

THE PROCESS OF BUSINESS ASSISTANCE TO SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA: PRELIMINARY FINDINGS

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Much assistance is provided to SMEs in South Africa, but many SMEs still fail or exit the market. The question that frequently arises is whether assistance to SME owners actually positively influences their success rate. Research was conducted to determine how seemingly successful SMEs in South Africa are assisted. SMEs owners in South Africa were interviewed to ascertain how they were assisted. The focus was on determining what type of assistance successful SME owners were receiving. The research was conducted in an attempt to find means of assisting SME owners in ways that would enhance their success rate. The results of the study indicated that although the SME owners mostly sought assistance in the areas of finance, marketing and human resources, they indicated that it was not the assistance that made them successful, but factors such as the product type, product quality and marketing. This indicates that assistance should probably be sought in the areas of product and marketing even before starting a business, and only thereafter in the areas of finance, marketing and human resources.

Key phrases: Process of assistance, assistance, success, SMEs, South Africa.

INTRODUCTION

If one considers the high failure rate of small and medium enterprises (SMEs) in South Africa, it would seem that business assistance rendered to SMEs is not always successful, does not always focus on the areas that would necessarily enhance their success rate, and does not necessarily contribute to the success of South African SMEs.

The failure rate of SMEs is extremely high throughout the world (Fang et al 2009:44; Longley 2006:Internet; Maas & Herrington 2006:18-19). The same situation applies to South Africa. According to Brink et al (2003:1) and Van Eeden et al (2003:13), the estimated failure rate of SMEs in South Africa is between 70 and 80%. However, much assistance is available to SMEs. This includes assistance from government, professionals, business consultants and advisors such as attorneys, accountants, banks and business consultants. Assistance in this case includes consulting, training, support and advising the small business owners about any facet of the business and its environment, at any time, with a view to making the business successful or more successful. If there is so much assistance available to SMEs and the failure rate is still so high, the question needs to be asked whether SME owners are receiving the right type of assistance at the right time to enable them to manage their businesses effectively in order to ensure their success in the long run.

The importance of providing training, counselling and advice is widely recognised as is evident from the many consulting institutes, agencies and consultants worldwide

that render assistance to businesses. Amongst these are the Small Business Administration (SBA) in the USA, the Association of Independent Consultants (AIC) in Canada and the Institute of Management Consultants (IMC), which is found in many countries, including South Africa. The South African government has acknowledged the importance of SME development and has established many bodies to support the start-up and growth of SMEs. The contributions of these bodies still seem unsatisfactory. Literature also reveals that government's capacity is limited, and support programmes tend to be driven at national level (Maas & Herrington 2006:18-19; Monkman 2003:9).

The efficiency and effectiveness of support for consultants to SMEs is rarely evaluated. However, research in the UK indicates a "positive", a "partial", and "no impact" effect of subsidised private external consultants on SME growth. All estimated models, however, indicated that the use of private external consultancies had no significant impact on net job creation, turnover or financial matters (Lambrecht & Pirnay 2005:94-103).

The results and consequences of interventions are very seldom published. Private consultants are primarily not academics with no or limited interest in publishing their results. Literature does, however, reveal that while a substantial amount of both financial and nonfinancial assistance is offered, the failure rate of SMEs remains extremely high.

The high failure rates could possibly be minimised through the right type of assistance at the right time by the right providers. As far as can be ascertained, the provision of assistance and the consequences thereof have not yet been researched in South Africa. The focus of this study is on presenting an analysis of the type of assistance successful SMEs received or are receiving.

The findings of the study reported on in this article will lay a foundation for further research where attempts could be made to measure the causal impact of the type of assistance rendered. This could enhance the success rate of SMEs and boost the government's efforts in trying to assist both SMEs and consultants. If successful SMEs are to salvage the unemployment situation, as government and other experts suggest, this research could help to promote the sustainability of SMEs, thereby alleviating poverty and improving the economic and social situation in South Africa.

