

# Turnaround Strategies for Small, Medium and Micro-Enterprises

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## Abstract

This study assessed the knowledge gain effect among SMMEs owners of training on financial and marketing turnaround strategies which SMMEs can implement to turn around performance from loss-to-profit position. A simple random sampling method was used in conducting survey primary data collection using a self-administered structured questionnaire designed based on 5-point Likert scale. Data from a sample of one-hundred and sixty-three ( $n = 163$ ) respondents was tested for and satisfied construct validity and scale reliability conditions based on Keiser-Meyer-Olkin measure of sampling adequacy and Cronbach's alpha, respectively. Factor analysis results indicate that no pre-training and post-training items under each construct demonstrated a complex structure, loaded on analogous single factors and significant amounts of variances were explained. Paired samples t-test results regarding pre-training and post-training knowledge levels indicate significant mean differences in all indicators measuring financial turnaround strategy, while marketing strategy had one item with a significant mean difference in knowledge gain. Cohen's  $d$  paired samples effect sizes results show that samples effect sizes were small for both financial and marketing strategies.

**Keywords:** *turnaround strategies; SMME, financial, marketing, loss-to-profit*

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## 1. Introduction

The key contribution made by small, medium and micro enterprises (SMMEs) remains significant towards national output, creation of employment opportunities and reduction of poverty and income inequalities in South Africa. From a broader standpoint, SMMEs do not just contribute to national output, employment and incomes, but also promote competition in markets. The National Treasury (2016) states that promotion of SMMEs to stimulate entrepreneurship remains a critical priority in industrial policy development as part of economic transformation. However, sustainable performance and survival of SMMEs in South Africa remains persistently anemic due to numerous factors from entrepreneurial, firm and external environmental frontiers.

During the collaborative launch of the SMMEs Development Initiative in South Africa by the Department of Economic Development, Tourism and Environmental Affairs (DEDTEA), and the International Labour Organisation (ILO) in 2014, many distinct impediments that are experienced by SMMEs in South Africa. The initiative underlined the need to design and implement turnaround strategies that ensure survival and sustainable growth of SMMEs to boost economic transformation for inclusive growth in the economy (DEDTEA, SEDA and ILO, 2014). Prior to the launch of this initiative, a baseline study by Turton, Herrington and Christensen (2013), commissioned by the DEDTEA and ILO on the state of many SMMEs in South Africa, was undertaken to identify and understand the challenges experienced by SMMEs owners. Insights from the survey indicate that the challenges most SMMEs owners experienced were firm-level and sector-specific in nature, while exogenous challenges include financial constraints, limited access to information, market constraints, poor infrastructure, unfair market practices by giant rivals, weak SMMEs development support systems, shrinking markets and unfavourable operating environment (Kew, et al., 2013).

### 1.1. Problem statement

The alarming rate of failure by SMMEs is a serious cause for concern in South Africa. While many new SMMEs are established at rapid rates (Baron, 2003), their alarmingly high failure rate remains a problem (Cornwall & Naughton, 2003; Santrelli & Vivarelli, 2007). The Bureau of Economic Research (BER, 2016) and Small Enterprise Development Agency (SEDA, 2016) reveal that about five out of seven (71%) of SMMEs in the country fail in their first year, showing South Africa as one of the nations with highest SMMEs failure rates in

the world. The Global Entrepreneurship Monitor (2015), BER (2016) and SEDA (2018) maintain that most SMMEs in South Africa rarely survive beyond their start-up phase and survive for an average of three years before discontinuing operations. This study aimed to measure the efficacy of training on turnaround strategies SMMEs owners can implement to turn around the performances of enterprises from loss-to-profit position.

## 1.2. Significance of the study

Hoffman (1989) underscores that the common factors or conditions that cause the decline of many enterprises include *inadequate financial controls* (financial controls having become ineffective to contain rising costs when enterprises grow beyond the capabilities of their control systems), *new competition in markets* (entrance into present markets by new competitors) and *unforeseen demand shifts* (shifts in demand as a result of competitor strategic actions and/or changes in consumer tastes and purchase decisions). In South Africa, a few studies were conducted on turnaround strategies which SMMEs can implement to turnaround their performance. These studies include Ashtankar (2013), Iorun (2014), Mhizha (2014) and Manhiwa, Mapetere and Mhonde (2016).

