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Small business enterprises: Strategies for the 1980s

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The importance of small business enterprises in a free market economy is reflected by their contribution to economic activity, maintaining competitiveness, and provision of employment opportunities. Despite their economic importance, small business firms are characterized by a high failure rate, *inter alia*, owing to their unique problems. The independent entrepreneur accordingly has a definite need for aid — which is rendered to the small business sector in the majority of capitalistic countries, including South Africa. It would appear that research in the field of small business has, almost without exception, been conducted in an unsystematic and fragmentary manner. In this paper a conceptual framework, which is based on the developmental approach and the life cycle concept, is advanced. By relating the specific problems of small business firms to the stage of development of the firm in a strategic sense, a systematic approach for studying the dynamic small business firm ensues. This approach will also serve as a conceptual framework for: research into small business firms; developmental aid to the small business sector; development and training of entrepreneurs; financing considerations by the financial sector; and strategy formulation and implementation for the small business firm as such.

S. Afr. J. Bus. Mgmt. 1982, 13: 1 – 9

Die belangrikheid van kleinsakeondernemings in 'n vryemarkstelsel blyk veral uit hul aandeel in ekonomiese aktiwiteite, die handhawing van mededinging en die verskaffing van werkgeleenthede. Ondanks hul ekonomiese belangrikheid word kleinsakeondernemings onder andere vanweë hul unieke probleme, deur 'n hoë mislukkingskoers gekenmerk. Die onafhanklike entrepreneur het daarom 'n behoefte aan hulp — wat wel in die meeste kapitalistiese lande asook in Suid-Afrika verleen word. Dit blyk egter dat veral navorsing oor kleinsakeondernemings, op enkele uitsonderings na, tot dusver op 'n onsistematiese en fragmentariese wyse benader is. In hierdie artikel word 'n verwysingsraamwerk, wat op die ontwikkelings- en lewensiklusbenaderings gegrond is, as riglyn voorgedra. Deur die probleme van die kleinsakeonderneming in 'n strategiese samehang met die stadium van ontwikkeling van die onderneming in verband te bring, word 'n sistematiese benadering vir die studie van die dinamiese kleinsakeonderneming daargestel. Verder dien dié benadering as 'n doelmatige verwysingsraamwerk vir: navorsing oor kleinsakeondernemings; ontwikkelingshulpverlening aan die kleinsakesektor; ontwikkeling en opleiding van entrepreneurs; finansieringsoorwegings deur die finansiële sektor; en strategieformulering en implementering deur die kleinsakeonderneming self.

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Introduction

The term 'strategy' has been borrowed from military science and is derived from the Greek word 'strategos' which literally means 'general'.¹ Various definitions of the term are found in the management sciences, where it is usually used in reference to the strategy of a specific enterprise.

In this paper, however, the term has a wider meaning. Apart from the strategy of the small business enterprise as such, other strategies, such as those of the state with regard to the small business sector, are also considered in an integrated approach.

The following definition of the term concurs with the approach adopted here:

'Strategies are general programs of action with an implied commitment of emphasis and resources to achieve a basic mission. They are patterns of major objectives, and major policies for achieving these objectives, conceived and stated in such a way as to give (the organization) a unified direction.'²

The small business firm in a capitalistic system, where the entrepreneur stands in a dynamic changing and competitive environment, is the point of departure of this paper which presents, firstly, a review of the nature of the small business enterprise and, secondly, a strategic approach to small business development.

Small business enterprises: importance and present position

Despite the increasing importance of large firms in most industrial countries,³ there is renewed interest in the small firm.⁴ Before certain features of small business enterprises are discussed, we may well ask what is meant by this term.

What is a small business firm?

According to the literature there is no universally acceptable definition of firm size.⁵ There are several views concerning the exact definition of a small business firm. Practically every country has its own standards, varying from qualitative economic criteria such as independent ownership and management to quantitative statistical criteria such as number of employees, annual turnover and total assets.⁶

In South Africa a small business firm is described by the Small Business Advisory Bureau as

- independently owned,
- independently operated,
- having an annual turnover of not more than R1 million,
- consisting of not more than five operating units,
- having assets of not more than R0,5 million, and
- having no more than 100 employees.