The objectives of this article are to present a literature review, to report on a study that relates to the process of assistance to SMEs, and to present guidelines to aspirant and current SME owners and providers of assistance.

THEORETICAL FOUNDATION

Assistance in South Africa

The South African government has acknowledged the importance of SME development and has established many bodies to support the start-up and growth of SMEs. Although the impact thereof still seems unsatisfactory, Goldstuck (2008:Internet) stated that it is “reassuring to see the restructuring of and rethinking behind many government support programmes”, thus indicating a positive change in thinking on the part of government.

Business support is heavily skewed towards helping owners gain access to finance, while neglecting the development of owners’ business management skills. Many consultants are advising SME owners incorrectly. They assist entrepreneurs with business plans in order to gain access to finance, and the securing of finance should not be the sole purpose of a business plan. The primary need when growing businesses is not necessarily finance, but ongoing business advice and support (Timm 2008:Internet).

The majority of SME support bodies in South Africa are fragmented and in the hands of too many role players. The interventions are aimed at personal motivation, and the inculcation of entrepreneurial skills tends to be the exception rather than the rule in this sector (Nieman, in Nicolaidis & Reddy 2004:207).

The literature consulted does not satisfactorily reveal the detail and the success of assistance rendered. There seems to be no quality control or feedback regarding the assistance provided by government or the private sector. The literature does, however, reveal the fact that while a substantial amount of assistance is offered, the failure rate of SMEs is extremely high. The influence of assistance on the success of SMEs is dealt with in the next section.

The influence of assistance on the success and growth of SMEs

Research by Lambrecht & Pirnay (2005:105) on the use of consultants indicates different outcomes regarding the influence thereof on the success and growth of SMEs. They also found that the use of private external consultancies had no significant impact on net job creation, turnover or financial matters. Robinson (1982:89-90) suggested that external consultants in small firm strategic planning, under the Small Business Development Center (SBDC) Program in the USA, affect client performance. Small firms engaging in outsider-based strategic planning had a significantly higher percentage change in sales and number of employees.

Smallbone et al (1993:279-295) on the use of paid consultants in the UK, reported that two thirds of SMEs said that they were either "satisfied" or "extremely satisfied" with the consultancy. They observed that, in 52% of the cases in the UK, managers judged the consultancy to have had a positive influence, such as increasing sales or cost savings, although it was also common for managers to report that there had generally been an improved performance, which was impossible to quantify. Chrisman & Katrisha (1994:277) also found that the established business clients who indicated that SBDC services were beneficial (80%) enjoyed significantly higher sales growth rates (7.78% between 1990 and 1991) after the consultancy than did the average US business (1.13% during the same time). The employment growth rate of these established clients was also significantly greater than the employment growth rate for US businesses in general.

Wren & Storey (2002:354) evaluated the subsidised marketing advice to SMEs provided by private-sector consultants through the Consultancy Initiatives scheme of the UK Enterprise Initiative. They found that the marketing advice had significant positive effects on the growth of turnover and of employment. Assistance had significant growth effects in medium-sized firms, even stronger effects in small SMEs, but an insignificant effect on the sales of large firms. It had no effect on survival overall. The effect of assistance on survival of small and large SMEs was negative (non-significant in the small SMEs and significant in the large SMEs), but was significantly positive on the survival of medium-sized firms. From the explorative analysis of Robson & Bennett (2000:201) in the UK, it appears that there is no significant relation between the use of external consultants and SME growth (measured by rate of employment growth, rate of turnover growth and change in profitability per employee). From these studies, it seems that the outcome is mostly positive after assistance had been rendered to SMEs.

