

## Business Relationships as a Driver of Success for Small, Medium, and Micro Enterprises (SMMEs) in South Africa

Dumisani Xesha<sup>1</sup>, Chux Gervase Iwu<sup>2</sup> and Andre Slabbert<sup>3</sup>

*Faculty of Business, Cape Peninsula University of Technology, South Africa*  
*E-mail: <sup>1</sup><xeshad@gmail.com>, <sup>2</sup><iwuc@cput.ac.za>, <sup>3</sup><slabberta@cput.ac.za>*

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**ABSTRACT** Successful businesses develop and sustain relationships amongst their network of stakeholders. Stakeholders have the potential to assist in development, survival, and growth of any business. This conceptual paper was inspired by the philosophy that the success of SMMEs depends on new and established relationships. The paper relied on an extensive review of literature. It has immense value in that it has managed to bring together a conglomerate of factors under a common platform to enable a discussion of the elements that necessitate an acceleration of positive relationships in businesses. This extensive review of literature has empowered the authors to extend confidence in the suitability of the different elements, thus allowing for the utilization of a self-developed relationship management paradigm as the locus of the discussion.

### 1. INTRODUCTION

Studies have identified the performance of a county's Small Medium Micro Enterprise (SMME) sector as a good indicator of its overall vitality and future prospects. Tengeh (2013: 347) claims that a thriving SMME sector implies a healthy economy (especially in an emerging market like South Africa); while a struggling one implies that there is something wrong. This suggests that the SMME sector has the potential to address socio-economic challenges facing South Africa. Essentially, it is commonly argued that SMME's can facilitate economic growth through poverty alleviation, job creation and social stability. Sadly, research is replete with findings which suggest that small and medium enterprises have very low survival rate. Following this, one gets a litany of reasons why this is so. As far back as 2003, Brink et al. (2003) warned that misreading customer trends and needs was one factor that impeded SMME's in South Africa. This somewhat suggests that better relationship needs to develop between a business and its customers so that there is clarity with regards to the needs of customers.

McKenna and Martin-Smith (2005) declared that half of all the failures of SMMEs result from poor decision making and poor relationship management. The interconnected nature of the global economy does not allow a business to fully function solely. Every business does not have; within its own control, all the knowledge and

resources it needs to compete. It is important that business owners start to recognise that all successful businesses regardless of what they do or sell know how to build and maintain relationships.

Several sources including Accuff and Wood (2004: 1), Donaldson and O'Toole (2007: 5), Ford et al. (2003), Lussier and Halabi (2010), suggest that without strong relationships it becomes impossible to be successful as a business owner. These authors express the opinion that business owners need to have long-term customer and employee relationships that will carry them through challenging and difficult times, as well as relationships with other business owners, to share struggles, resources and best practices, which can really give them an edge. Even if a business does not want to use relationships as a strategy for competing, it still has to consider the complexity and connectedness of the market spaces in which it operates.

These authors conclude by stating that the variety of networks any business finds itself in requires a strategic perspective and, businesses that can combine resources across organisations and accelerate learning across organisational boundaries are likely to have a winning strategy for the future.

Relationships are complex but research from Groonroos (2011), Hutchinson et al. (2013), Phan and Vogel (2010); Reimann et al. (2010) suggests they can be managed. Stewart and Alrutz (2012: 44) summarise that the reality about business

relationships is that they are just like any other relationship; they require lots of effort to maintain and they must be mutually beneficial to all the stakeholders. They emphasise that as in any business relationship, a business owner must be willing to give, share and support, not just take or receive.

This paper has the following objectives:

- To outline the critical steps of building a good relationship;
- To discuss relationship planning and development;
- To converse the role played by interpersonal skills on managing internal and external business relationships;
- To outline the role played by relationships towards business strategising efforts;
- To outline the value of customer relationship management; and
- To provide a summary about networks as a driver of business growth.

### 1.1. Defining Business Success

In the context of this research, business success is defined as the realisation of worthy in-

tentions by the business. These intentions might include increased profits, increased assets, expansion, and all other factors signalling growth and development of the business.

The paper is based on the paradigm represented in Figure 1. This paradigm was constructed to outline the important factors that business owners should consider if they want to manage relationships. The paradigm highlights that business owners should plan for relationships. Planning includes analysing, formulating and selecting strategy as well as implementing the strategy for the relationship (Brinckmann 2010). Business owners should further display excellent interpersonal skills and networking skills in order to build more relationships for their business. Several studies declare that business owners should have a positive mind-set towards relationships (Alimena 2008), demonstrate professionalism, integrity, care, knowledge, thoughtfulness and ask the right questions (Painter-Morland and Werhane 2008; Browne and Keeley 2009; Holcom 2001). The above diagram displays how these factors are intertwined and these will form the basis of this paper.