To allow for special circumstances a business firm must comply with five of the above requirements to qualify as small.⁶

It appears, however, that definite criteria for small business firms have certain deficiencies from the point of view of research and evaluation, particularly in dynamic conditions. This is confirmed by the following observation:

There are numerous ways of measuring firm size . . . Presumably the justification for grouping and studying enterprises by size lies in the belief that there are significant differences between small and large enterprises. However, the characteristics of enterprises do not change abruptly and discretely but, rather, gradually and continuously with firm size (however measured).⁷

Advantages of small business firms

Some important strengths and competitive advantages of small business firms are the following:

- the entrepreneur's intimate knowledge of the market and consumers, which facilitates immediate recognition of changes and preferences;
- product and geographic specialization, the former resulting in high quality personal service and the latter being concerned with the needs and convenience of the consumer;
- flexible management and centralized decision-making, resulting in prompt adaptation to environmental changes, mainly as a result of the informal organization structure and short communication channels;
- informal organization structure and personal contact with all personnel, resulting in better motivation;
- low overhead cost structure, allowing competition with larger firms as far as prices are concerned;
- a competitive advantage to supply small markets which would be uneconomical for larger firms, or which require a specialized product.^{8, 9, pp16 - 17}

Disadvantages of small business firms

A few inherent weaknesses of small business firms are the following:^{9, pp28 - 32}

- the inherent higher risk, resulting in problems related to the acquisition of capital and relatively high costs of capital;
- an entrepreneur/manager who usually has the technical background with little or no management training, but who is nevertheless expected to carry out all the functions of the firm effectively;
- deficient opportunities for training and development as a result of a lack of time, resources and facilities;
- a possibly exaggerated obsession with the entrepreneur for total control, which often prejudices the acquisition of capital and personnel; and lastly

- the vulnerability to the 'one serious early error' of the entrepreneur.

The importance of small business firms

In view of the renewed interest in small business firms in all areas, the importance of these firms will be briefly viewed in respect of

- the extent of the small business sector,
- the economic importance of the small business sector, and
- the role of the small business firm in providing job opportunities.

Despite numerous interesting examples¹⁰ we shall refer only to the United States of America (USA) and South Africa in this regard.

The extent of the small business sector

The importance, numerically speaking, of the small business sector is clear from the following examples:

- The small business sector in the USA consists of more than 14 million small and independent business firms, representing 97% of all business firms in the USA.¹¹
- The Small Business Advisory Bureau estimates that 75 000 small business firms are currently active in South Africa. In commerce more than 90% of the firms are regarded as small, whereas approximately 80% of all industrial enterprises in South Africa have fewer than 100 employees.¹²

The economic importance of the small business sector

A particular sector's contribution to the value of production of goods and services, and also exports, reflects some of the most significant facets of its economic importance.

- The economic importance of small business firms in the USA is reflected by the following achievements.¹¹ They are responsible for: 48% of the total value of production; 64% of the value of all sales in the wholesale sector; and 73% of the value of all sales in the retail sector.
- As far as South Africa is concerned we mention only a few important aspects, owing to the dearth of recent statistics:¹² the approximately 90% of small business firms in the retail sector are responsible for more than 60% of total retail turnover; small business firms, representing 80% of all industrial firms, produce 20% of the country's gross manufactured output.

The interdependence of firms

It if is accepted that no firm in an economic system operates in isolation, it follows that there will be considerable interdependence between large and small firms.