Small business assistance programmes may exert significant influence on the entrepreneurial activities and profiles of small business owners in the United States. However, the understanding is limited about the effects of these small business assistance programmes, the features that make programmes effective, and who benefits from the programmes. The methodological challenges in identifying the effect of business assistance programmes on business outcomes are, in part, a result of data limitations and the lack of experimental design in programme evaluations. Few studies are thus able to identify a causal relationship between small business assistance programmes and business creation and subsequent economic performance of assisted small firms (Gu et al 2008:v).

In an exploratory study by Robson & Bennett (2000:193-208), they assessed the relationships between firm performance in terms of growth and the use of business advice. They were not confident about the direction of causality, i.e. whether growth stimulates advice, or whether advice stimulates growth. They found the main determinants of SME growth to be market conditions rather than the use of business advice. Their results also support previous studies that suggest external government support to businesses does not have significant effects on SME growth.

Other studies in the USA that reported on the effectiveness of consultants blamed the inability of the academic fraternity to communicate with small business owners in simple, clear language, and the stereotyping of consultants who are often seen as individuals who are unable to understand the practical managerial issues and whose consulting focus is strategic rather than tactical (Pelham 1985:10-11). On the positive side, the Service Corps of Retired Executives (Score) has been extremely effective. Most of the clients state that they would recommend the service to a friend starting a new business, and nearly two-thirds of them would recommend Score to friends with existing businesses in order to correct present problems. The results of this study also support the suppositions that the use of consultants in the workplace is vital for the success of many business firms (Jones et al 1990:2-6).

The literature review shows that there are inconsistent outcomes and conclusions about the influence of assistance on the success of SMEs. This brings us to the problem as identified by the researchers.

PROBLEM

The problem seems to be that although there are many providers of assistance in South Africa and although SME owners seem to receive much assistance, the failure rate of SMEs is still very high. The question must be asked whether the assistance provided is relevant and whether it meets the specific needs of SMEs.

RESEARCH OBJECTIVES

The main objective of the study were to analyse the process of assistance received by successful SMEs and to attempt to determine whether the assistance had any effect on their success.

The secondary objectives were to:

- determine in which functional areas SME owners were assisted

- determine the amount of time the consultants spent with these SMEs
- determine during which stage of the business life cycle assistance was rendered
- determine a profile of the provider of the assistance
- determine the success factors of SME owners in South Africa
- suggest an approach in making use of assistance
- determine whether there are relationships between different factors regarding assistance and the success of the SMEs

METHODOLOGY

Owing to a lack of access to institutions providing business assistance, it was decided to focus the empirical study on the assistance rendered to SME owners who are members of the confederation of employers of South Africa (Cofesa). Cofesa is primarily a professional service organisation of advisors in different areas of business. The researcher made use of Cofesa as the sample because most of its members (more than 5 500) are SME owners who have experienced the need for and have made use of assistance in some way or another.

Historical data were collected by means of questionnaires. The researchers initially attempted to collect the required data by making use of a web-based questionnaire. This method of data collection was not successful at all. Thereafter, respondents were interviewed telephonically, making use of a random, purposeful sampling technique. Only those SME owners who had received some type of assistance were asked to participate. Once a total of 200 questionnaires had been completed, the survey was discontinued.

The questionnaire was designed with the objectives of the study in mind. The researchers made use of a range of question types, which included open-ended, closed, dichotomous and multiple-choice questions. The questionnaire was separated into the following distinct areas of investigation: screener section, general business information, shortcomings, successful interventions, and demographics.

Two hundred cases were deemed a sufficient sample (3.6% of the population) for the purpose of this study. The sample consisted of owners and managers who had received assistance in business matters. The sample included only existing, and mostly successful, SMEs.

The study relies exclusively upon the views of the recipients of assistance and can be considered as 'monitoring'. Where the objective is to enhance the performance of businesses, monitoring alone is incapable of offering relevant insights into the effectiveness of business assistance because the effect of assistance cannot be estimated simply by seeking the views of assisted businesses, even if these views were honestly provided (Storey 1998).

