

UNIVERSITY OF KWAZULU-NATAL

**A study to gain an understanding of the challenges faced by SME's in
obtaining finance.**

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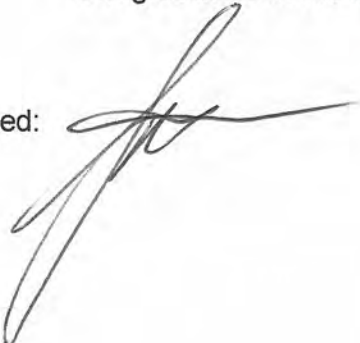
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Abstract.

South Africa is seen as the economic powerhouse of Southern Africa and it is critical that strong economic growth is achieved on a sustainable basis to alleviate poverty and unemployment. Small and medium sized enterprises (SME's) have played a key role in achieving sustained economic growth in South Africa and their success going forward will assist with driving growth. This will ensure that employment is created and prosperity will increase in South Africa and the region. However SME's face hurdles to growth of which access to finance is a major constraint. This study aimed to unpack the different aspects of the financial obstacles that SME's face. The study was qualitative in nature and was approached from a supplier's perspective. This was achieved by targeting specialists at financial institutions who dealt with SME's financing needs. Data was collected by conducting one on one interview's with the specialists after which the data was analysed using NVivo, a computer data analysis programme. The study highlighted a number of challenges that SME's faced when applying for finance. The main challenges were poor financial management which lead to cash flow constraints and business failure, weak business management skills which undermined the quality of and understanding of business plans when applying for finance and a lack of collateral. The lack of quality education was also found to compound the challenges to gain financing for SME's. The opportunities leading from the study suggest that entrepreneurs have the potential to improve their chances of accessing finance by enrolling in entrepreneurial and business management studies, thereby learning to overcome poor financial management, and improve their business management skills. Additionally mentoring programs will be useful for training entrepreneurs in practical business management skills and collateral shortfalls may be overcome by accessing government led schemes offering assistance for collateral.

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Chapter One

Introduction

1.1. Introduction.

South Africa faces many challenges with economic growth being a major hurdle that needs to be overcome. (Abor and Quartey 2010) To achieve sustainable economic growth the South Africa government needs to create an environment in which business can flourish and create jobs. Small and Medium Enterprises (SME's) are a key part of our economy and the success of SME's is vital for the country's success. SME's however face many challenges to survive and grow. There are many obstacles that they have to overcome to be sustainable such as marketing their products and services, managing their business efficiently and maintaining their cash flows to keep their firms operating.

A major challenge for SME's is the struggle to obtain finance to start or grow their businesses. (Yon and Evans 2011) This results in a constraint to economic growth in South Africa and other countries around the world. The challenge of accessing finance to grow their businesses places a heavy burden on the shoulders of entrepreneurs. Increasing access to finance is therefore crucial for SME's to allow them to reach their full potential.

This chapter provides an introduction for the study. Firstly, the motivation for the study will be given. The focus for the study will then be provided followed by the problem statement of the study. Thereafter the objectives of the study and the research questions will be highlighted. The limitations of the study will be provided and lastly the chapter will conclude with a summary.

1.2. Motivation for the Study.

The motivation for the study comes from a desire by the researcher to see South Africa as a country prosper. To have full employment in South Africa in which all South Africans have the means to provide for their families and live dignified lives. The researcher believes that entrepreneurship is a key component of this vision and that successful SME's are the vehicle to drive prosperity in South Africa.

The research was undertaken with entrepreneurs in mind, to help them overcome the difficulties in obtaining finance to grow their business. Entrepreneurs will be given insight into what the suppliers of finance require when applying for finance. The suppliers of finance will benefit from the research as the researcher believes that they will gain a broader prospective of their industry and learn from other service providers. The South African government will gain from the study by being given insight into the difficulties that SME's face when trying to source funding and will be more informed when drafting legislation regarding supporting business in South Africa. Large corporates will benefit from the study as they will be given insight into the financing needs of entrepreneurs when they compile their Corporate Social Responsibility (CSR) programs.