An illuminating example illustrates the extent to which the small firm is an important partner of the large-scale enterprise: General Motors in the USA buys goods and services from more than 37 000 independent small business firms, 75% of which have fewer than 100 employees. In addition General Motors depends on approximately 142 000 retail firms for distributing, selling and servicing its products.^{8, p20}

The innovative importance of small business firms

Small business firms make a bigger contribution to new ideas than large firms, not only owing to their numbers, but also as a result of the creativity of the typical entrepreneur.^{9,pp13-14}

Contribution to the expansion of the basis for competition

One of the most important contributions of the small business sector in a capitalistic economy is its influence on and contribution to the competitive and price structure. The large number of small firms, illustrated by the above statistics, create a broad basis of firms through which the free enterprise system comes into its own and acts as a natural antidote to the price formation of oligopolies and other large firms, which come into being partly as a result of concentration.¹³

The social role of the small firm

Small business firms fulfil the need of smaller, rural markets and are frequently the most important source of job opportunities, which creates a degree of stability and may even promote development in such areas. In addition urbanization and the concomitant social problems are counteracted.

Owing to the personal contact between employer and employee there is little likelihood of dissatisfaction among workers, labour unrest and strikes in small firms, which is particularly important in the South African context.^{4,p25}

The small business firm's ability to create employment opportunities

In South Africa the past decade has been marked by relatively high and sustained inflation, a succession of phases of economic recession and boom periods, and frequently undesirable levels of unemployment.

What is the potential of small business firms for creating job opportunities? In the USA 9 million job opportunities were created during the period between 1970 and 1977. Of these, 3 million were in the public sector, while half a million job opportunities were created by the 1 000 largest companies. The remaining 5,5 million job opportunities, or 61% of the total, were created by small firms. The 1 000 largest companies each only provided 60 new job opportunities annually.^{4,p24}

In conclusion we may mention that 58% of all job opportunities in the private sector in the USA are created by small business firms.¹⁴ In South Africa about 20% of the total industrial labour force is employed by small business firms.¹² The ability of small business firms to create employment, particularly in South African conditions where large numbers of skilled and semi-skilled workers join the labour market daily, cannot be ignored. We shall return to this important aspect at a later stage.

To sum up, the importance of small business firms, as manifested in a capitalistic economy, is self-evident with regard to the scope of the small business sector, its participation in the economic activities of a country, and the small firm's ability to create employment.

Small business firms: failure and problems*The failure of small business firms*

Despite the economic importance of small business firms and their ability to promote prosperity they are characterized by a high failure rate.

In 1976, 35 out of every 10 000, or 0,35% of all firms in the USA, failed. Of all the unsuccessful firms, 54,8% had been operating for five years or less.^{8,pp43-44} It is estimated that nine out of every ten small business firms in the USA fail within the first five years of their existence.¹¹

It is difficult to obtain statistics on the failure of firms in other countries. Unfortunately this is also the case in South Africa. The number of liquidated companies in South Africa increased from 848 in 1975 to 1 441 in 1980.¹⁵ On the basis of the average nominal capital of the liquidated firms over this period it is estimated that the total assets of the majority of the individual liquidated firms amounted to less than R0,5 million. They would consequently qualify as small business firms on the basis of the asset criterion.¹⁶

The following question immediately comes to mind: why are small business firms so vulnerable?

Problems of small business firms

Apart from general difficulties, there are problems that are more or less unique to small business firms.

In a strategic context a problem experienced by a firm is defined as

'an *internal weakness* within the functional areas of General Management, Operations, Finance and Marketing that prevents the small firm from exploiting the opportunities and/or meeting the threats of the environment.'¹⁷

This indicates that a 'problem' implies an *internal weakness* in the firm and that only threats can come from the environment. This view provides a meaningful basis for developing strategies for the small business firm.

Some causes of failure in small business firms

Statistics in the USA for 1976 show that 92,1% of all unsuccessful businesses fail primarily because of incompetent management and a lack of management experience,^{8,p47} although various contributory factors can also be identified. Apart from additional problems in the small business firm, such as

- the entrepreneur's excessive optimism,
- a lack of personnel and management development,
- an inability to delegate, and
- an inability to identify the firm's marketing niche and to grow with the firm,¹⁸

the small business firm is characterized traditionally by constant financial headaches. In general we may differentiate the following serious problem areas in this regard:^{9,pp24-25}

- The acquisition of initial capital in view of the uncertainty associated with a new firm.
- The acquisition of debt capital in the smaller quantities in which it is required at interest rates that are comparable to those available to large firms.
- The accumulation and maintenance of adequate reserves in the pre-breakeven period and later when over-optimism about profitability, particularly in the rapid growth stage, leads to injudiciously high withdrawals by owners.

