

Achieving optimal business performance through business practices: evidence from SMEs in selected areas in South Africa

N.B. Neneh & J.H. van Zyl

ABSTRACT

Enhancing business performance is of increasing interest to all business leaders in today's business environment. Studies relating to both large firms and small and medium enterprises (SMEs) constantly emphasise a positive relationship between business practices, management activities and performance, as it is often articulated that best business practices produce superlative business performance. This study examines empirically which business practices are implemented by SMEs in some selected areas in South Africa and how these business practices impact on their optimal performance. The population for the study comprised business owner-managers in the SME sector in Bloemfontein, Botshabelo and Thaba'Nchu (Free State province of South Africa). A statistical methodology was used to test the relationships hypothesised in the research model. The results reveal that all six selected business practices that were examined (marketing practices, strategic planning practices, human resource management practices, risk management practices, performance management practices and teamwork practices) have a positive and significant relationship with SME performance. Moreover, 97.1% of the SMEs that implemented all six business practices had optimal business performance. This study could serve as a guide for business consultants and SME support mechanisms to develop SME training programmes to help SME owners/managers to acquire the necessary skills to properly implement these six business practices, which will enable SMEs to achieve optimal performance.

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Introduction

As businesses constantly seek out new and better ways of achieving competitive advantages, the competence of every valuable area to improve organisational performance is under scrutiny. Business practices are the methods, processes, generally accepted techniques and standards used by a business in the pursuit of objectives to accomplish a set of outlined tasks. Business practices consist of ways of transforming business values into processes for achieving business objectives (Gamini de Alwis & Senathiraja 2003). Srinivasan, Woo & Cooper (1994) define performance as “the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it”. Researchers (Lau, Zhao & Xiao 2004; Prajogo & Sohal 2003; Rahman & Sohal 2001) identified a positive relationship between best business practices and business performance. Furthermore, a study by Pushpakumari and Wijewickrama (2008), relating to both large firms and SMEs, constantly emphasises the relationship between business practices, management activities and firm performance. Mandal, Venta and El-Houb (2008) note that best business practices produce best performance. This study also explains that there are several ways through which business practices can be established in specific areas, which can lead to outstanding business performance. The implementation of business practices based on the use of quality management principles and tools in business management will lead to a systematic improvement in business performance, especially where key practices in business excellence are applicable to all functional areas in an enterprise. However, Pushpakumari and Wijewickrama (2008) further established that most SMEs are driven by the need to imitate large firm activities in order to establish a set of desirable management activities that they believe will enable them to become more efficient and effective if implemented through appropriate knowledge dissemination processes.

SMEs cover about 90% of African business operations and contribute to over 50% of African employment and GDP (Chodokufa 2009). SMEs are increasingly recognised as a leading vehicle for economic development, a prime source of employment, revenue generation, innovation and technological advancement in both developed and developing nations (Zacharakis, Neck, Hygrave & Cox 2002). Nevertheless, SMEs are still “plagued by high failure rates and poor performance levels” despite their many contributions (Jocumsen 2004: 659). Moreover, because of their small

size, a simple management mistake is likely to lead to the death of an SME without providing it with an opportunity to learn from its past mistakes (Bowen, Morara & Mureithi 2009). A study by the *Business Times* (1997) established that more than six out of ten new businesses fail within the first 18 to 24 months and identified factors such as lack of planning, improper financing and poor management as the main causes of small business failure. According to Ntsika Enterprise Promotion Agency (2002), SMEs in South Africa contribute 56% of private sector employment and 36% of GDP. The South African government therefore has an objective to promote the development of SMEs as a means of increasing job creation in order to reduce the high unemployment rate, which is currently estimated at 25.2% (Statistics South Africa 2012). Furthermore, in South Africa, the number of SMEs that fail in their fifth year varies between 50% and 95% (Willemse 2010), and about 75% of new SMEs do not become established firms, which is one of the highest such statistics in the world.

The various reasons for the high failure rate of SMEs in South Africa have been established and range from shortage of management skills (Willemse 2010) to lack of access to finance (Willemse 2010; Fatoki 2010). Herrington and Wood (2003) established that the lack of education and training has reduced management capacity in new firms in South Africa and is thus one of the reasons for the low level of entrepreneurial creation and the high failure rate of new ventures. Van Tonder (2010) notes that the success rate of SMEs in South Africa is not impressive simply because of a lack of proper business management practices, lack of skilled labour, brain drain, unavailability of financial skills, lack of performance analyses of business operations and incompetent senior managers. South Africa dropped from 44th position to 52nd position out of 59 countries in the 2011 *IMD World Competitiveness Yearbook*, and there is thus a need for South African SMEs to become better equipped to survive in the long run if they want to remain a force in the economic growth and development of the country. Julien (1998) emphasises that although financial problems affect all firms irrespective of their size, the lack of management skills and formal financial planning systems are among the most cited reasons for the failures of small businesses. Analoui and Karami (2003) added that the major reasons for SME failure is related to managerial causes such as the lack of strategic thinking and long-term planning. Barron (in Van Eeden, Vivier & Venter 2003: 13) points out that the ideas of SMEs are often good and the people behind them are competent but “they do not have a clue on how to run the business” and have no underlying understanding of business fundamentals. As such, Khatri (2000) emphasised the need for SMEs to constantly focus on their competitive strengths in order to develop appropriate long-term strategies. Additionally, Fawcett and Myers (2001) are of the view that organisational performance is directly influenced by organisational strategy and the structure of the

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organisation (which are seen as their choice of business practices). Thus, SMEs should implant their valuable resources in their core business strategies, and implement the strategies using best business practices as a means to enhance their performance, thereby ensuring long-term survival and success (Kelliher & Reinl 2009).