The contribution of the study to the existing body of literature is unique in that the study was undertaken from a supply side as opposed to a demand side. There are many studies on the difficulties that SME's have in obtaining finance which focus on the challenges that entrepreneurs face themselves. There are not many studies that focus on the entrepreneurs challenges, viewed from the suppliers of finance perspective.

1.3. Focus of the Study.

The focus of the study was to gain an understanding of the obstacles faced by SME's in gaining finance from a supplier's (financial institutions) perspective. The views of the financial specialists at the financial institutions, it was proposed, would give SME owners insight into overcoming the obstacles they faced when applying for finance. The researcher believes that this will lead to increased success for SME owners in gaining finance and help SME's grow and add to the

economic growth of South Africa. The additional benefits from SME growth such as increased employment and the upliftment of the previously disadvantaged is priceless which makes this study more significant for the researcher.

The study did not investigate the views of entrepreneurs themselves because the researcher wanted to understand the supply side of the difficulties that entrepreneurs encountered.

1.4. Problem Statement of the Study.

SME's are the engine of growth for the South African economy. Growth of our economy is important because through growth, jobs are created and unemployment is reduced. SME's however face a number of constraints to growth such as a lack of management skills, poor marketing capabilities and access to finance. Financial constraints caused by difficulties in accessing finance are therefore a major cause of limiting SME's growth and hindering South Africa's economic prosperity. SME's unlike larger firms rely heavily on debt finance and are vulnerable to failure as a result of not having sufficient funding. The challenge was therefore to gain an understanding of the challenges SME's went through in trying to access funding for growth. The findings of the study were used to propose possible strategies for SME's to overcome the hurdles they faced in accessing finance by giving entrepreneurs insight, into where they fell short when applying for finance from a suppliers point of view.

The study therefore undertook to research the challenges faced by SME's in obtaining finance from the supplier's perspective.

1.5. Objectives of the Study.

The objectives of the study were as follows:-

- Firstly to explore what finance options were available to SME's.
- To understand what the challenges were for SME's in obtaining finance.
- To investigate what non-financial assistance was offered to SME's by financial institutions.

- To establish if women had additional challenges in obtaining finance.
- To understand what were the reasons why SME's failed to obtain finance.
- To investigate what would assist in increasing SME's chances to obtain finance.

1.6. Research questions.

The research questions that were investigated were as follows:-

- What finance options were available to SME's?
- What were the challenges for SME's in obtaining finance?
- What non-financial assistance was offered to SME's by financial institutions?
- What were the specific challenges women had in obtaining finance?
- What were the reasons why SME's failed to obtain finance?
- What would assist in increasing SME's chances to obtain finance?

1.7. Limitations of the Study.

Research will have limitations and in this study the researcher had to deal with the following limitations:-

- a) The research quality was dependent on the individual skill of the researcher and may have been influenced by the researcher's personal biases.
- b) The volume of the data made analysis and interpretation time consuming.
- c) The researcher's presence during data collection may have affected the subject's responses.
- d) Findings were difficult to present in a visual way.

1.8. Summary.

Sustainable economic growth is important for the wellbeing of all South Africans. To achieve this objective SME's need to thrive, create wealth and provide jobs. SME's face many challenges which cause them to fail or remain small. Access to finance is a major obstacle that SME's have. The challenge faced by SME's in gaining access to finance is a hurdle that often puts constraints on their growth and sustainability. This hinders South Africa's economic growth, prosperity and poverty alleviation.

The study undertook to investigate the hurdles that SME's had to overcome when applying for finance. The importance of understanding where SME's fell short when applying for finance was key to providing solutions for entrepreneurs to give them insight as to how they could strengthen their access to finance in the future.

Given the problem that SME's face hurdles when applying for finance it was interesting to see what literature stated on the topic. This will be discussed in the next chapter.