- The inaccessibility, or limited accessibility of financial markets and sources of equity capital, mainly as a result of the inherent high risk and the resistance of owners to relinquish control of the firm.

In comparison with large firms two further problem areas for small firms may be identified, namely:

- Competition for funds with large firms which are usually well established and credit-worthy, which can usually negotiate lower interest rates owing to lower inherent risk, which are not restricted to local banks in tight economic situations and have access to the market for new issues.
- The small firm's drawback with respect to the function of financial management, relative to the large firm with its professional management, conversant with financial strategy, financial markets and skilled in utilizing decision-making techniques, constitutes a further competitive disadvantage.

In an empirical study in Britain¹⁹ the failure of small business firms was attributed to continuous managerial neglect in 27,0% of the cases, and to accidents, illness or death of either the owner or his next of kin in 18,4% of the cases. Thus of all failures 45,4% were attributable to these two causes.

Concluding remarks concerning failure

Up to now most studies of the causes of failure have been conducted from a static point of view, or have concentrated on operating problems, and were characterized by a lack of systematic investigation, in a strategic sense, where internal weaknesses and expected problems are related to the stage of development of the firm.

It stands to reason, but does not always follow, that the first step in the development of a soundly-based approach to management for a small business firm is to identify its particular problems.

Assistance to the small business sector

In view of the small business sector's importance and its problems in any free market economy, it is obvious that in most capitalistic countries small business firms must receive active assistance in various fields.

Assistance to small business firms in other countries

In the USA the *Small Business Act* was promulgated in 1953 and in the same year the *Small Business Administration* was established to provide small business firms with

- financial assistance,
- management and technical assistance, and
- assistance with the acquisition of government contracts.^{9,p33}

Apart from the creation of Small Business Investment Corporations,²⁰ which act as private finance companies, and Small Business Development Centers¹¹ as integrated entities at some American universities, other noteworthy measures are all concerned with tax relief for small business firms.

Apart from commercial (clearing) banks in Britain in 1978, there were nine public and 32 private institutions that provided assistance to small business firms.^{5,pp 396-401}

The Barclays Bank group in Britain took an important step in 1973 when it set up a Business Advisory Service for small business firms.²¹ In 1978 this service was

concerning small business, is the key to coordinating all facets of small business development in South Africa. Whereas the Small Business Development Corporation will be concerned mainly with the financial needs of small business firms, the duties of the Advisory Council are briefly as follows:

- continuous identification of problem areas that hamper the advancement of small business firms and recommendations concerning a comprehensive policy for encouraging small business firms;
- allocating available funds to institutions that are actively involved with providing services, such as advice, guidance and training for businessmen, as well as research in this regard;
- coordinating all actions of these institutions; and
- dealing with any other matters related to the promotion of small business firms.²⁷

The culmination of the latest attempts at promoting small business development in the creation of the Small Business Development Corporation and Advisory Council indicates that thorough consideration has been given to the role and functions of the above-mentioned Advisory Council.

The aim of this paper is therefore not merely to repeat what has already been considered, but rather, on the basis of the functions of the Advisory Council, to raise certain points about

- a well-founded approach to and guidelines for meaningful and coordinated research on small business firms, and
- recommendations for strategies for action to promote the small business sector, particularly under South African conditions and within the framework of orderly social and economic change.

What follows is an attempt to outline an approach which accommodates these issues.

A profile of the dynamic small business firm from a strategic point of view

Introduction: the developmental approach

The persistent tendency over the past three decades to establish large-scale business firms, and the ready availability of financial information about listed companies are largely responsible for the fact that practically all research has focused on large firms.

The tendency simply to reduce the scope, extent and sophistication of techniques and methods developed for large firms, and then to regard them as equally successful for small firms, is not beyond criticism. This misconception is clearly revealed in strategic planning, but is no less evident in other functions of the firm.