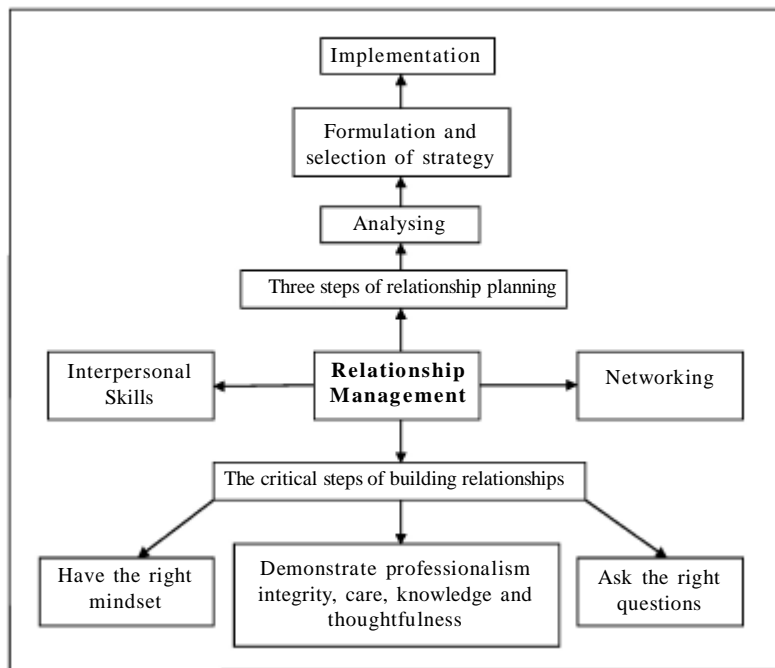


Fig. 1. Relationship management paradigm

## **2. THE CRITICAL STEPS OF BUILDING GOOD RELATIONSHIPS**

The opening sections of this paper summed up that the establishment and development of relationships by business owners, is not a matter of choice, but an integral necessity for their businesses to succeed. There are three critical steps that business owners should take into consideration before establishing relationships. Accuff and Wood (2004: 4) declare that building business relationships that last is a skill virtually any business owner can learn if they master three simple steps. These steps include:

### **2.1. Having the Right Mind-set**

The right mindset of a business owner is not only a key tool for managing relationships but also an essential entrepreneurial element for strategising and mastering the art of attaining multiple profit centres. Alimena (2008: 1) suggests that the mind-set of a business owner can be that of a champion. Business owners, who have the right mind-set for building and managing relationships, will always think relationships are important. These business owners ensure that their minds are fully focussed on the relationship. This positive mind-set ultimately carries them through the desired outcome for the relationship.

### **2.2. Asking the Right Questions**

Browne and Keeley (2009: 1) declare that asking the right questions refers to entrepreneurs asking people questions for the right reasons. Holcom (2001: 56) elaborates on this and says that the goal of asking questions is to find common ground, mutual friends, interests, or concerns. These authors emphasise the importance of asking questions as this will enable the business owner to obtain knowledge about the people they work with and the external role players of the business. Asking questions will allow the business owner to develop a business strategy catering for the specific needs of every stakeholder that they want to enter into a relationship with. The business owners must ensure the right questions are continuously asked in order to improve the organisation as well as its relationships.

### **2.3. Demonstrating Professionalism Integrity, Caring, Knowledge and Thoughtfulness**

The business owner must develop and maintain professionalism, integrity, care, knowledge and thoughtfulness if he wants to succeed. Business owners must try by all means to keep their promises. The more promises they keep, the more trust and respect they gain from all the business stakeholders. This will enable them to successfully maintain relationships. Painter-Morland and Werhane (2008: 41) insist that good relationships with business stakeholders exist when they trust the business owner. The owner's objective is to draw people closer so that they can be trusted. To build trust, these owners must demonstrate professionalism, integrity, care, knowledge and thoughtfulness over time.

## **3. RELATIONSHIP PLANNING**

Business success requires planning. According to Brinckmann (2010) planning is a fundamental function of management and is critical to entrepreneurship development. The author recommends that relationships should be part of the strategic planning process. This process comprises three core elements which are: analysis, formulation and selection of strategy, and implementation.