The focus of this study is to examine empirically which business practices are implemented by SMEs and how these impact on their optimal performance. This study adopts a research design that builds on the assumption that each business practice has a particular impact on SME performance and that a combination of business practices will have an enhanced impact on SME performance. This enhanced impact on SME performance is considered to be the optimal business performance that SMEs should desire to achieve. Achieving optimal business performance will enable SMEs to succeed and become more sustainable in the long run and hence to make a large contribution to the national economy. Therefore, understanding which business practices to implement as a means of enhancing SME performance is critical for SMEs, especially as these business practices affect their day-to-day running and achievement of their long-term visions.

Literature review

For SMEs, good business practices are often a matter of using common sense to determine what works in particular situations. Every business must therefore ensure that its business practices evolve to continue meeting its needs. This entails re-examining the operations of a number of businesses and determining which operations are most successful. This will help to set standards against which similar businesses are measured, to ensure that the plans for progress are directed towards achieving similar goals. After a review of existing literature, this study focuses on six business practices (marketing practices, strategic planning practices, human resource management practices, risk management practices, performance management practices and teamwork practices) that have attained a significant level of recognition by prior studies with respect to firm performance.

Marketing practices and firm performance

Moloney, Fahy & McAleer (2005) define marketing as a business practice that focuses on the importance of having a profound appreciation for the customer so that the marketer can match or surpass the needs of the intended market better than the competition and as a result provide the firm with a continual competitive advantage in the market place. According to Arsalan, Naveed and Muhammad (2011), it is

indispensable for every business to conduct marketing practices. Ghouri, Khan, Malik & Razzaq (2011) emphasise that executing a proper marketing strategy adds excellence to a firm's activities and strengthens the competitiveness and market share of the firm. Firm performance has been established to directly depend on efficient marketing practices (Andres, Salinas & Vallejo 2009). Kumar and Petersen (2005) established seven marketing strategies that can maximise the profitability of a firm as well as proliferate its performance. Porter (1985) brought forth a generic strategy which explained that for a business to maximise its performance, it should either strive to be a low-cost producer in its industry or should differentiate its line of products/services from those of other businesses. According to John and John (2006), businesses that use the differentiation strategy should focus primarily on marketing as a means of distinguishing their products and services from those of their competitors. Therefore, maximising business performance through the differentiation strategy is directly linked to the marketing practices of the business.

Strategic planning practices and firm performance

Young (2003: 4) defines strategic planning as “a formal yet flexible process to determine where an organisation is currently and where it should be in future”. In the same vein, Branka and Boštjan (2004) established that the core of strategic planning practices is to have a clear vision and objectives. Strategic planning practices have been seen to have a positive impact on firm performance (Eriksen 2008; Hussam & Raef 2007). Wickham (1998) further states that strategic planning is very beneficial for SME performance as it forces the entrepreneur/manager to continuously think about open business questions and seek out solutions. It is presumed that these solutions will normally aim to achieve the SME’s vision and objectives, which will therefore result in a higher performance of the SME. However, Robinson and Pearce (1984) argued that strategic planning is not a popular practice among SMEs, because they do not have the time or staff to invest in strategic planning. They further argued that research on the impact of strategic planning for SMEs has been inconclusive because many SMEs do not plan. A study by Dincer, Tatoglu & Glaister (2006) showed that Turkish SMEs were increasingly turning their attention towards strategic planning practices. This was probably because of the many benefits of strategic planning for SMEs. Furthermore, Wang, Walker and Redmond (2010) have established that strategic planning practices are more common in better-performing SMEs.

Human resource management practices and firm performance

Tocher and Rutherford (2009: 457) define human resource management practices (HRM) as “a set of distinct but interrelated activities, functions and processes that are directed at attracting, developing, and maintaining (or disposing of) a firm’s human resources”. Collins, Erickson and Allen (2005) elucidate that HRM practices are primarily aimed at effectively managing people. They established a general process through which HRM practices impact on the performance of a firm as follows: effective employee management practices lead to positive employee outcomes or behaviour, which then results in positive firm performance (both operational and/or financial). A study by Fabling and Grimes (2007) showed that HRM practices positively affect a firm’s performance. Many other studies (Jarventaus 2007; Rizov & Croucher 2008; Khan 2010) have also established a positive relationship between HRM practices and firm performance. However, Lau and Ngo (2004) state that although literature studies have established a strong positive relationship between HRM practices and firm performance, this is not necessarily a direct relationship. Although the relationship might not be direct, as explained by Lau and Ngo (2004), many researchers have advocated that the HRM practices of a firm can and should contribute to firm level competitive advantage and value creation (Roehling, Boswell, Caligiuri & Feldman 2005). As a result of this competitive advantage, firms can improve and sustain their performance. King-Kauanui, Ngoc and Ashley-Cotleur (2006) found that HRM practices had a significant positive effect on Vietnamese SME performance. SMEs can thus increase their performance by developing and executing best HRM practices.