'Strategic planning, with its subprocesses, appears to operate under different constraints and opportunities in smaller firms, and any references and assumptions from the large firm business policy literature, should be at least treated with caution, until a sound body of knowledge on strategic planning in the small firm evolves.'^{17,p14}

It is in the sphere of strategy — in effect the relationship between the firm and its environment — that we find

conceptual differences between large and small firms. The need for identifying such differences is a prerequisite for any meaningful research on small business firms.

Mindful of the unique problems and relatively high failure rate the following view confirms the lack of a strategic approach to research.

'There has been much attention devoted to the underlying causes of small business failure. It has been assumed that by discovering the malpractices of those who failed, other firms might be saved from a similar fate . . . The literature lacks a systematic examination of the factors that should be considered as serious *weaknesses* or *problems* in a strategic advantage sense, and how these strategic disadvantage factors are distributed by the *type* of the small businesses and by the stage of development of the entrepreneurial venture.'^{17,p3}

For greater insight into and understanding of the dynamic small business firm in a strategic sense, the developmental approach provides a well-founded framework. This approach involves

'the study of the evolution of organizations, with particular reference to the phases through which they pass and the forces at work governing their growth and development.'²⁸

The life cycle approach²⁹ as a basis for dynamic small business development

As mentioned in the introduction, the characteristics and problems of a firm should be related to its stages of development. Given a developmental approach, the life cycle concept provides a meaningful basis for studying the small business firm.

General approach to the institutional life cycle.

Like living organisms, business firms have a life cycle with a series of stages from inception or introduction, through rapid growth to maturity or stability and, lastly, decline or decay.³⁰ The life cycle of a firm is traditionally represented by an S-curve, as in Figure 1.

Although this approach appears very impressive, we must remember that a firm does not follow this course automatically, since the curve

'represents *potential*, and if performance is to match this opportunity, such a result must be "made to happen". The management problems, issues, techniques, approaches, and styles appropriate at each stage are quite different, and the manager either unaware of the necessity of change or unable to adjust and adapt will be unable to exploit the new venture's potential. The inflexible manager will soon cease to be an entrepreneur, but rather will become a caretaker of the enterprise, if it continues to exist at all.'³¹

Figure 1 may be briefly explained as follows: once a new firm has survived the initial phase of introduction, it enters a phase of rapid growth and high profitability. As it reaches maturity, however, it faces more intense competition and increasing market saturation, which often leads to fierce price competition and a decline in market share and profitability. With reference to research two remarks concerning the life cycle approach merit con-

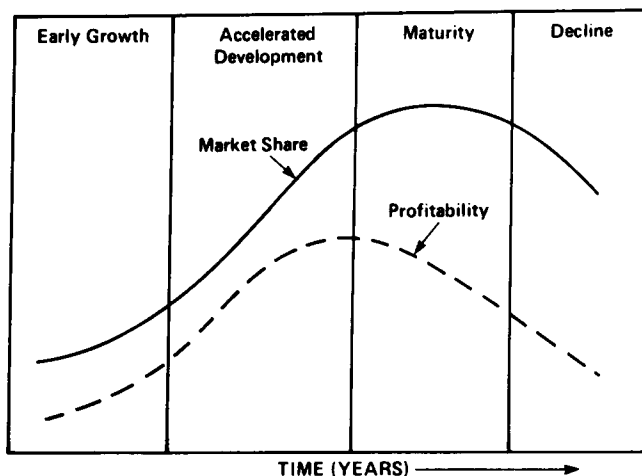


Figure 1 Institutional life cycle (Vozikis, *op.cit.*, p.24)

sideration:

- Firstly, the life cycle is itself a dynamic concept as illustrated by the fact that the institutional life cycle changes over time and that there is a tendency towards a shorter total life cycle in certain industrial sectors.³²
- Secondly, although factors such as technological progress, changing consumer preferences and increasing product diversification and substitution may influence the life cycle, it is still a useful frame of reference for research on the behaviour and potential problems of firms.

The life cycle approach to small business development

In the past the developmental approach has been applied almost exclusively to large firms.

