

## How do entrepreneurs measure success in South Africa?

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### Keywords

Entrepreneurs, South Africa, Entrepreneurs' success, Characteristics, Measure success

### Abstract

*In this secondary research study the question was researched to establish how entrepreneurs' measure success in South Africa. In South Africa entrepreneurs' measure success by evaluating the profitability of the business; the reasons for starting such a business and effective managing of business information. Growing customer is indicated as the least important measuring criteria for the success of an entrepreneurial small business.*

*This research concludes that South Africa has too few people with entrepreneurial small business managing qualities which hamper measuring of the success of an entrepreneurial small business. Most entrepreneurial small businesses measure their success only by profitability which is a short term outlook. May be that is why so many entrepreneurial small businesses are unsuccessful leading to a situation where the South African economy performs poorly because only a few people succeed as real entrepreneurs small business owners.*

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### 1 Introduction

Modern interest in the entrepreneur can be traced back as far as the nineteenth century, but empirical studies of entrepreneurial behaviour are comparatively recent (Mitton, 2010). The majority of the research that has taken place on the topic of entrepreneurs has been to determine aspects of their background and personality characteristics that distinguish them from the general population. Far less research has investigated how entrepreneurs measure success. Success means different things to different people, but by and large, the success of a business is measured in terms of money. Measures of the amount of money a business made are measured in terms of turnover or net profit or cash flow or a combination of all of these. In this paper secondary research will be utilize to establish how entrepreneurs measure success in South Africa.

### 2. Research methodology

This research undertook secondary research to establish how South African entrepreneur small businesses measure success. The study was a preliminary study for the subsequent research in this field. The study was essentially textual as a substantial corpus of literatures were consulted.

### 3. Literature Review

Numerous literatures were consulted to establish how South African entrepreneur small businesses measure success, first, entrepreneurs are defined and characteristics of entrepreneurs described and lastly measurements of entrepreneurs' success will be outlined.

#### Defining Entrepreneurs

Research on entrepreneurs has failed to find definitive traits that define entrepreneurs (Deamer, 2014). There are, however, several definitions from various researchers that attempt to provide the most holistic definition of entrepreneurship. For example, it has been defined as the ability to create an on-going business activity where none existed before (Cunningham, 2014), while Thompson (2009) defines an entrepreneur as someone with a vision who spots a new opportunity and makes a conscious decision to act on it, starting something new. Throughout this review, opinions are presented from a variety of researchers. It will be highlighted further on in the review, just how diverse the points of view are on this topic. The definitions of entrepreneurship are endless, and so too are the supposed characteristics that entrepreneurs possess. There is, however, little

consensus. Carland et al (2011) concurs that entrepreneurial research has been hampered by a failure to define the entrepreneur, and the lack of agreement about the essential characteristics that contribute to making the entrepreneur successful.

Littunen (2010) believes that characteristics typical of a successful entrepreneur are the ability to take risks, innovativeness, knowledge of how the market functions, manufacturing know how, marketing skills, business management skills and the ability to co-operate. Timmons (2009) alternatively identified characteristics such as energy and raw intelligence as characteristics that the majority of successful entrepreneurs possess, while Goodman (2014) defines entrepreneurial characteristics as the consuming passion to succeed, a vivid imagination and a resolute sense of self-determination. He believes that successful entrepreneurs act out of choice and are never victims of fate. Goodman's (2014) research identified that with successful entrepreneurs, there is always a choice, a chance to succeed and a decision to see the unexpected as a challenge, not a crisis. Alternatively, unsuccessful entrepreneurs display uncertainty about their abilities and often blame the market and anyone or anything else that they can pin the blame on.

Deamer & Earle (2014) reviewed the literature extensively to reach a refinement of the definitions of the entrepreneur. They offered the following definitions are: The small business owner: "An individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be his primary source of income and consumes the majority of this time and resources. He sees it as an extension of his personality and intricately bound with family needs and choices." The entrepreneur: "An individual who establishes and manages a business for the principal purpose of profit and growth. He is characterized principally by innovative behaviour and will employ strategic management practice in business."