As this study does not compare the assisted businesses with those not assisted and only the views of assisted SME owners are taken into account, the study is one of monitoring and provides a basis for further investigation. The researcher did not attempt to understand or measure causal influence of the assistance.

Limitations of the study

Cofesa is not demographically representative (it was not measured by the researchers) of the SME owners in South Africa. Although the members of Cofesa own or manage SMEs in all the sectors in the economy, this is not completely proportional to the sector distribution of SMEs in South Africa. The agricultural sector (the largest sector in South Africa) was not well represented by the sample interviewed in this study as very few of them are members of Cofesa. Owing to these limitations therefore, this study is not representative of SMEs in South Africa.

FINDINGS AND RESULTS

The findings and results are subdivided into the following sections: the characteristics of the participating businesses, the functional areas in which the business owners sought assistance, the amount of time the consultants spent with the businesses, the stage of the business life cycle during which assistance was rendered, the providers of the assistance, the success factors identified by the business owners, a suggested approach in making use of assistance, and the relationships between the different factors regarding assistance and the success of the businesses.

Characteristics of the participating businesses

While more than 40% of the SMEs participating in the study were located in Gauteng, all the other regions in South Africa were also represented in the study. SME owners and members of Cofesa were randomly contacted countrywide. The sample was then compared with the location of all SMEs countrywide. This indicated that the location of the SMEs participating in the study proportionally represented the location of all SMEs throughout South Africa.

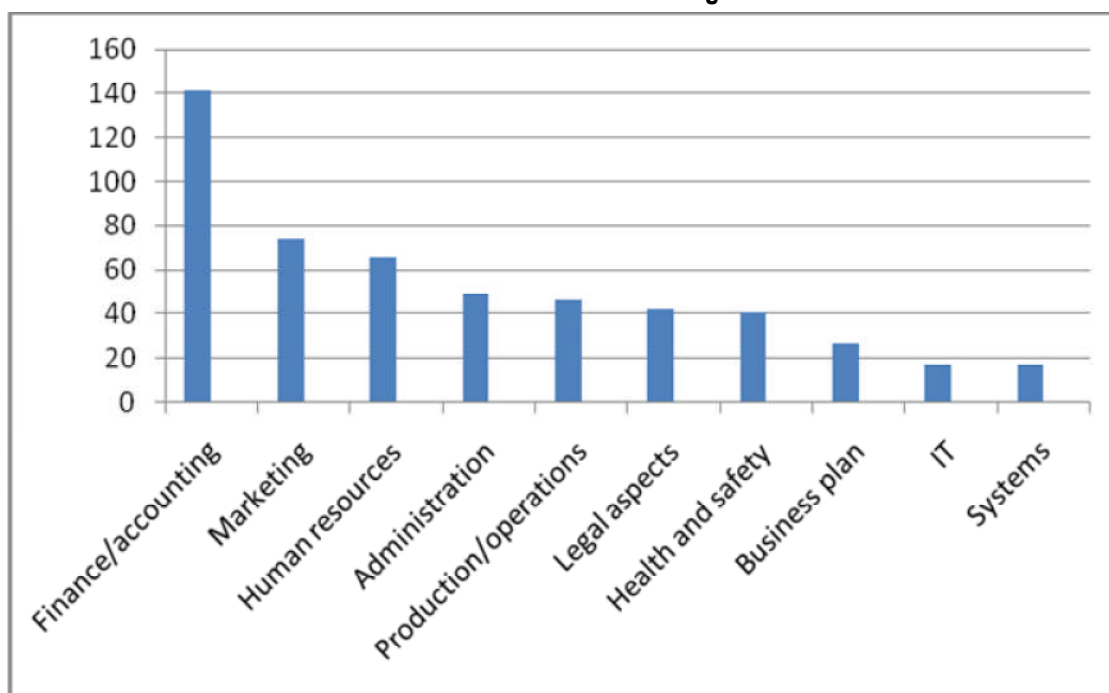
The respondents were mainly in the manufacturing, community, social and personal, retail, and motor trade repair services. The sample does to some degree reflect the demographics of all SMEs in South Africa, with the exception of the agricultural sector, which was not represented.