In his evaluation of the relevant literature Vozikis^{17,p34} comes to the following conclusion about this:

'Most writers do not tie the small business life cycle with family traditions or individual convictions of the entrepreneur. These factors are extremely important in determining the separation of stages, and should be used in conjunction with the traditional criteria of employee number, asset size, organizational characteristics and so on.'

A strategic developmental approach to the dynamic small business firm should indicate the firm's present stage of development and the typical problems encountered in the successive stages. It would also be of value to determine whether these problems differ for different types of firms and industrial sectors. This approach has predictive value if it enables the entrepreneur (or researcher) to anticipate the requirements for transition to the following stage as well as the problems attending this.

Purposefully planned growth is required for realizing the potential represented by the life cycle curve. Financial problems resulting from unplanned growth may have particularly serious consequences for the small firm, succinctly described by Ulrich and Arlow as follows:

'Unless the small business executive plans his growth to a sustainable level, excessive growth can outstrip his firm's equity capital, resulting in liquidity problems, loss of control of the firm, or even bankruptcy should the economy take a sud-

den, unexpected reversal. Unfortunately, profitability and growth are not sufficient in themselves to preclude financial problems. All too often, a successful small business firm has been injured by ignoring the financial implications of growth.'³³

As far as stages of development are concerned it seems that the approach should differ for small and large firms. The next question is whether the transitional phases between the successive stages have any significance.

Periods between successive stages of growth

One of the most important challenges facing any management, is to deal effectively with the influence of changes, whether self-initiated or deriving from the environment.

The general emphasis in research has been on growth in different stages. Previous studies³⁴ show that organizational growth is non-linear and that it proceeds at different rates in successive, discrete stages. It also appears that profound organizational growth takes place during the periods between the successive stages of development.³⁵

Despite divergent views found in literature^{28,p12} it seems that, apart from a few exceptions, the transitional phases are characterized by:

- new responsibilities,
- a need for further management development,
- organizational development and adaptation, and
- a change in the type of problems.

Organizational development, management requirements and the stages of development

McGuire³⁶ is of the opinion that the competence of the entrepreneur is decisive for growth in the small firm, but eventually also restricts growth. It appears that entrepreneurial knowledge may be extended through:

- formal or informal educational processes,
- using external consultants or advisors, and
- the addition of experts (as personnel) to the labour force in the enterprise.

The development of a firm is therefore largely determined by the entrepreneur's knowledge and competence. Bearing in mind that the 'typical' entrepreneur usually has a technical background, it becomes clear that big demands are made on his managerial capability.³⁷ A useful technique for the small business entrepreneur is the strategic advantage profile, a recent analytic and diagnostic approach for the timely identification of functional strategic problems in small business firms.

The strategic disadvantage/advantage profile

The strategic disadvantage/advantage profile is an approach that has been synthesized from various views. It amounts to the following:

'The strategic disadvantage profile is a visual representation of what type of problems a small firm in a particular line of business might expect to experience, as it proceeds through the evolutionary process of the stages of development, each with a unique set of critical organizational issues and characteristics.'^{17,pp50-51}

Glueck³⁸ defines the approach as follows:

'... the strategic advantage (disadvantage) profile

(is) a systematic evaluation of the enterprise's strategic advantage (disadvantage) factors weighted by the significance of each factor for the company in its environment'.

A strategic advantage (disadvantage) profile is based on two main steps,³⁸ and may be developed in the analytic and diagnostic steps of the conventional corporate strategy process. It should be evaluated in conjunction with an external opportunity and threat profile in order to provide optimal conditions for changing or adapting strategies and policies.^{17,p51}

Combining strategic advantage (disadvantage) analysis with the stages of development of firms on the basis of the life cycle concept has both practical and theoretical advantages.^{17,pp57-58}

'The theoretical implication of such a profile is that it can serve as a guide to determine the behaviour of small business firms by providing insights far beyond those provided by the classical economic theory of the firm or the stages of development theories which concentrated mostly on big business' and

'On the practical side, a Strategic Disadvantage Profile of this type can help keying managerial actions and strategies to the small firm's particular position in the developmental process, by avoiding expected pitfalls and by making plans and policies conform to the specific requirements of the current stage of development. Normative judgment from a strategic disadvantage profile would reflect the gap between the small firm's current state in a particular functional area and the level where the manager wishes the firm should be.'