However, Van Scheers (2014) warns that owning or running a business does not make a person an entrepreneur. The key to entrepreneurship is creativity, innovation and being an agent of change. Many business owners are managers, running a business which they have copied from somebody else and they are managers and cannot be classified as entrepreneurs. A business owner may be classified as an entrepreneur only when he/she comply with one or more of the following:

- Introduces a new or improved product or service;
- Opens up a new market;
- Uses a new source of supply of raw materials; or
- Creates a new business.

Whatever specific business activity entrepreneurs are engage in they are considered the heroes of free enterprise and they all need to obtain managerial skills. Capable entrepreneurs and managers achieve goals successfully, resourcefully and achieve targets with the minimum waste of resources. Unfortunately, many South African entrepreneurs can rather be classified as small business owners. Next, characteristics of entrepreneurs will be discussed.

### **Characteristics of entrepreneurs**

Characteristics of entrepreneurs are mentioned in the secondary literature include the following: the need for achievement, propensity for risk, tolerance of ambiguity, self-confidence, innovation, internal / external locus of control, ability to co-operate, always have a choice available, energy, focus, heightened awareness, imagination, ingenuity, initiative, knowledge of market, management skills, marketing skills, need for independence, raw intelligence, resolute sense of self determination, resourcefulness, vision, vivid imagination and willpower.

Cunningham (2011) agrees that entrepreneurs' needs, drives, attitudes, beliefs and values are primary determinants of what they do, and that more often than not behave in accordance with their values, despite variations in situations. This school of thought focuses on personality characteristics of entrepreneurs, including their unique values and attitude to work and life. These personality characteristics, along with certain dominant needs are thought to drive entrepreneurs to behave in

certain way, and can therefore be differentiated from non-entrepreneurs by personality characteristics.

Several authors, through their research, have identified various attitudes and behaviours that successful entrepreneurs possess, and that unsuccessful or less successful entrepreneurs, or the “non-entrepreneur”, are thought to lack. Again, it is clear that there is no consensus among authors as to what attitudes or core competencies are common among entrepreneurs. Furthermore, from the literature available, it cannot be said with any degree of certainty what characteristics or competencies are in fact necessary in order to increase the likelihood of achieving success.

Gardner (2007) believes that becoming a successful entrepreneur goes beyond having the necessary technical skills to produce or distribute a product. The entrepreneur must have vision, focus, ingenuity, resourcefulness and willpower. Entrepreneurship requires an overpowering need to achieve and a willingness to get into the trenches in order to resolve and overcome failures, while simultaneously learning and profiting from them.

Deamers (2014) states that the searches for characteristics that contribute to making an entrepreneur successful have consistently failed to provide definitive answers. Three personality characteristics have received considerable attention in the many publications on what makes entrepreneurs successful:

1. Personality values such as honesty, duty responsibility and ethical behaviour.
2. Risk taking propensity
3. The need for achievement

Nonetheless, the possession of all the characteristics listed above may not be enough to ensure a successful entrepreneur, and several other key characteristics are required to complement the three listed above. There is also a significant amount of literature available that suggests that entrepreneurs are born and not made. There is however consent among various authors including Littunen (2010) and Cunningham (2011), that entrepreneurs can in fact be made better by acquiring certain attitudes and behaviors, through coaching and learning.

Next the measurements of entrepreneurs' success will be outlined.

### **Measuring entrepreneurs' success**

Defining the success of entrepreneurs appears to be a daunting task given the fact that dependable measures are often not available. Organizational success of entrepreneurs is seriously affected by their managerial competencies; in fact, decisions are mainly based on their personal skills and intuition rather than on analysis of information. Carland et al (2014) points out the entrepreneur usually adopts a highly personalised management style, tending to follow a “react and adapt” philosophy and fire-fighting strategies, focusing on short term horizons and not engaging actual strategic planning.

