($p = 0.312$).		
Working independently	128.500	-2.196	.028
	The results indicate that there is a statistical significant difference, at the 5% level of significance, between small business owners and non-small business owners for their own skill ratings relating to working independently ($p = 0.028$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 25.44) than small business owners (mean rank = 17.85).		
Ethical conduct	152.500	-1.407	.159
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for ethical conduct ($p = 0.159$).		

Table 3: Summary of Mann-Whitney U result for Importance of business skills between small business owners and non-small business owners in South Africa (n=41)

Business Skill	Mann-Whitney U	z-value	p-value
Administration skills	162.000	-1.171	.241
	The results indicate that there is no statistical significant difference between the importance rating of small business owners and non-small business owners for administration skills (p = 0.241).		
Involvement in all levels of the business	167.000	-1.050	.294
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for involvement in all levels of the business (p = 0.294).		
Ability to compile a vision and mission statement	160.500	-1.004	.315
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for the ability to compile a vision and mission statement (p = 0.315).		
Ability to compile a strategic plan for their business	87.500	-3.073	.002
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners for their own skill ratings relating to working independently (p = 0.028). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 25.85) than small business owners (mean rank = 15.48)		
Ability to implement a strategic plan for their business	124.000	-1.699	.089
	The results indicate that there is a statistical significant difference, at the 10% level of significance between small business owners and non-small business owners for their own skill ratings relating to working independently (p = 0.028). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 22.75) than small business owners (mean rank = 17.14)		
Personnel and human resource management skills	114.000	-2.209	.027
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners relating to personnel and human resource management skills (p = 0.027). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 24.29) than small business owners (mean rank = 16.68).		

Operations management	113.500	-2.608	.009
	The results indicate that there is a statistical significant difference, at the 1% level of significance between small business owners and non-small business owners regarding operations management ($p = 0.009$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 26.32) than small business owners (mean rank = 17.23).		
Purchasing management	194.500	-.029	.977
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for purchasing management ($p = 0.977$).		
Marketing skills	180.500	-.450	.653
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for marketing skills ($p = 0.653$).		
Public relations management skills	167.500	-1.134	.257
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for public relations management skills ($p = 0.257$).		
Financial management skills	161.500	-1.228	.219
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for financial management skills ($p = 0.219$).		
Awareness of environmental management and sustainability	141.000	-1.551	.121
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for awareness of environmental management and sustainability ($p = 0.121$).		
Safety management skills	101.000	-2.279	.023
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners regarding safety management skills ($p = 0.023$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 24.27) than small business owners (mean rank = 16.39).		

Risk management skills	120.000	-1.643	.100
	The results indicate that there is no statistical significant difference between importance rating of small business owners and non-small business owners for risk management skills ($p = 0.100$).		

Table 4: Summary of Mann-Whitney U result for own skill for business skills for small business owners and non-small business owners (n=41)

Business Skill	Mann-Whitney U	z-value	p-value
Administration skills	129.000	-2.108	.035
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners for their own skill ratings relating to administration skills ($p = 0.035$). The mean ranks indicates that non-small business owners tend to agree with this statement more (mean rank = 25.41) than small business owners (mean rank = 17.88).		
Involvement in all levels of the business	144.500	-1.415	.157
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for involvement in all levels of the business ($p = 0.157$).		
Ability to compile a vision and mission statement	161.500	-.671	.502
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for ability to compile a vision and mission statement ($p = 0.501$).		
Ability to compile a strategic plan for their business	144.000	-1.003	.316
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for the ability to compile a strategic plan for their business ($p = 0.316$).		
Ability to implement a strategic plan for their business	136.000	-.938	.348
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for the ability to implement a strategic plan for their business ($p = 0.348$).		
Personnel and human resource management skills	133.000	-1.348	.178
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for personnel and human resource management skills ($p = 0.178$).		