The developmental approach and the life cycle concept seem to have potential as a basis for a strategic approach to entrepreneurial and small business development, as well as for relevant research in this regard.

The implications of a strategic approach to small business development in South Africa

Before we proceed to discuss some of the merits of a strategic approach to small business development in South Africa, we shall take a brief look at the implications, specifically for South Africa, of the small business firm's ability to create employment.

The importance of small business firms for South Africa

The present decade will probably bring far-reaching political, social and economic change to South Africa. Even with realistic prospects of economic growth, the growing population of South Africa will make ever increasing demands for the provision of job opportunities.

A few statistics will afford the necessary perspective. According to Sadie³⁹ South Africa's labour force increased by 274 000 in 1978, of which 77,4% were Blacks and only, 9,1% were Whites. This increase created a need for approximately 1 000 new job opportunities *per working day*. On the basis of these statistics, it can be projected that by the year 2 000 (only 19 years hence) 430 000 people will annually join the labour market in search of work. Of these 83,7% will be Blacks and 4,4% will be Whites. Using the same basis as before, this implies that

approximately 1 600 new job opportunities will be required *per working day* by the year 2000.⁴⁰

As mentioned earlier, the 1 000 largest firms in the USA could only provide 60 new job opportunities *annually* over a period of eight years. Consequently the small business firm's ability to create employment and the development of the small business sector should be given top priority.

This involves more than merely establishing and developing small business firms. If we accept that entrepreneurs in South Africa are traditionally from the white population, what are the implications for the future if we consider the above data?

According to Sadie's projections the black population in South Africa will *increase* by approximately 16 million (from 21 million to 37 million) between 1980 and the year 2000, whereas the white population will increase by approximately 2,1 million only (from 4,8 million to 6,9 million) over the same period.³⁹ Clearly the creation of new firms cannot be left to the white entrepreneur alone — there will simply not be enough of them. Black entrepreneurs will have to come forward to help relieve the problem of providing employment — particularly in view of the demands related to the black population.

Entrepreneurial development and management training, for Blacks in particular, but also for Coloureds and Asians, have become imperative. Research⁴¹ has shown that managerial manpower, which is drawn mainly from the white population, is already overburdened. For South Africa as a whole the manager : worker ratio is currently 1 : 42, whereas in Japan it is 1 : 16 and only 1 : 6 in the USA. This research, which was undertaken from a behavioural science point of view, also illustrated that the ratio of people in South Africa with a drive for achievement (those with leadership qualities and a need for achievement) to those who merely have a need for affiliation or recognition is 1 : 7 for Whites and 1 : 99 for Blacks.

The findings indicate that one out of every seven Whites (15%), and only one out of every 100 Blacks (1%), have leadership potential. Despite these statistics recent research has established that Black students aspire to improve their position in life through their own abilities and skills and perseverance in striving for their goals. It was concluded that there is considerable unexploited entrepreneurial potential among black students (male as well as female).⁴²

Although encouraging, this finding implies a need for immediate action with regard to entrepreneurial development and the realization that the training of workers, particularly among Blacks, should receive attention for a considerable time to come.

This short outline reveals an urgent need for developing and training entrepreneurs, particularly among Blacks (in so far as this need has not already been attended to by the Economic Development Corporation and its subsidiaries), as well as for stimulating the establishment of small business firms with the ability to create employment. This is the background against which a few strategies will now be discussed.

A strategic approach to small business firms in South Africa

A strategic approach to small business firms, based on a developmental and life cycle approach can be significant to all parties involved in small business development in South Africa. These include:

- the government and other developmental institutions,
- educational institutions,
- the financial sector,
- the small business sector itself.

A few strategies and recommendations for small business development with reference to these interested parties will now be considered.

The government and developmental institutions

In view of the functions of the Advisory Council, it seems that the developmental and life cycle approaches are a logical point of departure for formulating research objectives and allocating resources on a priority basis. The identification and anticipation of specific problems during the life cycle of various types of growing firms and in the various industrial sectors will lead to further insights.