Risk management practices and firm performance

Keizer, Halman & Song, (2002) define risk management as the identification, assessment and mitigation of risks involved in a project. With this definition, it is necessary to understand what risk entails to better comprehend the definition of risk management. Following ISO standardised classification, risk is defined as “the effect of uncertainty on (achievement of) objectives” (ISO 2009). Various studies (Hoyt, Moore & Liebenberg 2006; Nocco & Stulz 2006) have shown that the use of risk management practices increases a firm’s performance. Risk management practices include purchasing insurance, maintaining cash reserves, installing security systems, diversification, recruiting, safety, training, coaching, policy and procedure development, dealing effectively with employee complaints of harassment or discrimination, and uniform termination procedures. A study by Ow (2007) further

emphasised that in order to enhance business performance, risk management practices should be simplified and embedded into normal business operations, planning and budgeting processes, and organisational culture. SMEs therefore need to properly execute the risk management strategies they develop as a means of enhancing their performance. This can be done by using risk management tools designed for SMEs such as the RDM tool by Keizer et al. (2002), CEREN-ESC tool by Volery (2008), PRIMA method by Alquier and Tignol (2006), INNORISK by Paasi et al. (2007) and Ricondo risk management tool by Ricondo, Arrieta & Aranguren (2010).

Performance management practices and firm performance

Performance management (PM) is defined by Aguinis (2007: 76) as “a continuous process of identifying, measuring and developing the performance of individuals”. According to Armstrong and Baron (2005), PM is a strategy that relates to every activity of an organisation; its implementation depends on organisational context and can vary from organisation to organisation. Cokins (2004) affirms that performance management helps managers to sense uncertain situations earlier and react to them more quickly. Aguinis (2007) notes that a positive relationship exists between PM and better business performance. PM allows people to monitor their own performance, boost motivation, communicate an organisation’s shared vision, define expectations and arrive at an agreement. Armstrong (2006) elucidates that an organisation’s performance management system helps to create a high performance culture in which all managers, employees and members of an organisation take responsibility for constant improvement of their skills and business processes. Aslam and Sarwar (2010) further add that PM practices provide evidence of whether anticipated results have been achieved and of the extent to which each member of the organisation has efficiently completed his/her job well, as the information will serve as a good base for feedback to managers and help employees to properly monitor their strengths and weaknesses. Harbeke (2010) identified some basic employee performance management practices (providing employees with meaningful feedback on a consistent basis, being clear about objectives, helping employees to see how their work matters to the organisation, identifying and rewarding employees fairly and offering employees opportunities for growth and development). Vichitdhanabadee, Wilmshurst and Clift (2009) established that in order for SMEs to survive and succeed in their business operations, they must continually improve and develop their performance by ensuring that they maintain adequate resources such as information, employees and instruments and use them to generate greater benefit for their businesses.

Teamwork practices and firm performance

Teamwork is defined as “the ability to work together towards a common vision, the ability to direct individual accomplishment towards organisational objectives” (Auditor General 2007). According to Andrew Carnegie, “It is the fuel that allows common people to attain uncommon results” (quoted in Nirmala & Deborah 2011). Teamwork is a crucial aspect of a business; it entails working in collaboration with a group of people using individual skills and providing constructive feedback to achieve stated goals and objectives. Thus, in a teamwork environment every member of an organisation needs to understand that thinking, planning, decisions and actions are better when performed cooperatively. Teasley (2008) established that businesses that embraced the concept of teamwork reported increased performance in work production, problem solving, new growth stimulation, enhanced employee morale and increased input when managed correctly. Teamwork has the advantages of reducing fluctuations in performance, improving work morale, creating an environment that facilitates information exchange and so-called knowledge sharing, improving a company’s performance and boosting employees’ well-being (Hayes 2005).

Determining perceived firm performance

Lebas and Euske (2002: 68) define performance as “doing today what will lead to measured value outcomes tomorrow”. A firm’s performance is an important dependent variable in business research (Rauch, Unger & Rosenbusch 2007: 1). The performance of a firm can be viewed from several different perspectives, and various aspects can jointly be considered to define firm performance. Assessing a firm’s performance and its measurement is difficult, because performance refers to several organisational outcomes, which include both subjective and objective elements. Rauf (2007) asserts that most managers are likely to act on their subjective opinions with regard to a competitor’s performance. With regard to objective measures, Guest, Michie, Conway and Sheehan (2003) believe that there are clear attractions in objective measures. Consequently, Rauf (2007) believes that it will be helpful to select a blend of some key organisational outcomes when measuring a firm’s performance.

Recent studies (Khan 2010; Rauf 2007; Sang 2005) have used financial, non-financial and operational metrics to measure firm performance. The financial measures include profit, sales and market share. The non-financial measures comprise productivity, quality, efficiency, and attitudinal and behavioural measures such as commitment, intention to quit and satisfaction. The operational measures include production flexibility, product cost, product quality, number of customers

and product delivery (Khan 2010). Other studies have measured a firm's performance based on stakeholder theory (the Balanced Scorecard), which takes into consideration employees and their representatives, customers, suppliers, governments, industry bodies and local communities (Hubbard 2006). In determining the perceived SME performance, this study operationalises a firm's performance in terms of financial, non-financial and operational metric, as established in previous studies (Khan 2010; Nguyen & Bryant 2004).