More than half of the respondents (56%) had a tertiary qualification with at least a three-year diploma or degree, but these qualifications were generally not business related. The qualifications were very dissimilar, but mostly in the fields of education and bookkeeping. Of the respondents, 91% felt that they were running successful businesses and the majority of the businesses had fewer than 50 employees.

The functional areas in which the business owners sought assistance

All the respondents received some form of business assistance at some stage of their business venture. As shown in Figure 1, assistance was primarily sought in the area of finance and accounting, secondly, in marketing and thirdly, in human resources.

Figure 1: The functional areas in which the business owners sought assistance



When respondents were asked to select the area where assistance had been sought, finance was selected 141 times, marketing 74 times and human resources 66 times.

The amount of time the consultants spent with the businesses

It was evident from the data that most of the respondents (64%) made use of assistance “continuously”. This implies, for example, that they make use of assistance for one day a week, one day a month or for one week a month.

The stage of the business life cycle during which assistance was rendered

The majority of respondents sought assistance on a continuous basis during every phase of the entire life cycle of the business. When asked their opinion of when assistance should be sought, more than one-third indicated that SME owners should seek assistance even before starting their businesses, and thereafter on a regular basis. The respondents did not seem to make use of assistance earlier in the business cycle, but were compelled to seek assistance after some time, in most instances, when they encountered problems with the running of their SMEs.

The providers of the assistance

The respondents generally used consultants or specialists when seeking assistance. Less than 10% sought assistance from educational/academic institutions. Although some studies indicate that assistance from academic institutions is extremely helpful, others indicate the exact opposite (De Faoite et al 2004:445-447). They state that the services offered by the entrepreneurship support programmes at tertiary institutions are not that effective in practice, and that this could mean that these programmes do not meet the needs, or that academics are not well suited to provide entrepreneurial support. The reasons for not using academic institutions for assistance more often were not investigated further in this study.

The success factors identified by the business owners

The type of product, including the quality of the product they provided, was by far the main contributing factor to the perceived success of their businesses. The second most important factor was marketing, followed by the location of the business, effective human relationships and the persistence of the owner.

The fact that the respondents did not regard the assistance they had received as a contributing factor to their success, seems to be inconsistent, since most of them felt that assistance was important and that they needed it on a regular basis. After further analysis, it was ascertained that assistance was only seen as a support function. The respondents regarded assistance as important, but this assistance was not the factor that made them successful. Finance, for example, was mentioned as one of the principal areas in which assistance was needed, but they did not see it as a

contributing factor to their success. Finance by itself cannot determine the success of the business in the same way as the right product of the right quality and with the right marketing strategies. Success depends on many factors, of which assistance probably plays a minor role. Using a control group who do not receive assistance, could provide information against which this finding could be measured. It would be of interest to further investigate this finding.

One may conclude that the respondents' perception of assistance was not the cause of any failures, nor was it seen as the main cause of their success; it is perceived to perform a supporting function in the successful management of a SME. Although the respondents of this study did not rate the assistance they received as an important contributing factor to their success, research by Berry et al (2006:43) indicates that SMEs where the owners/managers used of a range of business advice, were the ones that had the most rapid growth.

Suggested approach in making use of assistance

According to the owners, most of their businesses were successful at the time of the interview. Assistance was sought mainly in the areas of finance, marketing and human resources, although respondents did not attribute their success to factors in these areas. Should SME owners not first seek assistance in those areas that seem to have caused these respondents to be successful, such as the type and quality of product, marketing and the location of the business? Once these are in place, the SME owner would probably need assistance in the areas of finance, marketing and human resources.