Chapter 2

Literature Review

2.1. Introduction.

SME's play a crucial role in economic development, especially in creating employment and wealth. SME's are key drivers of economic growth however they face challenges in achieving growth through difficulties in raising and obtaining finance. (Ruis *et al.* 2009; Yon and Evans 2011) The literature under discussion, covers a number of views as to why SME's struggle to obtain finance which will be covered by the researcher in this literature review.

De la Torre, Pería and Schmukler (2010) add SME's face financing hurdles and therefore need special focus from financing institutions to assist them in gaining adequate finance to grow their firms. SME's are vital for a country's growth and prosperity as they create a large share of new jobs and are a large part of most economies in the world today.

The South African government has taken an active role in assisting SME's to flourish through their SME funding institutions such as the IDC, Seda, Sefa and the National Empowerment Fund,(NEF). Abor and Quartey (2010) mention that 91% of formal business entities in South Africa are SME's and that these SME's contributed between 52 to 57% to GDP and provide about 61% to employment.' It is therefore critical for the development of our country that SME's are offered support to be successful and sustainable, thereby contributing to the wellbeing of our nation.

SME's play a fundamental role in the economies of developing countries especially in our country. They add to the prosperity of South Africans through innovation, job creation and increased GDP growth. SME's face many constraints to growth with access to financing their firms being in many cases the number one reason they struggle to grow and even survive. The Dalberg report (2011) mentions that almost half of SME's rate access to finance as a challenge and

many are not able to obtain finance from banks at all. There have being numerous studies about SME's facing hurdles in gaining access to finance. The researcher will endeavour to consider a number of views regarding finance for SME's and will discuss the obstacles from the relevant literature. Through the discussion the researcher will highlight the opportunities that SME's have in South Africa to access finance so that they can gain an insight into what is available and thereby help SME's to reach their full potential, leading to economic prosperity.

2.2. Definition of SME's.

There are numerous definitions of SME's however the researcher will consider the South African definition as defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) 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 subsector of the economy...”

Table 2.1 below summarises the split of firms into SMME's using the number of employees, annual turnover, and Gross Assets, Excluding Fixed Property.

Table 2.1: Broad Definitions of SMME's in the National Small Business Act.

Firm Size	Number of Employees	Annual Turnover (SA. Rand)	Gross Assets, Excluding Fixed property
<i>Medium</i>	51 to 200, depending on industry	R25m to R50m depending on industry	R4.5m to R18m depending on industry
<i>Small</i>	21 to 50	R500k to > R25m depending on industry	R500k to > R4.5m depending on industry

<i>Very Small</i>	6 to 20 depending on industry	R150k to >R500k depending on industry	R100k to > R500k depending on industry
<i>Micro</i>	> 5	> R150k	> R100k

Source: Author adapted from Falkena. (2015)

The split into Micro, Very Small, Small and Medium sized businesses is as follows according to the National Small Business Act, as summarized by Table 1 above. Micro: The firm employs less than 5 employees with an annual turnover of less than R150 000 and the firms Gross Assets, excluding fixed property is less than R100 000.

Very Small: The firm employs from 6 to 20 employees depending on the industry that it operates in. The firm's annual turnover is from R150 000 to less than R500 000 depending on the industry it operates in and the firms fixed assets, excluding fixed property are from R100 000 to less than R500 000 depending on the industry they operate in.

Small: The firm employs from 21 to 50 employees, has an annual turnover of R500k to less than R25m depending on the industry they operate in and has assets, excluding fixed property of R500k to less than R4.5m depending on the industry they operate in.

Medium: The firm employs from 51 to 200 employees depending on the industry they operate in. The firm's annual turnover is from R25m to R50m depending on the industry they operate in and has assets, excluding fixed property of R4.5m to R18m depending on the industry they operate in.

Now that we have the South African perspective on what a SME is the researcher will consider an international view of the definition of a SME. According to the European Commission's enterprise and industry report (2015) the main factors used to measure and grade a company as a SME are firstly how many employees a firm has and secondly what is the turnover or balance sheet worth. Table 2.2 is a summary of their measures using the number of employees and turnover.

