SWOT ANALYSIS IN THE SMALL BUSINESS SECTOR OF SOUTH AFRICA: FRIEND OR FOE?

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Abstract

SMEs in South Africa are faced with a number of challenges, particularly poor levels of implementation in terms of accurately monitoring and predicting dynamic change in the macro environment. Following a strategic approach in scanning the external environment for opportunities and threats and identifying an organisation's strengths and weaknesses using a SWOT analysis has become scarce in most SMEs. This research study aimed to establish if SMEs in South Africa use a SWOT analysis as part of their strategic management plan as well as to investigate if SMEs in South Africa take the time to identify and evaluate their internal and external environments. A questionnaire was administered and judgement sampling was used to gather the responses of 104 SMEs. The research identified that respondents were aware of the factors in specific functional areas that could be helpful to achieve business goals. The research also showed that financial management and marketing management were regarded as the most important drivers for achieving organisational objectives. The challenge now is to improve the use of the SWOT analysis of SMEs as they are the lifeline of the South African economy.

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Introduction

The impact and influence of small and medium enterprises (SMEs) on not only a national economy, but on the total sphere of the global business environment have been proven time and again (Kraja & Osmani,2013:76). With the onset of the worldwide financial crisis in 2008-2009, with many economies brought to their knees and many destroyed, resulting in intensified interest in SME growth and the subsequent years of economic stagnation, quite a number of businesses have been developed as saviours of the great collapse (Ardic, Mylenko & Saltane,2011:1). Another concern that had to be addressed is the establishment of viable SMEs in a dynamic environment that experienced rising levels of technological advancement, focused competition, globalisation and customer issues on a daily basis (Banham,2010:19). Hai (2011) explains that due to the above factors, strategic management has become more important for SMEs and that it is vital in offsetting aggressive competition and other issues. The combination of entrepreneurship and strategic management will allow SMEs to grow into sustainable organisations that can assist in stabilising the economy of a country (Kraus & Kauranen,2009:38).

As part of this strategic approach there is a greater focus on conducting a SWOT analysis, which is used to identify an organisation's strengths, weaknesses, opportunities and threats, and which allows management to get a better idea of the environment in which they operate (Helms & Nixon,2010:216). Kalpande, Gupta and Danekar (2010:59) explain that a SWOT analysis gives management a snapshot of their current situation, including their strengths and weaknesses, and the possible challenges and opportunities in their external environment. Unfortunately, numerous studies, including research done by Houben, Lenie and Vanhoof (1999:125) on strategic management tools, confirm that most SMEs have a very superficial idea of both the internal and external environments in which they operate – and consequently a limited understanding of what a SWOT analysis entails – much less what its value is! Banham (2010:19) attributes this problem to the fact that there are very few strategic management tools which are developed specifically for SMEs and tailored to the needs of a typical SME, and which are understandable to them.

2   Research Objectives

The main aim of this study was to establish if SMEs in South Africa use a SWOT analysis as part of their strategic management plan. Furthermore, the study was undertaken to establish whether the following objectives are incorporated:

Do SMEs in South Africa take the time to identify and evaluate their internal and external environments?

How frequently do SMEs in South Africa use a SWOT analysis?

Do SMEs in South Africa have a clear understanding of their strengths, weaknesses, opportunities and threats?

Are SMEs in South Africa strategic / intentional in exploiting opportunities and dealing with threats?

The authors are of the opinion that the findings of the study can be applied on a global level as problems faced by SMEs are universal in many respects. Firstly, small-medium sized enterprises will be defined, followed by an explanation of their role in the economy and the challenges they currently face. Secondly, SWOT analysis as a management tool will be described and its importance in South African SMEs will be stressed.

2.1 Defining SME

In terms of the National Small Business Act of South Africa of 1996, an SME is defined as a "separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy" (National Credit Regulator,2011). The European Commission (2005:5) defines SMEs as "the category of micro, small and medium-sized enterprises [that] is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro". However, the United States of America "considers SMEs to include firms with fewer than 500 employees" (Biondi & Iraldo,2002:n.p.).