The aim of this study was to assess the knowledge gain effect, among SMMEs owners, of training on turnaround strategies which SMMEs can implement to turn around performance from loss-to-profit position. The paper is structured as follows: section 2 discusses literature, section 3 presents methods and materials, section 4 presents findings, and section 5 provides concluding remarks.

## 2. Literature Review

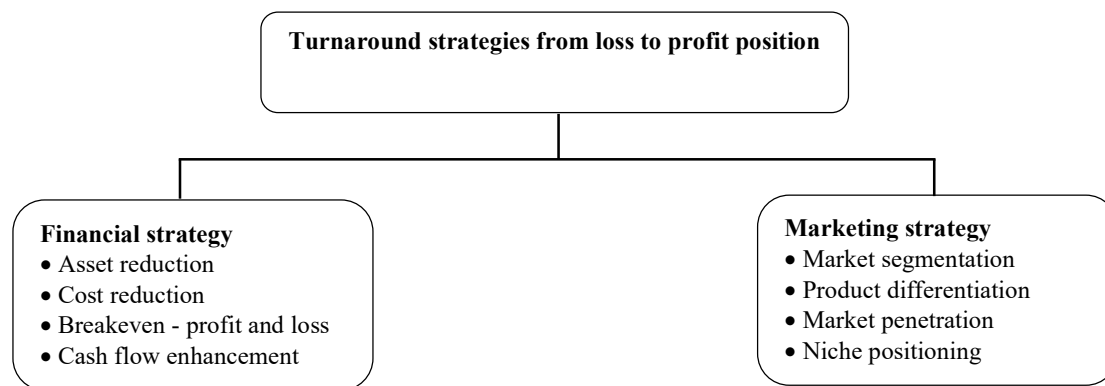
Pretorius (2017) defines a turnaround strategy as recovery of an enterprise performance following existence of risk of decline in its performance, where a decline is viewed as a loss situation, and a turnaround is regarded as a situation that is equivalent to reaching at least a breakeven point from a loss position. Midanek (2008) state that the term “turnaround” can be used interchangeably with realignment, rescue, restructuring and renewal. Freeman and Cameron (1993) regard downsizing as a major integral element of turnaround. Nonetheless, turnaround strategies are needed not only during distressed situations, but also in times of downsizing and restructuring (Hofer,1980).

While downsizing can be executed as a strategic response to incessant decline in business, Freeman and Cameron (1993) emphasize that downsizing and decline are two different concepts, where downsizing can be done without experiencing a decline. Karaevli and Zajac (2013) state that four primary stages followed in executing a turnaround strategy include defining a distressed situation, reviewing business strategic plan, financial restructuring to align business with objectives, and organisational restructuring to resuscitate business performance.

### 2.1. Conceptual model

The learning organisational theory was deemed applicable in this study on the basis of its focus on learning organisations, which are regarded as concentrating on collecting and analysing individual and collective learning processes within enterprises (Senge & Sterman, 1992). Such learning can improve capabilities of SMMEs owners and employees towards achieving desired results (Garvin, 1993). In line with this theory, common turnaround strategies which SMMEs can adopt to change from loss-to-profit position are shown by the conceptual model (Figure 1) shown below.

**Figure 1: Conceptual model: Turnaround around strategies for SMMEs**



Source: Authors' compilation

## 2.2. Empirical literature

Financial strategies are often effective in turning around financial positions of enterprises and enhance market competitiveness (Ayandibu & Houghton, 2017). The research study conducted by Ayandibu and Houghton (2017) finds that financial turnaround strategies that SMMEs can use include obtaining loans at low interest rates, postponement of maturity of debts, and asset and cost reduction to sustain survival. Cost reduction strategies can involve reducing employees' wages and salaries, production costs and operations costs, and expenses on administration (Ayandibu & Houghton, 2017). Furthermore, marketing turnaround strategies encompass the formulation and implementation of actions that boost sales and revenue growth (Bushe, 2019). These strategies include market repositioning, market penetration, customer refocusing, product differentiation and market segmentation in target industries or sectors (Bushe, 2019).