Table 2.2: EU summary of SME classification.

Company Category	Employees	Turnover	or	Balance Sheet Total
Medium-sized	< 250	≤ € 50m		≤ € 43m
Small	< 50	≤ € 10m		≤ € 10m
Micro	< 10	≤ € 2m		≤ € 2m

Source: European Commission. (2015)

Table 2 above defines SME's as follows.

Micro: Has less than 10 employees with an annual turnover of less than but not exceeding €2m or has a balance sheet of less than but not exceeding €2m.

Small: Has less than 50 employees with and annual turnover of less than but not exceeding €10m or has a balance sheet of €10m or less.

Medium: Has less than 250 employees with an annual turnover of less than but not exceeding €50m or has a balance sheet of €43m or less.

Now that we have an insight into the definition of SME's let us consider the various divisions of literature regarding SME finance.

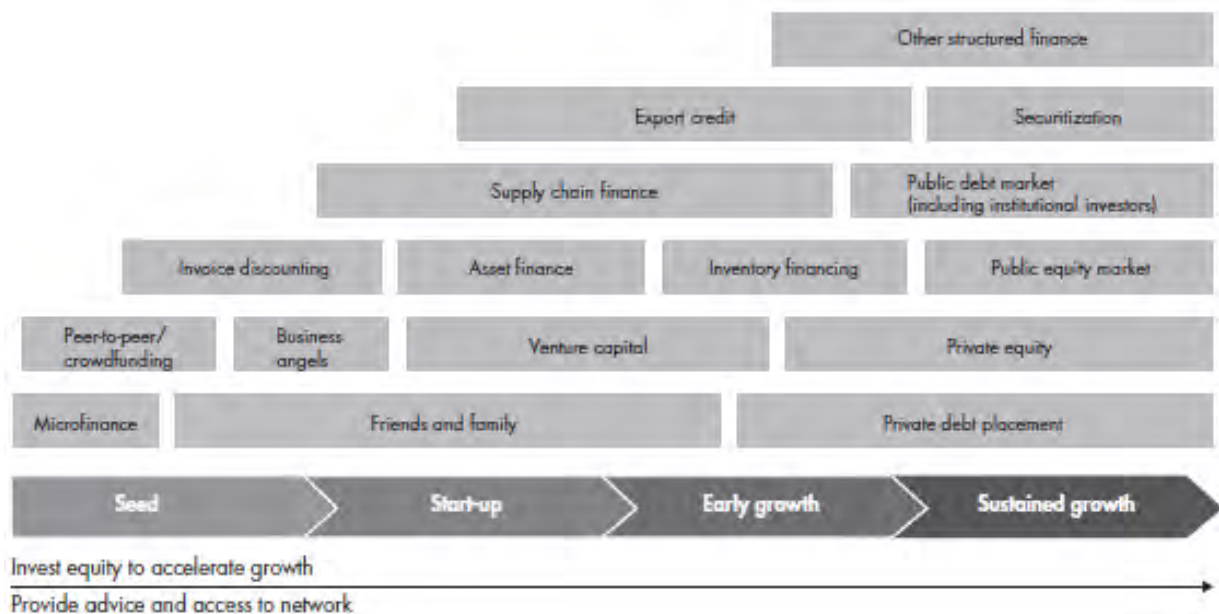
2.3. The size of SME's.

The size of SME's according to the literature plays an important role in a SME's ability to raise finance. According to Kuntchev *et al* (2012) the larger a firm becomes the easier it is for a firm to secure finance. This is also age related and can be linked to a more established credit history. The size of the firm is however one of many factors considered by literature as a constraint to accessing finance for SME's. Cui (2010) adds that initially when a firm starts the owner funds the firm using internal equity financing and as the firm grows external financing becomes more accessible due to the early success of a firm and future growth potential for investors whose perceived risk of the firm failing is alleviated. Mac *et al* (2010) continues that at inception the owner funds the firm using their own resources. In the early growth phase internal funding is key with retained profits playing a

significant part of funding. In the maturity phase of the firm financial institutions are used to fund the firm with a number of additional alternatives such as hire purchase, leasing, overdrafts and traditional bank loans.