2.2 The importance of SMEs

It is clear that SMEs are the lifeline of many local and international economies as they are vital in decreasing unemployment levels, stimulating technological innovation and advancement as well as ensuring long-term economic stability (Ardic et al.,2011:1). SMEs play an even more critical role in developing countries and therefore these countries, such as South Africa, rely heavily on the contributions made by SMEs, and especially those started by true entrepreneurs (Business Environment Specialists,2013:1). This is evident in the research done by the South African Chamber of Commerce and Industry (2013) which states that "more than 30% of the total gross domestic product of South Africa is attributed to SMEs". In addition, the majority of SMEs in South Africa (60%) fail within their first year of operation (Robert,2010). Abor and Adjasi (2007) indicate that most new SMEs fail within the first three years of being established.

Overcoming environmental change and intensifying competition seems to be one of the biggest obstacles SMEs face (Hird,2012:424). Also, a time of growing uncertainty in terms of economic and political instability globally as well as accelerating change in technology are all challenges a new SME owner needs to overcome (Banham,2010:19). This being said, Kraus and Kauranen (2009:38) explain that SMEs need to start being more proactive in combining entrepreneurial behaviour with strategic management. The essence of entrepreneurial behaviour lies in being "opportunity-driven" (Business Environment Specialists,2013:3), whereas the principle behind strategic management, as explained by Houben et al. (1999:126), is "the collection of decisions and actions taken by business management in consultation with all levels within the company to determine the long-term activities of the company". Integration therefore manifests when strategists begin exploiting opportunities using their plans and resources and entrepreneurs implement strategic planning before blindly carrying out an action or a deed (Kraus & Kauranen,2009:38).

Having a thorough understanding of the internal and external business environment will help SMEs and start-up entrepreneurs identify both the opportunities and threats that will affect their decision-making (Banham,2010:19).

2.3 Defining the SWOT analysis

The original developer of the SWOT analysis is unknown but many studies point to Professor Albert Humphrey from Standford University as its founding developer (Chang & Liao, 2013:144). Learned et al. (1969,n.p.) define SWOT analysis as a management tool which aids in decision-making processes because it has the ability to decrease the amount of information that forms part of complicated and multifaceted issues. Hai (2011) also defines SWOT "as a means to systematically analyse an organisation's internal management capability and its external environment" which is key for decision-making. Even though the SWOT analysis has been criticised for its lack of application value and its inability to be used by SMEs, Coman and Ronen (2009:5677) explain that the "strength-weaknesses-opportunities-threats analysis" remains a significant strategic management tool.

Houben et al. (1999:125) state that the first step in the SWOT analysis is for management to identify and evaluate all the different factors that can either support the SME in achieving its objectives or prevent

it from doing so. Every enterprise and industry is unique and therefore each SME will respond or be influenced by these factors in a different way. Also, the "relative importance" of a specific factor suggests that it is also subject to change in this dynamic environment (Houben et al., 1999:125). The external analysis of opportunities and threats, as described by Hai (2011), investigates if an enterprise can seize opportunities, for example making use of new technology and new legislation that promotes SME development, or avoid the threats, which include factors such as inflation and new import/export laws. The second part, the internal analysis of SWOT, namely strengths and weaknesses, focuses on identifying the operational aspects of the enterprise, such as daily operations, resources, organisational culture and other procedures (Houben et al.,1999:126).

Research on SMEs has highlighted the fact that the majority of entrepreneurs and SME owners are ill prepared and incorrectly informed about the state of their enterprise – and how to go about preparing and informing themselves! This can be attributed to a number of reasons. Firstly, it could be that management did not engage in effective environmental scanning, by using a management tool such as the SWOT analysis, or they may not even be aware of the need for such an analysis as part of a business plan. Kraus and Kauranen (2009:44) confirm that entrepreneurs who draw up business plans are much more aware of the factors operating both within and outside their business. This could save an individual from starting a business that is not likely to succeed in the first place. However, a business plan is also a direct indication of the level of strategic planning entered into by the owner (Kraus & Kauranen,2009:44).