Trahms, Ndofor and Sirmon (2013) conducted a study and found marketing, financial management and production and operations management as the primary turnaround strategies that enhance an enterprise's ability to end a decline and bolster performance recovery. Akande and Oluwaseun (2014) conducted a study on strategies that SMMEs adopted and successfully turned around from loss-to-profit position. Major results indicate that the turnaround strategies SMMEs implemented include cost and asset reduction and retrenchment (Akande & Oluwaseun (2014). Schweizer and Nienhaus (2017) assessed turnaround strategies that were implemented by small businesses to regain competitiveness and survival in sectors they operated. The key findings reveal that the main turnaround strategies enterprises implemented include enterprise portfolio restructuring in form of disinvestments, financial restructuring, improvement of liquidity, debt reduction and moved from bankruptcy. Mbugua and Moronge (2014) used data from both corporate publications and financial reports and found that turnaround strategies implemented by SMMEs include securing affordable capital, networking and use of modern technology and innovative products.

Munir, Muda and Butsamam (2018) reviewed literature on turnaround strategies implemented by SMMEs in the banking sector across different countries. Results indicate that turnaround strategies implemented by the enterprises include cost efficiencies and asset retrenchment. Tikicia, Omayb, Derinc, Seçkind and Cüregölue (2011) studied turnaround strategies enterprises implemented in Malatya, Turkey. To mitigate threats of business closure and regain business recovery, the major turnaround strategies implemented include assets reduction through asset disposal, cost reduction, revenue generation and improvement of cash flows. Revenue generation can be improved through reducing prices of key products with high price elasticities of demand (Tikicia, Omayb, Derinc, Seçkind & Cüregölue, 2011), while asset reduction can encompass selling equipment and fixtures, idle buildings, and reducing unprofitable investments (Sudarsanam & Lai, 2001).

### 3. Materials and Methods

The methodological facets covered include the research design, sampling procedure, measurement instrument, and particular statistical analysis tests conducted to produce results.

#### 3.1. Research design

The cross-sectional survey design was employed to collect primary data in this research study. The population used consists of SMMEs that were operating in Tshwane Metropolitan Municipality.

#### 3.2. Sampling procedure

Simple random sampling method was used to draw elements from the sampling frame, given its strength of ensuring representativeness of the study population, and attaining minimum sampling error (Collis & Hussey, 2014). The sample size was determined using the following formula:

$$n = \frac{\chi^2 N \hat{p} (1 - \hat{p})}{d^2 (N - 1) + \chi^2 \hat{p} (1 - \hat{p})}, \text{ where} \quad \begin{array}{l} n = \text{required sample size} \\ N = \text{the given population} \\ \hat{p} = \text{population proportion, assumed to be 0.5} \\ d = \text{the degree of accuracy at 0.05} \\ \chi^2 = \text{table value of chi-square (= 3.841 for 0.95 confidence interval)} \end{array} \quad (1)$$

#### 3.3. Measurement instrument

The self-administered structured questionnaire was developed based on a 5-point Likert scale. The research instrument comprised two constructs describing turnaround strategies, and each construct consisted of four observed indicators. These constructs were financial and marketing strategies.

#### 3.4. Statistical data analysis

The statistical tests conducted using Statistical Package for Social Sciences (SPSS) include scale reliability, construct validity, factor analysis (total variances explained and factor structures) to assess the dimensionality of observed indicators under each construct and if items measured what they were intended to measure (Welman, et al., 2005). The questionnaire was tested for internal consistency of observed indicators under each construct based on the Cronbach's alpha criterion (Likert, 1932) based on the following function:

$$\alpha = \frac{K}{K - 1} \left( 1 - \frac{\sum_{i=1}^K \sigma_{y_i}^2}{\sigma_x^2} \right), \text{ where} \quad \begin{array}{l} K = \text{number of items} \\ \sigma_x^2 = \text{variance of observed total scores} \\ \sigma_{y_i}^2 = \text{variance of item } i \text{ for the current sample} \end{array} \quad (2)$$

The KMO-MSA tests of sampling adequacy were conducted based on the following formula.

$$\Phi_j = \frac{\sum_{i \neq j} r_{ij}^2}{\sum_{i \neq j} r_{ij}^2 + \sum_{i \neq j} z_{ij}^2} \quad (3)$$

where  $\Phi_j$  is the KMO value, correlation matrix  $R = [r_{ij}]$  and partial covariance matrix  $Z = [z_{ij}]$ . KMO values range between 0 and 1, where a value close to 0 suggests that the total of fractional correlations is larger than the sum of correlations, or correlations are dispersed, which presents a challenge for factor analysis, while a value close to 1 suggests a good basis for factor analysis.