Figure 2.1, below gives examples of the types of finance that SME's use during the different growth phases of a business. During the seed phase owners take loans from Microfinance institutions, friends and family, peer to peer crowdfunding, business angels and invoice discounting. During the start-up phase additional sources to the previously mentioned sources may include venture capital, asset finance, supply chain finance and export credit. During the early growth phase funding may expand to include inventory financing, private debt placement and private equity. Lastly during the sustained growth phase added financing sources may include public equity, public debt, securitization and other structured finance.

Figure 2.1: As companies grow, their financing needs change



Source: The IIF/Bain & Company interviews. (2013)

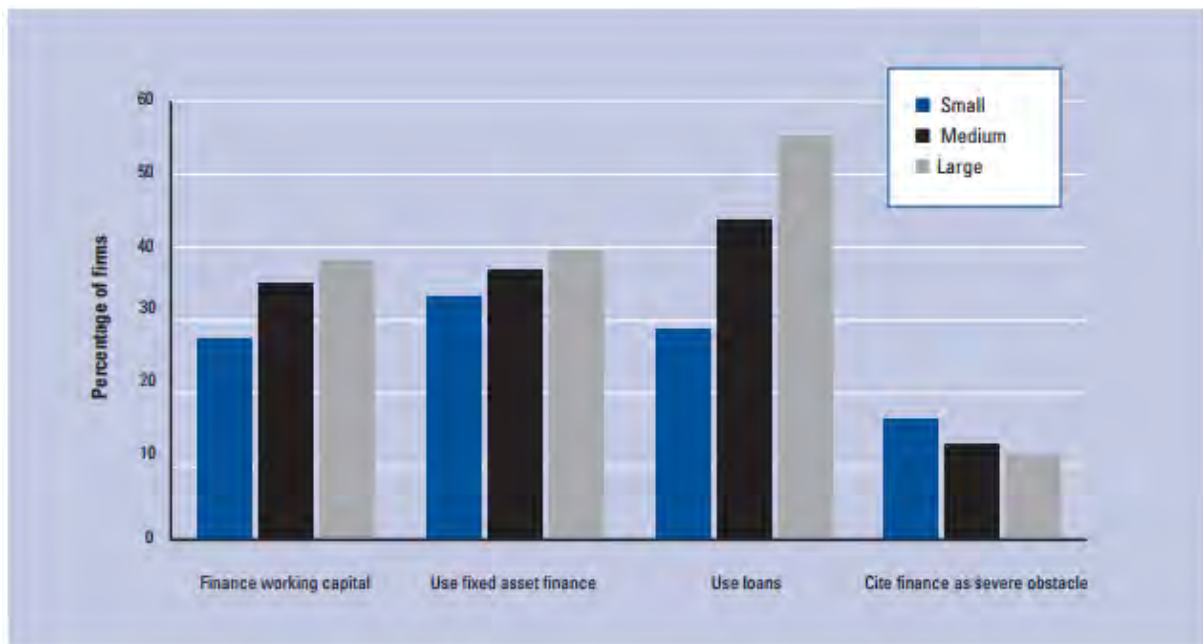
According to the OECD report (2014) SME's rely more on debt financing in contrast to large firms, as they are not able to access the financial markets through public offerings.

Beck (2010) reports that SME's face more difficulties in raising finance than do larger firms. SME's use internal financing to a greater degree than larger firms for

financing working capital and investing in fixed assets. SME's growth is more constrained by financing hurdles than larger firms which is to the detriment of SME's sustainability.