Secondly, some SMEs complete SWOT analysis procedures on too many factors within the enterprise, which makes it difficult for management to pinpoint specific strengths, weaknesses, opportunities or threats (Coman & Ronen,2009:5677). This can also be attributed to the fact that very few SMEs have definite strengths, such as financial stability, flawless production processes or a well-qualified and motivated workforce when they start operating.

The ultimate goal of the SWOT analysis and strategic planning is for the SME to develop a sustainable competitive advantage. Kraja and Osmani (2013:80) make it clear that this entails creating value by implementing a strategy that is different from that of competitors. As described by Coman and Ronen (2009:5678), "a firm's asset or competency that is capable of being the competitive basis of many of its businesses is termed a core asset or competency".

2.4 Internal analysis

The internal analysis, which forms part of the SWOT analysis, deals with internal factors related to an enterprise's strengths and weaknesses in terms of satisfying the needs of its customers. An organisation's internal analysis process involves investigating its uniquely combined resources, which consist of its sales, brand and product portfolio in an attempt to measure its capabilities (Hai,2011). On the other hand, the external part of the SWOT analysis will allow organisations to identify opportunities and threats presented by the environment external to the business venture.

The strengths and weaknesses of an organisation are determined by its culture, structure, resources and functional areas, which include finance, marketing, management, production and information management (Houben et al.,1999:126). Investigating these functional areas in SMEs was the focus of this research study to give an indication of the areas that may be helpful to achieve business goals and objectives.

3 Research Methodology

To determine whether SMEs are aware of internal factors that may be helpful to achieve business goals and objectives, whether they are cognisant of the state of these internal factors that are involved in achieving business goals and objectives relative to their own businesses and whether they have a perception of same relative to their biggest competitor in their industry, a sample of small business owners were asked to complete a quantitative questionnaire. The questionnaire was aimed at eliciting information about their perceptions of these factors relative to their own businesses as well as their biggest competitor.

The questionnaire was administered to small businesses and a total of 104 usable responses were received. The respondent group consisted of owners (79%), managers (19.7%) and staff (1.3%).

4 Research Findings

4.1 Perceptions of internal factors conducive to business success

The respondents were asked to select from a list the most important internal factors that helped them to achieve the goals and objectives of their businesses. Of the 104 respondents, 95 provided an unambiguous selection and of those, 35.8% (n=34) indicated that in their case, financial management was the most important internal factor that helped them to achieve the goals and objectives of their businesses. Marketing management was selected by the second largest proportion as the internal factor most important to achieving their business's goals and objectives (28.4%, n=27).

The respondents were also asked to rate the importance of the internal factors in the list in terms of helping a small business in their industry to achieve its goals and objectives. A scale of 1 to 5 was used.

Table 1. Importance proportions (%) and mean ratings of internal factors

Internal factor	N	Proportion considering it most important in their business (%)	Mean rating for businesses in their industry (SD)
Financial management	34	35.8	4.451 (.873)
Marketing management	27	28.4	4.630 (.691)
Management and personnel	17	17.9	4.554 (.701)
Production and operations	13	13.7	4.441 (.902)
Information management	4	4.2	4.283 (.964)
Total	95	100.0	

On average, marketing management, although indicated as the second-most important internal factor relative to their own businesses, was rated the most important internal factor that could help a small business in their industry to achieve its goals and objectives. This is also the one rating that has the smallest variation among the respondents, indicated by the smallest standard deviation. The internal factor that was rated, on average, the second-most important for helping a small business in their industry to achieve its goals and objectives was management and personnel. The internal factor that was rated, on average, the least important for helping a small business in their industry, as well as in their own businesses, to achieve its goals and objectives was information management. Information management is also the one rating with the most variation among the respondents, indicated by the largest standard deviation.
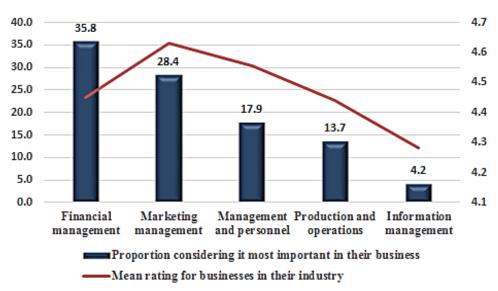

Figure 1. Importance proportions (%) and mean ratings of internal factors

Figure 1 illustrates the reversal in importance rating between financial management and marketing management relative to their own businesses or relative to businesses in their industry in general.