Research design

The core assumption established in the research design is that each of the business practices (marketing, strategic planning, human resource management, risk management, performance management and teamwork) positively influences the performance of an SME. Moreover, a combination of business practices enhances the performance of an SME, thus enabling the SME to achieve optimal business performance. This is illustrated in Figure 1.

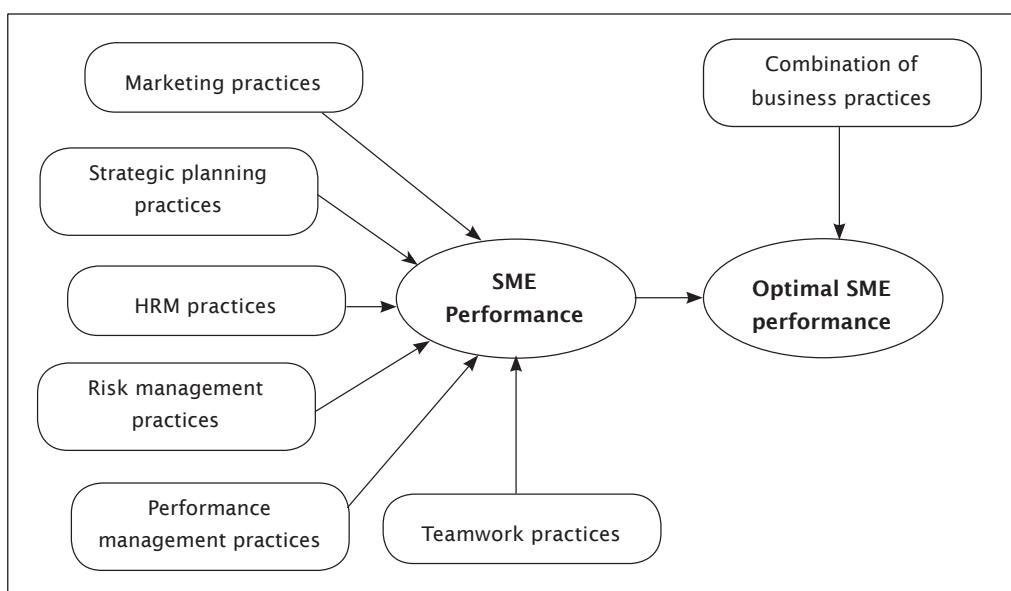


Figure 1: Proposed research design

Methodology

Data collection

This study employed a questionnaire survey approach to collect the data required to determine which business practices are implemented by SMEs and how these impact on their optimal performance. Self-administered questionnaires were distributed to the respondents in two phases. In the first phase, the questionnaires were administered at conference settings in the Bloemfontein area, while in the second phase; the questionnaires were administered at the business premises of the respondents. The questionnaire comprised two major sections. Section A included questions on teamwork practices, risk management practices, planning practices, marketing practices, human resource management practices and performance management practices drawn from the review of the literature on business practices and later through exploratory research and pre-testing. Section B comprised financial, non-financial and operational metrics related to the performance of an SME. The questionnaire was pre-tested through structured interviews with 15 entrepreneurs, and the results were used to redesign and eliminate questions that were unclear. A five-point Likert scale was used where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree.

Population

The population for the study comprised entrepreneurs in Bloemfontein, Botshabelo and Thaba'Nchu (Free State province of South Africa). The population group represented a principal urban area (Bloemfontein), an urban area (Botshabelo) and a small town (Thaba'Nchu) in South Africa. This population group was selected so that the findings could possibly be generalised to other parts of South Africa with similar levels of economic activity in the SME sector. In order to reach a significant number of entrepreneurs, notable organisations such as the Free State Development Corporation (FDC) and the Small Enterprise Development Agency (SEDA) database of SMEs were used for sampling. The researcher also obtained a list of contact details of entrepreneurs from these organisations and contacted them at their various business locations to administer the questionnaires. The researcher attended a colloquium on social entrepreneurship organised by the International Institute for Development and Ethics (IIDE) at the University of the Free State on 24 March 2011, and the launch of SA BLACK BUSINESS at Motheo Resource Centre in Bloemfontein on 31 March 2011. During these two events, the researcher met with entrepreneurs from many parts of South Africa and issued questionnaires to those

from Bloemfontein, Botshabelo and Thaba'Nchu. At these events, the participant list included a section indicating the place that the participant came from. The researcher used this information to contact and issue questionnaires during breaks and after sessions to entrepreneurs from the target population for the study. The researcher also made a public announcement during these events inviting entrepreneurs from the target areas to participate in the study. A total of 350 questionnaires were issued (83 at the conferences and 267 at the business premises of the entrepreneurs), of which 200 were fully completed and returned (57.1% response rate). For the fully completed questionnaires, the representation of entrepreneurs from each of the three towns was as follows: 52% from Bloemfontein, 28.5% from Botshabelo and 19.5% from Thaba'Nchu. The respondents were mainly owner-managers who were actively involved in the day-to-day business operations, which enabled this study to establish which type of business practices they were engaged in.