As part of factor analysis, the Bartlett's test of sphericity tests, total variances explained and factor structures (loadings) of constructs were assessed. Final statistical analysis tests conducted include paired samples t-tests and corresponding paired samples effect sizes.

#### 4. Results and Analysis

The results reported include scale reliability, sampling adequacy and Bartlett’s tests of sphericity statistics, total variances explained, factor structures, paired-samples t-tests and effect sizes.

##### 4.1. Scale reliability

Table 1 reports results of internal consistency of items measuring the SMMEs owners’ knowledge levels around financial and marketing turnaround strategies during pre- and post-training phases.

**Table 1: Scale reliability statistics**

Construct	Number of paired items	Cronbach’s alpha	
		Pre-training	Post-training
Financial strategy	4	0.844	0.869
Marketing strategy	4	0.698	0.706
Total	8	0.894	

The overall Cronbach’s alpha coefficient ( $\alpha = 0.894$ ) for all eight items in the research instrument above the minimum acceptable ( $\alpha = 0.700$ ) threshold (Cronbach, 1951) confirms that all the items measured the unidimensional constructs which were aimed to be assessed in this research study.

##### 4.2. Sampling adequacy test

The sampling adequacy test results of the questionnaire’s items are presented in Table 2 below.

**Table 2: Sampling adequacy statistics**

Construct	Number of paired items	KMO-MSA value	
		Pre-training	Post-training
Financial strategy	4	0.839	0.839
Marketing strategy	4	0.588	0.710
Total	8	0.635	

Table 2 shows that the KMO-MSA value for all eight items was equal to 0.635, which was above the minimum acceptable 0.60 score (Chan & Idris, 2017). The result confirms sampling adequacy of the constructs’ items. Moreover, results of the determinants and Bartlett’s test of sphericity of the developed two constructs on the research instrument are presented in Table 3 below.

**Table 3: Bartlett’s tests of sphericity statistics**

	Determinant		Bartlett’s test of sphericity	
	Pre-training	Post-training	Chi-square (df)	
			Pre-training	Post-training
Financial strategy	0.045	0.039	491.667 (21)	513.463 (21)
Marketing strategy	0.444	0.476	120.916 (6)	118.745 (6)

Determinants of correlation matrices of both constructs exceeded 0, showing that multicollinearity was not a problem for data, hence there was no need to eliminate any item from the data. In order to provide for measurement of strengths of relationships and factorability of items, the Bartlett’s test of sphericity scores were computed. The null hypothesis of the Bartlett’s test at 5 percent level of significance states that the correlation matrix is an identity matrix, implying that variables are unrelated (Field, 2005). Table 3 results show that items were significant at 5 percent level and the null hypothesis was rejected, indicating that variables were related and suitable for factor analysis.

**4.3. Total variances explained**

The latent root criterion was used to assess the distribution of the variance across extracted factors prior to extraction of factors using alpha factoring and Varimax rotation methods. Results of total variances explained relating to SMMEs owners’ knowledge levels around financial and marketing turnaround strategies in pre- and post-training phases are reported in Tables 4 and 5, respectively.

**Table 4: Total variances explained – Pre-training**

Construct	Factor	Initial eigenvalues			Extraction sums of squared loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Financial strategy	1	3.803	54.324	54.324	3.342	47.737	47.737
Marketing strategy	1	2.101	52.536	52.536	1.490	37.259	37.259

Extraction method: Alpha factoring.

Table 4 shows results of total variances explained by items measuring SMMEs owners’ knowledge levels around financial and marketing turnaround strategies prior to training. For each construct, results reveal that one initial eigenvalue greater than 1 was extracted with a single factor extracted from items in the dataset of the construct. Based on extraction sums of squared loadings, about 47.7% and 37.3% of total variances were explained by single factors for financial and marketing turnaround strategies, respectively. Given that a single factor was extracted for each construct, there was no statistical basis to examine if there were items that demonstrated complex structures.