Relationships between the different factors of assistance and business success

Correlations and cross-tabulations were done. This technique describes the relationships between variables, and measures the extent to which a change in one variable (the success of the business in this instance) can be attributed to a change in another variable.

The respondents had to respond to several statements relating to their success (Table 1) to determine whether the businesses were actually successful, following which they had to indicate on a scale of 1 to 7 how successful they thought their businesses were. The seven-point Likert scale was used in the categorisation of this variable. With a mean of 4.97, a median of 5, a mode of 5 and a skewness of -.378, it was necessary to categorise the data (as indicated in Table 2) to enable the researchers to perform significant calculations with more evenly spread categories.

Table 1: Percentage of “yes” answers to statements on business success

	Statement	Percent
a	My business was profitable in the previous financial year	76.5
b	My business has grown over the past three years	85
c	The profit increased over the past three years	64
d	I have been paying salaries and wages for at least three-and-a-half years	93
e	I make enough money to live comfortably	68.5
f	My business now employs more people than two years ago	59.5
g	The turnover/sales of my business increased over the past two years	79

Although statements “d” and “e” are not good predictors of success (these statements could be true even if the business is not that successful), the other statements are. The high percentages (especially of statements “a”, “b” and “g”) provide some indication of respondents’ positive perceptions of the success of their businesses, as indicated in Table 2.

Table 2: How successful do you think your business is?

		Frequency	Percent
Valid	Least successful (scores of 1–4)	59	29.5
	Satisfied (scores of 5)	83	41.5
	Very successful (scores of 6 & 7)	58	29.0
	Total	200	100.0

Lambda (λ) was used to determine and measure the strength of the association between the variables. Lambda can be defined as an asymmetric measure of association which measures the proportional reduction of error (PRE) made in predicting modal values or categories of a dependent variable y (in this case, success as indicated in Table 2) when information about an independent variable x (for example the type of business) is used. Chi-square was not used in this study, because the cross-tabulation matrix was unbalanced in most of the above cases. The differences in some of the cell values were also too large, violating one of the assumptions of Chi-square.

Lambda has a possible range of 0 to 1. A value of 0 means that the information supplied by the independent variable does not improve the ability to predict the dependent variable. Hence, there is no association between the variables. A value of 1 means that the independent variable predicts the dependent variable perfectly and that there is an association between the variables. Values between 0 and 1 are indices of the extent to which one variable helps to predict another.

The following hypotheses were formulated and lambda was calculated to determine the strength of association between the given variables.

H₀¹: There is no relationship between the types of businesses owned/managed by the respondents and the success of the businesses.

H_a¹: There is a relationship between the types of businesses owned/managed by the respondents and the success of the businesses.

H₀²: There is no relationship between the period in the business cycle during which the assistance was provided and the success of the businesses.

H_a²: There is a relationship between the period in the business cycle during which the assistance was provided and the success of the businesses.

H₀³: There is no relationship between the way the respondents were assisted and the success of the businesses.

H_a³: There is a relationship between the way the respondents were assisted and the success of the businesses.

H₀⁴: There is no relationship between those who rendered the assistance and the success of the businesses.

H_a⁴: There is a relationship between those who rendered the assistance and the success of the businesses.

H₀⁵: There is no relationship between the period of time of assistance and the success of the businesses.

H_a⁵: There is a relationship between the period of time of assistance and the success of the businesses.

H₀⁶: There is no relationship between the size and the success of the businesses.

H_a⁶: There is a relationship between the size and the success of the businesses.

H₀⁷: There is no relationship between the areas in which assistance was received and the success of the businesses.

H_a⁷: There is a relationship between the areas in which assistance was received and the success of the businesses.

H₀⁸: There is no relationship between the qualifications of the respondents and the success of the businesses.

H_a⁸: There is a relationship between the qualifications of the respondents and the success of the businesses.

Table 3 provides a summary of the results of the hypotheses tests.