### **3.1. Analysis**

Analysis provides the input for the strategic choices the business owner wants to make (Williamson 2013). In analysing relationships the business owner evaluates each stakeholder and conducts a stakeholder analysis. Stakeholder analysis was defined by Schmeer as far back as 1999 as the process of gathering, analysing and acting on information about the stakeholder that the business owner intends to enter into a relationship with.

A typical example of stakeholder analysis would be a company that wants to hire a new employee. The first thing they will do is to check the employee's credentials before entering into a working relationship with them. Checking the employee credentials ensures that the employer, other employees and customers will have minimal problems when working with that person. Once an employee comes on board and

works for a business, that employee forms part of its business image. Any negativity that the employee might display reflects on the business. Employees are the ones who mostly deal with customers - their quality of work and service represent the quality of the business.

Another example would be a business owner who wants to enter into a relationship with a new community. Abebe et al. (2010) say that an employer analyses the community by doing an environmental scan. Environmental scans help the businesses to identify which sections of the community to target. When scanning the environment the business owner must monitor current events by attending seminars and conferences, analysing the speeches of political leaders in the community, collecting demographical data from government departments and business forums. Scanning the environment also enables the business owner to continually look out for opportunities that the business can take advantage of. The two examples mentioned here present the importance of strategic analysis before committing to a relationship with a stakeholder. By doing this, the risk of relationship failure is reduced.

### 3.2. Formulation and Selection of Strategy

When a business owner decides to pursue a relationship, a strategy for implementing the relationship needs to be formulated and selected. Alstete (2013) describes the formulation and selection of strategy as a process which involves making choices about the direction the business should take. Businesses should be able to decide their overall competitive methods and goals, its position in the market and the guiding management principles for each of the key resources namely human, financial, technological and market.

All choices made in this phase of planning are integrated and act as a clear signal of intent by the company. This phase outlines the final decision on which relationships should be developed, what benefits should be offered, how the company should deliver on these benefits, what relationship strategy should be used and what organisation structures should be developed to manage relationships.

### 3.3. Implementation

This is the last phase of planning. Before implementing any relationship-building strate-

gy, businesses must ensure that they have the processes, people, structures and leadership support (Jooste et al. 2008). Poor execution might lead to the downfall of the whole process.

## 4. RELATIONSHIP DEVELOPMENT

Bengtson et al. (2012) as well as Drogendijk and Andersson (2013) describe relationship development as the process of establishing and maintaining mutually beneficial long term relationships among organisations, their customers and other stakeholders. They further describe this phenomenon as a continuous process comprising several stages of awareness, exploration, expansion, commitment and dissolution. This description shows that the underlying aim of relationship development is to identify and establish, maintain, and enhance relationships with customers and other all stakeholders of the business. This is done to ensure that the objectives of all parties involved are met, and this is done by mutual exchange and the fulfilment of promises. It is of utmost importance for business owners to continuously develop relationships. This ensures that each relationship is improved for the benefit of the business. If a business fails to do so then its growth and success are negatively affected.

## 5. INTERPERSONAL SKILLS AS THE BASIS FOR INTERNAL AND EXTERNAL RELATIONSHIPS

To build strong relationships, business owners need to develop their interpersonal skills. According to Nkosi et al. (2013: 10-20), interpersonal skills will make it easier for the business owners to manage relationships and succeed in business. Some of the interpersonal skills include:

- I. The ability to understand other people's behaviours and interpret them correctly (Gilley 2006: 5). Business owners should recognise and correctly interpret the feelings, thinking, and behaviour of others. Gilley states that this is done in an effort to discover their fears, failures, successes and actions.
- II. The ability to manage impressions and present oneself competently to others (Chiaburu and Stoverink 2013). Business owners must have a combination of con-

fidence, competence, attitude, manners, and communication. These are enhanced by a polished executive image; knowing what to do, how and when to do it.

- III. The ability to communicate and get your message across (Jones and Sinnett 2011). Good communication skills will enable business owners to convey important information. They should never be tongue tied, know what to say, and say it.
- IV. The ability to persuade others and influence their behaviours, attitudes, opinions and beliefs (Kehoe and Wright 2013). Business owners are encouraged to use the authority and systems they have in their organisation to persuade and influence staff to work efficiently and effectively to ensure that the organisational goals are met and good relationships are maintained.
- V. The ability to use power (Pfeffer 2009). Business owners must use the power they have to influence staff but must not act in an intimidating manner.