**Table 5: Total variances explained – Post-training**

Construct	Factor	Initial eigenvalues			Extraction sums of squared loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Financial strategy	1	3.959	56.551	56.551	3.471	49.585	49.585
Marketing strategy	1	2.136	53.409	53.409	1.555	38.881	38.881

Extraction method: Alpha factoring.

Table 5 shows results of total variances explained by items measuring SMMEs owners’ knowledge levels around financial and marketing turnaround strategies after the training. For each construct, results reveal that one initial eigenvalue greater than 1 was extracted with a single factor extracted from items in the dataset of the construct. Based on extraction sums of squared loadings, about 49.6% and 38.9% of total variances were explained by single factors for financial and marketing turnaround strategies, respectively. Since a single factor was extracted for each construct, there was no statistical basis to examine if there were items that demonstrated complex structures.

#### 4.4. Factor structures

The results of factor structures relating to SMMEs owners' knowledge levels around financial and marketing turnaround strategies (pre- and post-training) are given in Tables 6 and 7, respectively.

**Table 6: Factor loadings - Financial strategy**

	Pre-training	Post-training
	Factor 1	Factor 1
Asset reduction	.817	.822
Cost reduction	.749	.757
Breakeven – profit and loss	.724	.738
Cash flow enhancement	.719	.720
Extraction method: Alpha factoring		

Table 6 results indicate that all items measuring the financial strategy during pre- and post-training loaded significantly on single factors, showing convergent validity. Out of the four items, the item that had highest meaningfulness prior to training was *asset reduction* (loading = 0.817), followed by cost reduction (loading = 0.749), breakeven (loading = 0.724) and lastly cash flow enhancement (loading = 0.719). Concomitantly post training, *asset reduction* (loading = 0.822) had the highest meaningfulness, followed by cost reduction (loading = 0.757), breakeven (loading = 0.738), and lastly cash flow enhancement (loading = 0.720). These results confirm that the financial turnaround strategy significantly turns around SMMEs performances from loss-to-profit positions.

**Table 7: Factor loadings – Marketing strategy**

	Pre-training	Post-training
	Factor 1	Factor 1
Market segmentation	.724	.775
Product differentiation	.589	.606
Market penetration	.558	.570
Niche positioning	.555	.512
Extraction method: Alpha factoring		

Table 7 results reveal that all items measuring the marketing strategy during pre- and post-training loaded on single factors, showing convergent validity. Out of four items, the item that had highest meaningfulness prior to training was *market segmentation* (loading = 0.724), followed by product differentiation (loading = 0.589), market penetration (loading = 0.558), and niche positioning (loading = 0.555). Similarly post training, *market segmentation* (loading = 0.775) had the highest meaningfulness, then product differentiation (loading = 0.606), market penetration (loading = 0.570), and niche positioning (loading = 0.512). The results confirm that the marketing turnaround strategy is significant in turning around SMMEs performances from loss-to-profit positions.

#### 4.5. Paired samples t-tests

The paired samples t-tests were conducted to assess whether the mean differences between a pair of items were equal to zero. In other words, the respective test was conducted to determine whether there was statistical evidence that mean differences between paired observations were significantly different from zero. Therefore, the results reported indicate whether there were significant changes in SMME owners' knowledge levels around financial and marketing turnaround strategies between pre- and post-training phases. These paired mean differences results are presented in Table 8 and Table 9 for the financial strategy and marketing strategy, respectively.

**Table 8: Paired mean differences – Financial strategy**

Pair	<i>Knowledge gain: post-training vs. pre-training</i>	Paired differences					t	Sig.
		Mean	Std. dev	Std. error mean	95% Confidence Interval of the difference			
					Lower	Upper		
1	Asset reduction	<b>.344</b>	1.135	.089	.168	.519	<b>3.864</b>	<b>.000</b>
2	Cost reduction	<b>.307</b>	1.204	.094	.121	.493	<b>3.254</b>	<b>.001</b>
3	Breakeven – profit and loss	<b>.337</b>	1.233	.097	.147	.528	<b>3.493</b>	<b>.001</b>
4	Cash flow enhancement	<b>.399</b>	1.468	.115	.172	.626	<b>3.468</b>	<b>.001</b>