Table 3: Summary of the results of the hypotheses tests

H ₀ not rejected at the 5% level of significance	Lambda value	Approximate significance level
H ₀ ¹ : There is no relationship between the types of businesses owned/managed by the respondents and the success of the businesses.	.052	.453
H ₀ ² : There is no relationship between the period in the business cycle in which the assistance was provided and the success of the businesses.	.017	.617
H ₀ ³ : There is no relationship between the way the respondents were assisted and the success of the businesses.	.026	.731
H ₀ ⁴ : There is no relationship between those who provided the assistance and the success of the businesses.	.056	.255
H ₀ ⁵ : There is no relationship between the time of assistance and the success of the businesses.	.052	.155
H ₀ ⁶ : There is no relationship between the size and the success of the businesses.	.052	.131
H ₀ ⁸ : There is no relationship between the qualifications of the respondents and the success of the businesses.	.052	.238
H _a ⁷ : There is a relationship between the areas in which assistance was received and the success of the businesses.	.172	.005

In the first seven hypotheses tests in Table 3, H₀ is thus not rejected at the 5% level of significance. This indicates that there is no relationship between the types of businesses, the period in the business cycle in which the assistance was provided, the way the respondents were assisted, the assistance providers, the period of assistance, the size of the business and the qualifications of the respondent, and the success of the businesses.

When examining the 5% level of significance, the probability is 0.005 and smaller than 5% ($p < 0.05$), which means that (H₀⁷) is rejected at the 5% level of significance. The null hypothesis (H₀⁷) is rejected in favour of the alternative hypothesis (H_a⁷), indicating that there is a relationship between the areas in which assistance was received and the success of the businesses.

Conclusions and recommendations

This article outlines the way in which SME owners received assistance. It includes the functional areas in which owners received assistance, the amount of time the consultants spent with the SMEs, the stage of the business life cycle when assistance was rendered, the profile of the provider, and the success factors of the SMEs. Correlations and cross-tabulations were also performed to determine whether

there were relationships between different factors regarding assistance and the success of the SMEs.

It is clear that business assistance as such will not guarantee the success of SMEs. The most important findings are that the type of business, the length of time of assistance, the presenter of the assistance, the size of the business and even the qualifications of the business owner do not make any significant difference in the success of SMEs. However, the areas of assistance, especially finance, marketing and human resources, do seem to make a significant difference to the success of SMEs.

Assistance should be sought even before starting a SME. Aspirant SME owners should be absolutely certain about the product/service they wish to sell, the quality of the product, the marketing strategies and the location of the business. If these issues are not in order before starting a business, it will be difficult to make a success of the business.

Providers of assistance should be aware of the specific need of SMEs. More dedicated programmes should be offered by tertiary institutions to equip aspirant SME owners with the relevant knowledge and skills to start, manage and grow successful SMEs. Vocational training programmes should be tailor-made to meet the needs of the SME sector.

It could be of value to do further research to determine whether a business-related qualification would have a positive influence on the success of a business. South Africa's SME owners seem to lack the business skills and attitude required to succeed (Pansiri & Temtime 2008:252; Van Scheers & Radipere 2007:1; Van Tonder 2005:6). To be successful, they would probably need training, a relevant qualification and/or continuous assistance.

Based on the results of the study, it is recommended that SME owners first seek assistance in those areas that seem to have supported the respondents' success. The primary areas are the type and quality of the product, marketing activities (including different factors such client needs and client services) and the location of the business. Once these are in place, the SME owner would probably need assistance in finance, human resources and marketing.

In conclusion, South Africa's aspirant SME owners simply do not have the skills and attitude to succeed. They need training, a relevant qualification and/or continuous assistance in order to be successful. This study will assist in helping both the SME owner and the provider to rethink their approach to the entire consulting process. In

managing a business, owners and managers seldom have all the management skills required to be successful. This study provides owners and managers of SMEs with guidelines for the use of assistance to enhance their businesses' chances of survival and success.

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