Operations management	184.000	-.582	.561
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for operations management ($p = 0.561$).		
Purchasing management	177.000	-.215	.830
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for purchasing management ($p = 0.830$).		
Marketing skills	126.000	-1.751	.080
	The results indicate that there is a statistical significant difference, at the 10% level of significance between small business owners and non-small business owners for their own skill ratings relating to marketing skills ($p = 0.080$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 23.63) than small business owners (mean rank = 17.48).		
Public relations management skills	112.500	-2.290	.022
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners for their own skill ratings relating to public relations management skills ($p = 0.022$). The mean ranks indicates that non-small business owners tend to agree with the statement more (mean rank = 25.47) than small business owners (mean rank = 17.19).		
Financial management skills	158.000	-.979	.328
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for financial management skills ($p = 0.328$).		
Awareness of environmental management and sustainability	165.000	-.568	.570
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for awareness of environmental management and sustainability ($p = 0.570$).		
Safety management skills	130.500	-1.218	.223
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for safety management skills ($p = 0.223$).		

Risk management skills	122.500	-1.303	.192
	The results indicate that there is no statistical significant difference between own skill rating of small business owners and non-small business owners for risk management skills (p = 0.192).		

Table 5: Summary of Mann-Whitney U results for actual and perceived barriers (n=41)

Barrier	Mann-Whitney U	z-value	p-value
Demand for new technology in the industry	97.000	-2.982	.003
	The results indicate that there is a statistical significant difference, at the 1% level of significance between the actual and perceived impact of the demand for new technology in the industry as a small business barrier (p = 0.003). The mean ranks indicates that small business owners tend to agree with this statement more (mean rank = 25.46) than non-small business owners (14.74).		
New technology does not make a contribution to small business success	119.500	-2.382	.017
	The results indicate that there is a statistical significant difference, at the 5% level of significance between small business owners and non-small business owners for their own skill ratings relating to public relations management skills (p = 0.022). The mean ranks indicates that small business owners tend to agree with this statement more (mean rank = 24.52) than small business owners (mean rank = 16.03).		
Burdensome business registration requirements	172.000	-0.915	.360
	The results indicate that there is no statistical significant difference between the actual and perceived impact of burdensome business registration requirements as a small business barrier (p = 0.360).		
Challenging business taxation practices	143.500	-1.732	.083
	The results indicate that there is a statistical significant difference, at the 10% level of significance between the actual and perceived impact of challenging business taxation practices as a small business barrier (p = 0.083). The mean ranks indicates that small business owners agree with this statement more (mean rank = 23.52) than non-small business owners (mean rank = 17.44).		
Political uncertainty prevent start-ups	176.500	-0.768	.442
	The results indicate that there is no statistical significant difference between the actual and perceived impact of political uncertainty preventing start-ups as a small business barrier (p = 0.442).		

No government initiatives undertaken to encourage	186.000	-0.493	.622
	The results indicate that there is no statistical significant difference between the actual and perceived impact of burdensome business registration requirements as a small business barrier ($p = 0.360$).		
Capital investment requirements	200.000	-0.116	.907
	The results indicate that there is no statistical significant difference between the actual and perceived impact of capital investment requirements as a small business barrier ($p = 0.907$).		
Lack of readily available capital	154.000	-1.495	.135
	The results indicate that there is no statistical significant difference between the actual and perceived impact of a lack of readily available capital as a small business barrier ($p = 0.135$).		
Negative stigmas surrounding small business	150.000	-1.477	.140
	The results indicate that there is no statistical significant difference between the actual and perceived impact of negative stigmas surrounding small business as a small business barrier ($p = 0.140$).		
Lack of support for small business owners	139.000	-1.872	.061
	The results indicate that there is a statistical significant difference, at the 10% level of significance between the actual and perceived impact of a lack of support for small businesses ($p = 0.061$). The mean ranks indicates that small business owners tend to agree with this statement more (mean rank = 23.71) than non-small business owners (mean rank = 17.18).		
Political uncertainty prevent small business	192.500	-0.320	.749
	The results indicate that there is no statistical significant difference between the actual and perceived impact of political uncertainty prevent small business success as a small business barrier ($p = 0.749$).		
Economic instability	169.500	-0.997	.319
	The results indicate that there is no statistical significant difference between the actual and perceived impact of economic stability as a small business barrier ($p = 0.319$).		
Legal aspects and regulations	161.500	-1.209	.226
	The results indicate that there is no statistical significant difference between the actual and perceived impact of legal aspects and regulations as a small business barrier ($p = 0.226$).		

Corruption	194.500	-0.272	.786
	The results indicate that there is no statistical significant difference between the actual and perceived impact of corruption as a small business barrier (p = 0.786).		