A business owner who takes advantage of his interpersonal skills to establish relationships has the developed ability to assess the capability of the staff and the role they will play in the strategic effort of the business. They are also able to study customers' needs in order to craft a strategy targeted at satisfying them.

## **6. RELATIONSHIPS AS THE FOUNDATION FOR STRATEGISING**

Business relationships should form the foundation for any strategising undertaking the organisation wants to embark on and it is important that business owners start to realise that when a relationship is built, an opportunity for communication and feedback about their business environment, products and/or services is created. This feedback and communication are key as they provide details of where they can improve and what they are doing correct. It also helps the business to assess its strengths, weaknesses, opportunities and threats in order to sharpen its competitive edge.

## **7. THE VALUE OF CUSTOMER RELATIONSHIP MANAGEMENT**

Customers these days are well aware of their rights and they know they hold the ultimate

trump card, which is their loyalty. It has become a necessity for businesses to remember past interactions with their customers and to build on those interactions. There are customer relationship management programs that have been developed and updated which are aimed at measuring customer interaction in the business. Current literature from Cruz-Cunha (2010: 203) as well as Nwankwo and Gbadamosi (2011: 89) encourage SMME's to be customer centric as this is a business necessity for the twenty first century. According to Donaldson and O'Toole (2007: 137), the rationale for customer relationship management is that it improves business performance by enhancing customer's satisfaction and driving up customer loyalty.

Business owners need to spend more time developing and enhancing their relationship with customers. This in turn would provide fruitful returns for them as customers will remain loyal to the business. This will also result in continued success and growth of the business.

## **8. NETWORKING FOR SUCCESS**

Networking is regarded as a useful tool for establishing business relationships. Relationships have been identified in this study as the catalyst for success. White (2004) says that the information, knowledge and data gathered through networking are important resources for SMME's. The researcher of this study believes that for business owners to succeed, they must continuously connect with new people, cultivate emerging relationships and leverage their networks. They are encouraged to continuously increase their networking efforts as this will provide many advantages for the business. Networking plays an important role in identifying opportunities for the business.

## **9. IMPLICATION AND FUTURE RESEARCH DIRECTION**

Of increasing importance in South Africa is the need for SME's to survive especially given the critical link between this sector and economic growth. Studies have pointed out that relationship building and management are one of the key success factors for businesses to expand. A major implication of this is that SME's in South Africa that have poorly-managed relationships are easily sabotaged by those with

whom they are in relations. Good, mutual relationships are non-negotiable and as such it behoves SME's to expedite caution and necessary tactics in the kinds of relationships that they enter and in the manner such relationships are consummated. It is the authors hope that the paradigm (see Fig. 1) under which this paper has been written unleashes intense consideration by other researchers so that this very important, but often ignored strategy for SME growth in South Africa is given the kind of attention it deserves. A call is made here urging practitioners and researchers to focus on the paradigm for further engagement. It is hoped that a data collection instrument can be distilled from the paradigm which can facilitate a more rigorous empirical assessment of the validity of business relationships in the success of SME's in South Africa.

## 10. CONCLUSION

This papers intention was to underscore the importance of creating and maintaining relationship with all stakeholders for the growth and success of SMME's. Essentially, this paper has managed to achieve all the objectives that were set out. The important factors that business owners should consider if they want to manage relationships were discussed. These factors included planning, formulation and section of strategy and implementation. To build relationships, business owners are encouraged to develop their personalities. They need proper human interpersonal skills in their work environment and outside. Some of the interpersonal skills which business owners should have, in order to effectively manage internal and external relationships for their businesses, include the following: the ability to understand other people's behaviours and interpret them correctly, the ability to manage impressions and present oneself competently to others, the ability to communicate and get the message across, the ability to persuade others and influence their behaviours, attitudes, opinions and beliefs, and lastly the ability to use power. The paper further discussed the role of relationships towards strategizing. The conclusion to this was that every strategizing effort that the business plans to embark on must be built around relationships. Customers were identified as one of the most valuable stakeholders for business success. The

paper discussed the importance of keeping customers happy. The last objective was to give a brief discussion in the importance of networking. This was identified as a useful tool for identifying and increasing relationships.

Relationships are the fuel that feeds the success of businesses, and, it is important for business owners to recognise that all successful businesses regardless of what they do or sell have one thing in common: their owners should know how to build and maintain relationships.

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