This implies that their needs in terms of performance measurement processes and tools are also different from those of larger companies (Littunen; 2010). Since entrepreneurs suffer from lack of resources, the performance measures should be very simple, synthetic and easily collectable, otherwise the effort needed for measuring would be higher than the benefit gained. Similarly also the procedures for measures collection should be well defined and resource effective. Vesper (2010) supports this view and suggests that the criterion employed to measure small business performance should be reliable, objective, relevant and simplistic. According to Gardner (2008) the success of entrepreneurs can be assessed, using the following measures:

- Profitability is probably the first thing people think about when measuring success.
- Growing customer base showing it effectively reaching target markets.
- Customer satisfaction is an indication that the needs of customers are understood.
- Employee satisfaction is another key indicator of business success.
- Owner satisfaction could also be viewed as a sign of business success.

Entrepreneurial small businesses present some distinctive characteristics that differentiate them from large enterprises. This implies that also their needs in terms of performance measurement processes and tools are different from those of larger companies (Collin and Moore, 2008). Since, entrepreneurial small businesses suffer from lack of resources, the performance measures should be very simple, synthetic and easily collectable, otherwise the effort needed for measuring would be higher than the benefit gained. Similarly also the procedures for measures collection should be well defined and resource effective.

In contracts, Coffey and Herrman (2006) believe that turnover has been the measure adopted by most researchers, and, in particular the growth in turnover, as a measure of success. Mitton (2009) agrees that turnover in terms of tangible contribution to the economy it is probably the best indicator. Other researchers such as Coffey and Herrman (2006) and Douglass (2006) also use this measure.

Vesper (2014) observes that many entrepreneurs do not have growth as an objective and consider their successful if they merely maintain profitability. Liles (2014) identified a type of entrepreneur whose principal objective was personal autonomy and whose income was often below what he would obtain if he were in employment, but he still considers himself successful. Timmons (2009), in a comparison between small businesses in Montreal and several cities in the United States, set the criteria for successful as having been in business for at least 5 years with a higher average return than the industry average. Hornaday & Aboud (2011) consider that staying in business for at least two years qualified a business as being considered successful.

In South Africa entrepreneurs' small business success is often measured by the reasons for starting such a business. A research study conducted by Van Scheers (2010) indicates that different reasons for starting the small business will most likely reflect the success of the small business. Entrepreneurs who have started small businesses to survive unemployment is more likely not to succeed but if they were inspired by formal sector experience the changes are great for success. The study indicates that 63 per cent has either lost or quit their jobs and had to come up with small business to survive in the economy.

The way entrepreneurs manage information is given as another reason for success. The research study conducted by Van Scheers (2010) indicates that data collection reflects that management of information collection in these businesses is below the normal business standards. Most relevant activities and transactions are not recorded. While most of these owners use files to store data manually it revealed to be error prone and inefficient but it is the most affordable and the easiest technology they can apply. It is important to remember that accidental entrepreneurs (people losing employment and have to start a small business to survive) are also challenged by the skills level and financial resources. While the managerial and marketing skills as a shortcoming could be overcome by hiring more skilled individuals to complement them, the respondents have highlighted that they lack finance to employ these skilled individuals. Lack of marketing skills is mentioned by various researchers as an important factor contributing to failure of small businesses in South Africa.

As the aim of this paper is to establish how entrepreneurs' measure success in South Africa a research study by Van Scheers (2014) gathers perceptions from entrepreneurial small businesses on how they measure their success. This study indicates that 66 percent of the respondents consider profitability as the most important measuring criteria for the success of a small business which was confirmed by Kuratko and Hodgetts (2011:36). Growing customer is indicated as the least important measuring criteria for the success of an entrepreneurial small business.

## Conclusion

In this secondary research study the question was researched to establish how entrepreneurs measure success in South Africa. In South Africa entrepreneurs measure success by evaluating the profitability of the business; the reasons for starting such a business and effective managing of

business information. Growing customer is indicated as the least important measuring criteria for the success of an entrepreneurial small business.

This research concludes that South Africa has too few people with entrepreneurial skills managing small businesses which hamper measuring of the success of an entrepreneurial small business. Most entrepreneurial small businesses measure their success only by profitability which is a short term outlook. May be that is why so many entrepreneurial small businesses are unsuccessful leading to a situation where the South African economy performs poorly because only a few people succeed as real entrepreneurs small business owners.

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