Table 8 results indicate that all the four pairs of items measuring financial strategy had statistically significant mean differences at 1 percent level. The highest significant perceived knowledge gains were on *cash flow enhancement* (mean = 0.399) and *asset reduction* (mean = 0.344). These mean differences reveal that the perceived gains in knowledge levels around cash flow enhancement and asset reduction were respectively rated 0.399 and 0.344 points higher post-training than the ratings prior to training at 95 percent confidence intervals [0.172-0.626, and 0.168-0.519; respectively]. The bottom two significant perceived knowledge gains subsequent the training was on breakeven (mean = 0.337) and cost reduction (mean = 0.307), all within relevant 95% confidence intervals. Concomitantly, these mean differences show that the perceived gains in knowledge levels around break even (profit and loss) and cost reduction were respectively appraised 0.337 and 0.307 points higher post-training than the ratings assigned prior to training.

**Table 9: Paired mean differences – Marketing strategy**

Pair	<i>Knowledge gain: post-training vs. pre-training</i>	Paired differences					t	Sig.
		Mean	Std. dev	Std. error mean	95% Confidence Interval of the difference			
					Lower	Upper		
1	Market segmentation	.141	1.356	.106	-.069	.351	1.329	.186
2	Product differentiation	<b>.294</b>	1.267	.099	.099	.490	<b>2.968</b>	<b>.003</b>
3	Market penetration	-.074	1.298	.102	-.274	.127	-.724	.470
4	Niche positioning	-.178	1.387	.109	-.393	.037	-1.637	.104

Table 9 results indicate that out of the total four pairs of items measuring marketing strategy, only product differentiation had a significant mean difference (mean = 0.294) at 1 percent level, while market segmentation, market penetration and niche marketing were insignificant at 5 percent level. The significant mean difference for product differentiation indicates that the perceived gain in the knowledge level around product differentiation as a constituent of marketing turnaround strategy was rated 0.29 points higher following the training than the rating prior to training at 95 percent confidence interval [0.99 – 0.490]. This result confirms the significance of product differentiation as a marketing turnaround strategy in changing SMMEs performances from loss-to-profit position.

#### 4.5. Cohen's d paired samples effect sizes

The results of effect sizes reported in Table 10 are interpreted based on the criterion or benchmark provided by Cohen (1998), which classifies effect sizes as small ( $d = 0.2$ ), medium ( $d = 0.5$ ), and large ( $d \geq 0.8$ ). The effect sizes reported are for the paired sample mean differences of the observed items which measured financial and marketing turnaround strategies as per results reported above.



**Table 10: Cohen's d – paired samples effect sizes**

Pair	Financial strategy	Standardizer <sup>a</sup>	Point estimate	95% Confidence Interval	
				Lower	Upper
1	Asset reduction	1.135	.303	.145	.459
2	Cost reduction	1.204	.255	.098	.410
3	Breakeven – profit and loss	1.233	.274	.117	.430
4	Cash flow enhancement	1.468	.272	.115	.428
Pair	<b>Marketing strategy</b>				
1	Market segmentation	1.356	.104	-.050	.258
2	Product differentiation	1.267	.233	.077	.388
3	Market penetration	1.298	-.057	-.210	.097
4	Niche positioning	1.387	-.128	-.282	.026

a. The denominator used in estimating the effect sizes.  
 Cohen's d uses the sample standard deviation of the mean difference.

Although prior results show statistically significant mean differences of all paired items measuring financial strategy and a single pair (product differentiation) measuring marketing strategy, sample effect sizes were in-between higher than small ( $d > 0.2$ ) and lower than medium ( $d = 0.5$ ) points. The magnitudes of these effect sizes suggest moderate significance of these turnaround strategies.

### 5. Concluding remarks

This study's findings suggest that financial strategies can be more significant in turning around the positions of SMMEs from loss-to-profit, based on improved perceived gains in knowledge levels around cash flow enhancement, asset reduction, breakeven (profit and loss) and cost reduction. In implementing these strategies, SMMEs' owners should however examine the nature of turnaround situations and a business review process which analyses current operating conditions, financial conditions, market position, production capabilities, current strategic position, product or market matrix, technological capabilities, and financial capabilities. Additional focus should be directed on the relationship between sternness of a decline and suitable recovery actions; with attention on cost reduction, revenue enhancement, market or product refocusing, and asset reduction.

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