4.1.2 Perceptions of internal factors conducive to business success

The respondents were presented with a list of attributes relating to the internal factors that could be conducive to achieving the goals and objectives of a business. They were asked to rate the state of each characteristic within their own businesses on a scale of 1 to 5 (1 = Poor, 2 = Fair, 3 = Average, 4 = Good, 5 = Excellent) and their perception of the state of each characteristic within the businesses of their biggest competitor in their industry on a scale of 1 to 4 (1 = Poor, 2 = Average, 3 = Good, 4 = Excellent). In the latter case, a 'Not Applicable' response option was also provided. These responses were treated as missing values in the analyses. Missing values for the competitor's score ranged from 6 to 11 (see Table 2), indicating that these respondents were not able to estimate the state of the relevant characteristic in their competitor's business.

For the purposes of comparison and because the ranges of their measurement scales differ, both of these sets of responses were normalised to scores that fall within the range of 1 to 10.

In Figure 2 it can be seen that on average the respondents consistently rated the state of these characteristics in their own businesses as worse than the perceived state of the corresponding characteristic in the businesses of their biggest competitors in their

industry. The greatest difference concerns the financial condition of a business. This can perhaps be explained by the fact that, on average, the largest proportion of respondents considered financial management to currently be the most critical for their business success, while marketing management was indicated as the most important for success in businesses in their industry in general. It seems as though the respondents felt financially stretched and thus may have perceived their competitors to be better off financially. The consistently higher ratings of the other characteristics could be that because the respondents felt financially unsafe in their businesses, they perceived other businesses to be superior to them since other businesses will project an image of success even though they may also be experiencing internal problems.

Table 2. Mean rating scores of business attributes

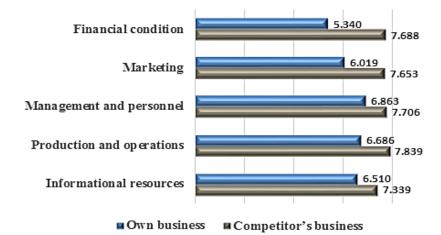|	Mean rating score (1 to 10)	
	Own business (N)	Competitor's business (N)
Financial condition	5.34 (103)	7.69 (93)
Marketing	6.02 (103)	7.65 (98)
Management and personnel	6.86 (102)	7.71 (97)
Production and operations	6.69 (102)	7.84 (96)
Informational resources	6.51 (102)	7.34 (93)

Figure 2. Mean rating scores of business attributes

4.1.3 Agreement with statements about internal characteristics

The respondents were also presented with a list of statements pertaining to the internal factors of their own businesses. They were provided with a 5-point Likert scale to indicate the extent to which they agreed with these statements, with 1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly agree.

The statement for which the largest proportion of respondents selected strongly disagree (13.6%, n=14) as well as disagree (36.9%, n=38) related to the financial health of their businesses. This result corresponds with the respondents selecting financial management as the most important internal factor that would help them to achieve the goals and objectives of their businesses while indicating that in general in their industry, marketing management was the most important. On average, financial management is also the statement with the smallest mean score, which also happens to be the only one with a mean score below the middle value of the scale. With its standard deviation being the smallest, it is the statement with the least variation in the responses.