Sampling method

The study made use of stratified random sampling, snowball sampling and convenience sampling. The initial respondents were identified using a list of entrepreneurs provided by FDC, the colloquium on social entrepreneurship organised by the IIDE, and the SA BLACK BUSINESS launch. Stratified random sampling and snowball sampling techniques were applied to the list of entrepreneurs received from the FDC and SEDA, while convenience sampling was applied to the entrepreneurs at the conference arenas. Stratified random sampling was used to ensure that specific groups of business enterprises were represented among the chosen sample. This was achieved by dividing the population into groups so that businesses were selected from both the urban areas as well as the rural areas and also from different business sectors. The stratified random sampling technique used was proportionate (i.e. the number of questionnaires issued at each of the three locations was proportional to the population of the area). Bloemfontein with the highest population received many more questionnaires than Botshabelo or Thaba'Nchu. The initial list of entrepreneurs comprised 57% from Bloemfontein, 38.2% from Botshabelo and 4.8% from Thaba'Nchu. The random sample used for issuing the questionnaires was then selected proportional to the percentage of entrepreneurs from each location in the list (i.e. the Bloemfontein strata contained 57% of the randomly issued questionnaires, while the Botshabelo and Thaba'Nchu strata contained 38.2% and 4.8% respectively). Of the questionnaires issued to the random sample, responses were received from 60% of those issued in Bloemfontein, 55.7% of those issued in Botshabelo and 80.4% of those issued in Thaba'Nchu.

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The snowball sampling technique was then applied to these initial respondents from the list of entrepreneurs, as they referred the researcher to other entrepreneurs operating in the area. This procedure was chosen because the researcher was unable to find a complete list of all SMEs from the Free State Development Corporation (FDC) and the Small Enterprise Development Agency (SEDA) database of SMEs. The researcher applied the snowball sampling technique as suggested by Cooper and Schindler (2006: 414 & 425). Lastly, the convenience sampling technique was applied to the entrepreneurs at the colloquium on social entrepreneurship organised by the IIDE and the SA BLACK BUSINESS launch. At these events, the researcher issued questionnaires to the entrepreneurs from Bloemfontein, Botshabelo and Thaba'Nchu who showed willingness to participate in the study.

Measures

SME performance was measured using a multidimensional performance measure (with financial, non-financial and operational dimensions). The variables representing these dimensions were net profit, total amount of sales growth, number of customers, product delivery and efficiency. Business managers are usually more open about offering their general views when answering survey questions than about providing accurate quantitative data (Montes, Moreno & Morales 2005). This study therefore employed an approach that determined the perceptual measure of financial, non-financial and operational metrics of SME performance. Net profit, total amount of sales and number of customers were measured using a modified indicator for firm performance as in Rita, Lages and Lages (2003), and Vorhies and Morgan (2005). Product delivery and efficiency were measured using a scale similar to the one used by Khan (2010).

The SME performance measure consisted of ten items relating to net profit, total amount of sales, number of customers, product delivery and efficiency. The responses were measured using a five-point assessment scale ranging from 5 = strongly agree to 1 = strongly disagree. All ten items were assumed to have the same effect on the performance of an SME. The primary reason for this assumption was to ensure that for any SME to be considered as having optimal performance, it should be thriving well in all aspects of financial, non-financial and operational metrics. The questions were asked such that 'strongly agree' indicated the highest positive effect on firm performance while 'strongly disagree' represented the least positive effect on SME performance. The statements used in the items for measuring performance were drawn from existing firm performance measures listed above and modified after an in-depth study of the literature on firm performance discussed. The sum

of the numerical values for all ten items gave an indication of the SME's perceived performance level. The possible maximum value that could be obtained was 50 (five for each item), and the minimum was 10 (one for each item). The result from each respondent was then used to calculate the performance level of the SME as follows: SME performance value (P) = $\Sigma x/n$, where x represents the value from each of the 10 items and n represents the number of items (10).

The value of P lies between the interval [1, 5]. The P value is then compared with the values in Table 1 to determine the level of performance of the SME.

Table 1: The perceptual scale for business performance

Interval	Description
[1, 2.5]	Low SME performance
(2.5, 4.5)	Mediocre SME performance
[4.5, 5]	Optimal SME performance

In order for an SME to fall in the range of optimal performance, the SME needs to achieve a performance value of at least 4.5. This implies that the SME needs to perform extremely well in at least eight of the ten items used to measure its performance level. For an SME to fall in the range of low performance means that it has achieved a maximum performance value of 2.5. Achieving such a value would entail that the SME has less than four items in which it performs extremely well. SMEs with mediocre performance have a value greater than 2.5 but less than 4.5. These SMEs demonstrate average or better than average performance in more than five of the items used to determine their performance level.

The use of a business practice in an SME was determined from the self-reported information provided by the entrepreneur about the business. Based on the number of items and the importance of each item as emphasised in prior literature, an SME was considered to be implementing a certain business practice if it carried out more than half the key aspects of the business practices that were established as items in the self-reporting questionnaire.

Analysis

The Statistical Package for the Social Sciences (SPSS) and GNU PSPP statistical software were used to analyse the data, and descriptive statistical tools such as percentages, histograms and charts were used for interpretation. Inferential statistics

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such as cross tabulation, chi-square and Pearson correlation coefficient were used for further analysis in this study.