The government should also look into the taxation of small firms. During the initial growing stage internal financing through retained earnings is vital. High personal tax rates for sole proprietorships and partnerships and a company tax rate of 42% leaves little scope for internal financing and frequently results in an unjustifiably high debt ratio, increased financial risk and concomitant liquidity problems. As mentioned earlier, the market for new issues is practically inaccessible to the small firm. With a view to such firms, it is recommended that the fiscal authorities should consider instituting a significant progressive tax scale up to and including a realistic level of taxable income or, alternatively, a tax holiday for the first few years. Appropriate research under local conditions should indicate the optimum alternative for a differentiated tax rate for small firms.

Educational institutions

Educational institutions can make an important contribution to small business development in South Africa in the following ways:

- training, which is the primary task of universities,
- research, and
- counselling and consultation.

Training at an undergraduate level, particularly in business economics, should focus primarily on the small business firm. As mentioned earlier, the number of small firms in South Africa is indicative of the need that exists.

As far as management training and the development of entrepreneurs are concerned, training courses could accommodate the demands both of the successive stages of development and the transitional stages to the advantage of the small businessman.

If research were to be approached on a priority basis, more attention will have to be paid to applied research in business economics — particularly with regard to marketing, finance and strategy for the small firm. Coordinated research and optimal utilization of research time by South African lecturers is of cardinal importance.

Counselling and consultation are fields that will require increasing attention from business economics lecturers in the future. This important source of knowledge has been underutilized — a luxury that can hardly be afforded in a time of trained manpower shortages. A positive climate for encouraging consultation work within the bounds of existing responsibilities should be created where it does not yet exist — it can only contribute to the resourcefulness and capabilities of lecturers. Strategic planning consultation⁴³ in particular, as offered at the Small Business Development Center at the University of Georgia, is to the advantage of both lecturers and small businessmen. For this, knowledge of typical problems in the stages of development of growing firms is indispensable.

Financial institutions

Banks, which are the primary suppliers of debt capital to the business sector, will become increasingly involved in small business financing through the cooperation envisaged with the Small Business Development Corporation.

The management personnel of banks that will be involved in the financing of small businesses should also receive training to deal with the problems experienced by new and growing firms. Although the existence of such problems cannot simply be ignored, a knowledge of the causes and nature of 'typical problems' may, from the point of view of banks, lead to a lower risk perception of the small firm and to more competitive financing costs.

The entrepreneur and the small firm

As far as the small business firm and the entrepreneur are concerned, the field has already been explored by implication. However, it should be added that the entrepreneur will act in a more motivated way if he were aware of the 'typical' strategic problems as well as the demands that development and growth may make on him.

The entrepreneur can formulate and implement his strategy through realistically defining objectives, evaluating his firm's strong and weak points, and the threats and opportunities in the environment. Only a positive attitude towards training and self-development will determine whether his strategy will be effective and whether, through interaction with his environment, he can make optimal use of the strategies of other institutions towards small business firms.

Conclusion

Developing entrepreneurs and stimulating the small business sector, irrespective of population groups, can only be to the advantage of all the peoples of South Africa.

In the opinion of Dr. Anton Rupert, it is imperative that the free enterprise system be regarded as a bulwark against communism, and unless we establish and assist other population groups in small business firms, our fate will be that of people who want everything but who will also lose everything.^{4,p1}

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- | Year | Number of liquidated companies | Nominal capital per liquidated company |
|------|--------------------------------|--|
| 1975 | 848 | R 11 875 |
| 1976 | 1 135 | 35 718 |
| 1977 | 1 289 | 325 647 |
| 1978 | 1 343 | 14 646 |
| 1979 | 1 294 | 9 621 |
| 1980 | 1 441 | 33 338 |
- Source: Department of Statistics, *Bull. Stat.*, *op. cit.* On the basis of a ratio of nominal capital to total assets the following figures are obtained for total assets:
- 10% : R96 210 – R357 180
 7% : R137 443 – R510 257
 5% : R192 420 – R714 360
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