Table 3. Agreement ratings of personal statements regarding the functional areas

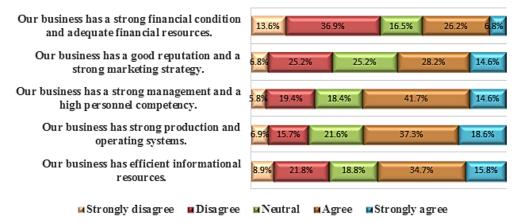|	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total N	Mean (SD)
Our business has a strong financial condition and adequate financial resources	13.6 (14)	36.9 (38)	16.5 (17)	26.2 (27)	6.8 (7)	103	2.78 (1.165)
Our business has a good reputation and a strong marketing strategy	6.8 (7)	25.2 (26)	25.2 (26)	28.2 (29)	14.6 (15)	103	3.21 (1.190)
Our business has a strong management and a high personnel competency	5.8 (6)	19.4 (20)	18.4 (19)	41.7 (43)	14.6 (15)	103	3.35 (1.170)
Our business has strong production and operating systems	6.9 (7)	15.7 (16)	21.6 (22)	37.3 (38)	18.6 (19)	102	3.42 (1.210)
Our business has efficient informational resources	8.9 (9)	21.8 (22)	18.8 (19)	34.7 (35)	15.8 (16)	101	3.23 (1.259)

Figure 3. Agreement ratings of personal statements regarding functional areas

These statements are written in the first person, whereas the list that respondents were presented with to rate the importance of the functional areas of their businesses simply contained the functional areas. One can argue that in the case of the first person statements, the rating would be more subjective and in the case of simply the functional areas, the rating would be more objective. To determine whether there was a correlation between the 'subjective' and 'objective' scores, the non-parametric Spearman's rho was calculated to determine the extent to which the relationship between the two scores were linear. Spearman's rho was used because the normality assumption of the Pearson's product-moment correlation coefficient was violated.

Table 4. Spearman's rho correlation coefficients

'Subjective' agreement with personal statements	'Objective' rating of own internal business functional areas				
	Financial condition	Marketing	Management and personnel	Production and operations	Informational resources
Our business has a strong financial condition and adequate financial resources.	.647**	.337**	.403**	.333**	.225*
Our business has a good reputation and a strong marketing strategy.	.359**	.431**	.439**	.539**	.542**
Our business has a strong management and a high personnel competency.	.275**	.365**	.647**	.611**	.551**
Our business has strong production and operating systems.	.308**	.337**	.552**	.652**	.399**
Our business has efficient informational resources.	.201	.270**	.475**	.486**	.571**
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

There are correlations between the business functional areas and their corresponding personal statements highlighted in red in the diagonal of Table 4. All of these correlations are positive and reasonably large, except for the marketing pair which is medium in magnitude. The correspondence between the means of the score pairs is also illustrated in Figure 4.
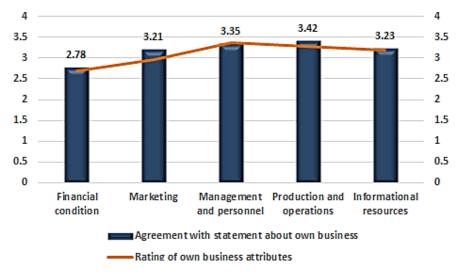

Figure 4. Mean ratings for own business attributes and agreement ratings with personal statements

Thus it seems as though the respondents were consistent in their opinion of their own businesses by expressing the same sentiment about their own businesses via both the 'objective' rating scores of their business attributes and the 'subjective' level of agreement scores.

5 Conclusions and Recommendations

The SWOT analysis is a planning mechanism used to evaluate the strengths, weaknesses, opportunities and threats of a business venture. The aim is to identify key internal and external factors that are important to achieve objectives. Key pieces of information are grouped into internal factors (the strengths and weaknesses internal to the business venture) and external factors (opportunities and threats presented by the environment external to the business venture). An analysis of the internal environment entails the analysis of the business venture's culture, structure, resources and functional areas, which include finance, marketing, management, production and information management. The functional areas were the focus of the research.

The study revealed that the respondents were aware of the factors in the functional areas that may be helpful to achieve business goals and objectives. The respondents, in relation to their perceived biggest competitors, rated the factors consistently lower in their own businesses. The respondents were also consistent in rating the importance of these factors relative to their own businesses, whether they were expected to respond to simply a list of these internal factors or to rate their agreement with more personal statements about these factors in their own businesses. Financial management was regarded as the most important driver for achieving objectives in the respondents' own business, whereas marketing management was seen as the driver for success in the industry. It is therefore recommended that small business owners improve their marketing and financial management skills by attending courses on marketing and finance. In doing so, their weakness in these areas can be transformed into a strength and the business image can be improved in relation to their competitors.

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