Results

Before analysing the empirical data, an internal consistency measure was performed (Cronbach's alpha) in order to assess the reliability of the measurement instruments. The alpha reliabilities of these factors were 0.93 for teamwork, 0.90 for risk management, 0.87 for strategic planning, 0.88 for marketing, 0.81 for human resource management, 0.84 for performance management and 0.85 for SME performance. Each of the business practice variables was determined using a five-point Likert scale with three to five items. The SME performance variable was determined using a five-point Likert scale with ten items. Reliability is sufficient in a measure if the value of Cronbach's alpha is 0.70 and above. The reliabilities for all measures exceeded the critical value of 0.70, signifying that the entire measure is highly reliable.

Table 2: The percentage of SMEs that carry out business practices (n=200)

Business practices	Percentage of SMEs carrying out the practice	Percentage of SMEs not carrying out the practice	Total
Marketing	64	36	100
Strategic planning	47	53	100
Human resource management	49	51	100
Risk management	45	55	100
Performance management	66	34	100
Teamwork	63	37	100
All six business practices	17.5	82.5	100

The results shown in Table 2 indicate that the dominant business practices in which entrepreneurs engage are performance management practices (66%), marketing practices (64%) and teamwork (63%). The business practices that SMEs carry out the least are human resource management practices (49%), strategic planning (47%) and risk management (45%). The results show that only 17.5% of SMEs implement all six business practices.

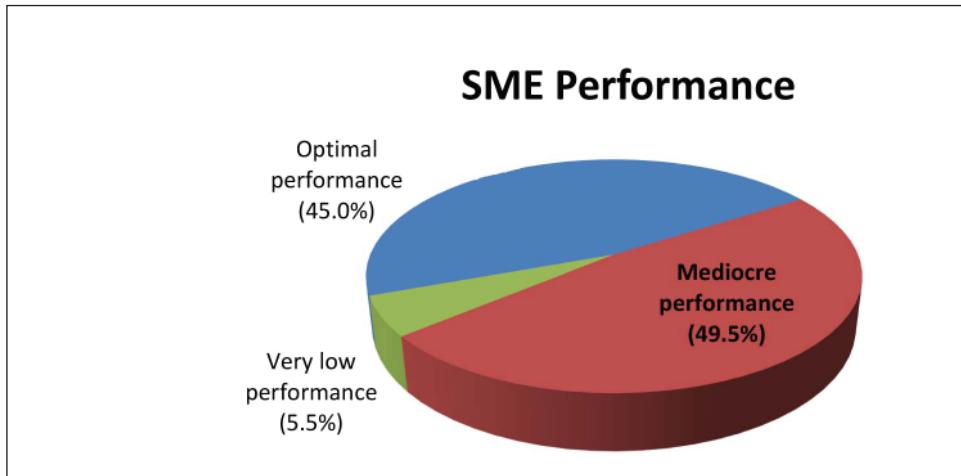


Figure 2: Performance of SMEs in Bloemfontein, Botshabelo and Thaba'Nchu

Figure 2 shows that 45.0% of SMEs in Bloemfontein, Botshabelo and Thaba'Nchu demonstrate optimal performance, 49.5% mediocre performance and 5.5% very low performance.

Table 3: Pearson correlation analysis between business practices and SME performance

Business practices	SME performance	
	Correlation coefficient	Sig (2 tailed)
Marketing	0.47	0.00
Strategic planning	0.45	0.00
Human resource management	0.33	0.00
Risk management	0.30	0.00
Performance management	0.44	0.00
Teamwork	0.29	0.00

Note: Significance is at $p<0.05$ level

Table 3 shows the Pearson correlation analysis between business practices and SME performance. The business practices are the independent variables, while SME performance is the dependent variable. The results show that all the business practices are positively correlated with SME performance. It is observed that among these six business practices; marketing practices (0.47), strategic planning practices (0.45) and

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performance management practices (0.44) are the three dominant business practices that have a high influence on SME performance.

Table 4: Relationship between business practices and SME performance (n=200)

SME performance	Business practices (%)					
	Marketing	Strategic planning	Human resource management	Risk management	Performance management	Teamwork
Optimal	86.7	81.3	61.2	58.1	80.8	74.3
Mediocre	51.5	43.9	40.6	34.4	56.2	58.4
Very low	0.0	0.0	27.3	27.3	27.3	18.2

The results in Table 4 show that for SMEs that have optimal performance, the dominant business practices in which they engage are marketing practices (86.7%), strategic planning practices (81.3%), performance management practices (80.8%) and teamwork practices (74.3%), and the least-used business practices are human resource management practices (61.2%) and risk management practices (58.1%). Similarly, for SMEs that have mediocre performance, the dominant business practices are teamwork practices (58.4%), performance management practices (56.2%) and marketing practices (51.5%), and the least-used business practices are strategic planning practices (43.9%), human resource management practices (40.6%) and risk management practices (34.4%). Furthermore, it is observed that of the SMEs that have very low performance, none of them engage in marketing practices and strategic planning practice (which are seen as the most dominant business practices among SMEs that have optimal performance), while 27.3%, 18.2%, 27.3% and 27.3% engage in performance management practices, risk management practices, human resource management practices and teamwork practices respectively.

The Pearson correlation statistics in Table 5 show that all the business practices positively correlate with one another. However, the degrees to which they positively correlate vary for each pair of business practices. It is also observed that marketing practices, strategic planning practices and performance management practices are the three practices that have a high correlation among themselves.

Figure 3 depicts the relationship between SMEs that implement all six business practices and their performance. The results show that 97.1% have optimal performance and 2.7% have mediocre performance, while none of them have very low performance.

Table 5: Relationship between business practices

Bivariate correlations: Pearson correlation test		Dependent variables				
Independent variables	Marketing	Strategic planning	Human resource management	Risk management	Performance management	Teamwork
Marketing	1					
Strategic planning	0.69	1				
Human resource management	0.54	0.49	1			
Risk management	0.49	0.57	0.52	1		
Performance management	0.70	0.65	0.70	0.51	1	
Teamwork	0.48	0.47	0.43	0.55	0.42	1

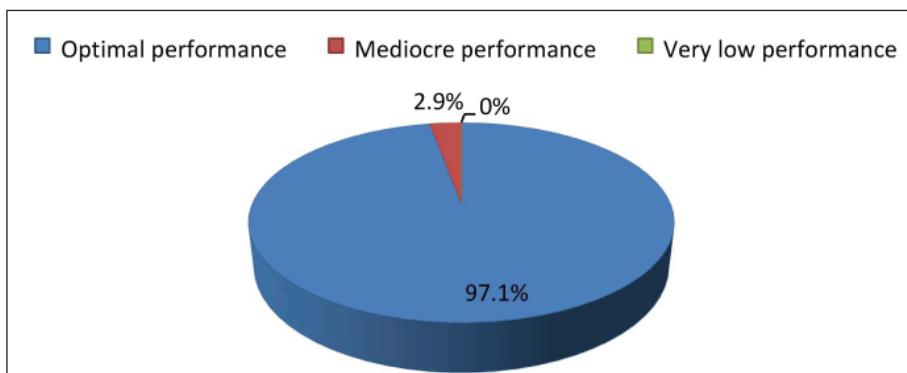


Figure 3: Performance of SMEs that implement all six business practices

Figure 4 shows the relationship between the SMEs that do not implement all the six business practices and their performance. From the results, it is observed that 33.9% have optimal performance, 59.4% have mediocre performance and 6.7% have very low performance.

After a review of the various business practices that most businesses implement, this study identified marketing practices, strategic planning practices, performance management practices and human resource management practices as the most pre-

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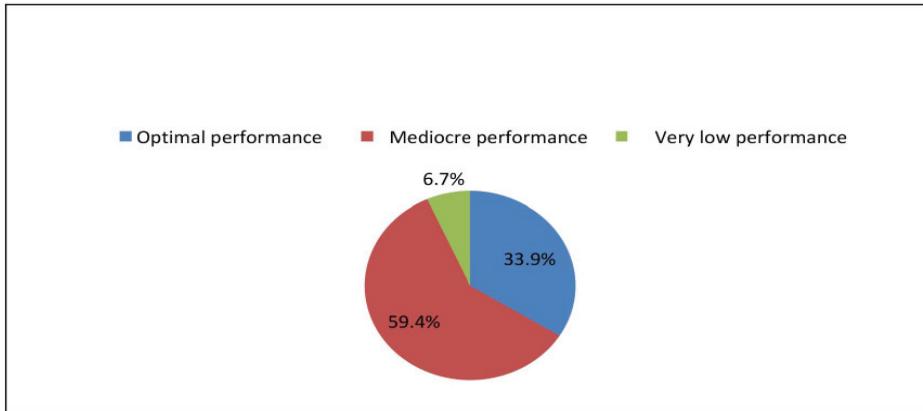


Figure 4: Performance of SMEs that do not implement all six business practices

valent business practices among optimally performing businesses (seen in Table 4). These practices also seem to have a high influence on SME performance (Table 3). This study will establish how SMEs that implement only these four practices perform. The results are presented in Figure 5.

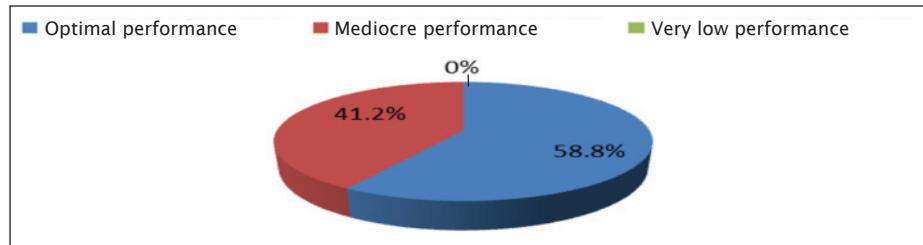


Figure 5: Performance of SMEs that implement only marketing practices, strategic planning practices, performance management practices and human resource and practices

Figure 5 shows that 58.8% of SMEs that implement only the four business practices (marketing, strategic planning, performance management and human resource management) have optimal performance, while 42.2% have mediocre performance and none have very low performance. This shows that SMEs that implement all four business practices stand an above-average chance of achieving optimal performance. This is not an attempt to discredit the other business practices, but a means to identify a set of business practices that SMEs should desire to implement, as these are the most common business practices implemented by SMEs with optimally performing SMEs.

Discussion

This study empirically revealed that of the six business practices, the most popular ones implemented by SMEs were performance management practices, marketing practices and teamwork practices, with 66%, 64.5% and 63% of SMEs engaging in the respective practices. Given that marketing practices have been identified as a necessity for all businesses (Arsalan et al. 2011: 99), it is a matter of concern that up to 35.5% of SMEs do not engage in marketing practices. This study also revealed that more than 50% of the SMEs do not engage in strategic planning practices, risk management practices and human resource management practices.

The low percentage of SMEs found to be engaging in strategic planning is in line with the findings of a study by Robinson and Pearce (1984)s who established that strategic planning was not a popular practice among SMEs. Also, this study established that each of the six business practices has a positive and significant relationship with SME performance. This result confirms the findings of several studies (Andres et al. 2009; Fabling and Grimes 2007; Nocco and Stulz 2006; Teasley 2008; Aguinis 2007) that also established a positive relationship between each of these business practices and firm performance.

This study also determined that only 46.5% of SMEs have optimal performance, which shows that there is a need to encourage SMEs to engage in good business practices that lead to optimal business performance. When looking at which business practices were being implemented by SMEs with optimal performance, this study showed that the dominant business practices among optimally performing SMEs were marketing practices, strategic planning practices and performance management practices. This study further found that these three business practices are highly correlated with one another, which shows that if any of the practices is properly implemented, it will probably impact positively on the way in which the other two practices are implemented. The fact that strategic management practices are more common among SMEs with optimal performance confirms the results of the study by Wang et al. (2010), who established that strategic planning practices are more common in better-performing SMEs. The vital role of these are practices in influencing the performance of SMEs, and the fact that more than 50% of SMEs do not carry out strategic planning, emphasises the need for SMEs to intensify the implementation of these practices, alongside the other five business practices.

Furthermore, it was observed that 91.7% of SMEs that implemented all six business practices achieved optimal performance, and the remaining 2.9% had mediocre performance. This shows that if SMEs implement all six business practices, they have a very high chance of achieving optimal performance. Of the SMEs that did not implement all six business practices, only 33.9% had optimal business performance.

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Of the SMEs that implemented only the four business practices that had the highest impact on SME performance, only 58.8% had optimal performance. This indicates that those SMEs that implemented only four business practices or fewer had a lower chance of achieving optimal performance than those that implemented all six business practices. Since SMEs that implemented all six business practices had a very high chance of achieving optimal performance, and only 17.5% of the SMEs in the study implemented all six practices, it is plausible to propound that if more SMEs could engage in these business practices, the high failure rate of SMEs in South Africa would be drastically reduced. SMEs should therefore be encouraged to take it upon themselves to implement all six business practices, so that when combining the effect that each business practice has on SME performance, the SME will have a very high chance of achieving optimal performance.

Limitations

When considering the results and conclusions of this study, it is vital to acknowledge the following limitations of the study in order to put the findings in an appropriate context:

- Firstly, the geographic area covered by the primary survey represents only three towns in South Africa (Bloemfontein, Botshabelo and Thaba'Nchu), which calls in question the possible generalisation of the findings to some extent. However, the towns chosen operate at different economic levels, and in this sense could possibly serve as representations of many other parts of South Africa (for example, Bloemfontein represents a principal urban area, Botshabelo an urban area and Thaba'Nchu a small town).
- The data used for analysis were obtained in the form of perceptual measures for business practices and SME performance. The use of perceptual measures could have permitted possible bias in the responses reported by the entrepreneurs, as suggested by Paul and Anantharaman (2003). Although verifiable objective measures are more desirable, there has been evidence indicating that perceptual measures of firm performance correlate well with objective measures (Geringer & Hebert 1991; Powell 1992). Moreover, prior studies (Vorhies & Morgan 2005; Khan 2010) have made extensive use of perceptual measures of firm performance, and the benefits have been shown to outweigh the risk (Fey 2000).
- Lastly, since stratified random sampling was used, the SMEs from each town did not have an equal chance of being selected, as many SMEs were chosen from Bloemfontein. The sizes of SMEs and sectors were not controlled, and it is possible that a large urban area such as Bloemfontein could have bigger SMEs

than a small town such as Thaba'Nchu. Nevertheless, the focus of the study was mainly on the business practices of SMEs irrespective of their location, size and other firm-specific characteristics. Future studies could break down firm-specific characteristics to determine which practices work better for which size of firm (and investigate, for example, whether HRM practices have a greater impact on firm performance for larger SMEs than for smaller SMEs).

Conclusion

The rationale for this study was to examine empirically which business practices are implemented by SMEs and how these business practices impact on their optimal performance. Business practices such as marketing practices, strategic planning practices, human resource management practices, risk management practices, performance management practices and teamwork practices were examined. The performance of SMEs was established in terms of optimal performance, mediocre performance and very low performance. Each of the six business practices examined indicated a positive and significant relationship with SME performance. It was also observed that 97.1% of the SMEs that implemented all six business practices had optimal performance, and the remaining 2.9% had mediocre performance. SMEs that implemented only four business practices had a lower chance of achieving optimal performance than SMEs that implemented all six business practices. It thus becomes imperative for SMEs to adopt and implement all six of these business practices as a means of achieving optimal business performance, which will enhance their success and sustainability. Entrepreneurs, especially owner/managers, are therefore encouraged to identify the missing practices in their businesses and ensure that they implement these in order to enhance their chances of achieving optimal SME performance. Furthermore, this study can guide business consultants and SME support mechanism to tailor their SME training programmes so as to help SME owners/managers to acquire the necessary skills to properly implement these six business practices, which will enable the SME to achieve optimal performance.

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