Figure 2.2 below compares the financing constraints as mentioned above to those of large firms. Small firms use financing for working capital less than medium and large firms, with large firms using financing for working capital to a larger degree. Small firms use fixed asset finance to a lesser degree compared to medium and large firms with large firms using fixed asset finance to a larger degree. Small firms are the least likely to use loans compared to medium and large firms. Large firms use loans to a larger degree. Lastly small firms cite finance as a severe obstacle to growth to a larger degree, compared to medium and large firms. Large firms citing finance as a severe obstacle to growth is less than medium and small firms.

Figure 2.2: Comparison of Financing of small, medium and large enterprises.



Source: The World Banks Enterprise Surveys and Beck's Calculations. (2011)

Pal, Johnsen and McMahon (2005) found that SME's size and industry is related to access to finance in which one industry is given preference over another. This would suggest that financing institutions focus on specific industries that they find are more profitable and therefore less risky to support in approving finance for

SME's. Banking behaviour has changed due to the subprime crises. (Paulet, Parnaudeau and Abdessemed 2014). This has made obtaining finance for SME's more challenging as banks view SME's as less profitable and the risk linked to SME loans is higher than larger firms. Irwin and Scott (2010) also highlights the discrimination of banks towards financing SME's as their proposals in a number of cases were not considered 'bankable' as SME's did not fit the mainstream banking institutions target market, as they were not profitable. This led to additional reasons why banks were averse to loan SME's money and other possible reasons were race, gender and education.

Van Niekerk (2014) points out that for a loan to be viable the financing institution has to consider the cost of doing a 'due diligence' for each loan. The cost of doing the investigation is the same for a small loan and a large loan. Therefore the larger loan is more profitable due to economies of scale and larger firms are more stable therefore less risky than SME's. Financing institutions also have to take into consideration their shareholders who want the highest return possible. Table 2.3 below is an example of the cost associated with loan sizes and profitability. The direct costs and unapproved deals costs is the same for both the R2m and the R500 000 loan at R9 000 and R36 000 respectively. The gross profit over five years is R950 000 for the R2m loan versus only R205 000 for the R500 000 loan which highlights why banks who are profit driven would prefer to support the R2m loan.

Table 2.3: Loan size and profitability

Size of Loan	R2 million	R500 000
Interest per annum at 10%	R200 000	R50 000
Direct operational cost	R9 000	R9 000
Cost of unapproved deals (4/5 applications)	R36 000	R36 000
Profit for the first year	R155 000	R5 000
Gross profit over five years	R950 000	R205 000

Source: Moneyweb.co.za

There is strong evidence from the literature that SME's face constraints when approaching banks for finance which is due to their small size and low profitability for the banks. Banks are profit driven businesses and they want to maximise their profits for their shareholders however banks play an important role in offering finance to SME's in South Africa. The following literature highlights this.

2.4. SME support from the banking sector.

Globally banks play a key role in offering finance to SME's and banks have developed scoring systems to weed out poor prospects vs profitable prospects from amongst SME's, applying for finance. Banks specifically target SME's because they can be lucrative business for the banks if managed through their filtering systems in which high risk SME's are eliminated for loan approval. (OECD 2006).

The four main banks in South Africa namely Nedbank, ABSA, FNB and Standard Bank, have increased their focus on SME's. Table 2.4 below, gives an indication of the split between their small business book. Standard Bank has the most SME clients followed by Nedbank, ABSA and lastly FNB. This would indicate that FNB has a long way to go in supporting SME's.

Table 2.4: Small Business Book of the South African Major Banks.

	Standard	Nedbank	ABSA	FNB	Total
SME Clients	367 500	346 500	210 000	126 000	1 050 000
Total Book			R2.6 Billion		
Average size of loan	R39 000		R47 000		
Market Share	35%	33%	20%	12%	100%

Source: SME Report and ABSA Annual Report. (2001)

The Banking Association of South Africa (N.D.) reports that South African banks should continue to assist our country's growth initiatives such as the National Development Plan (NDP) by supporting SME's. The loans they suggest are to be

targeted at SME's involved in infrastructure development. The Banking Association also suggests that the South African government in turn should provide banks with guarantees for loans to SME's.

Standard Bank (N.D.) has recognised the importance of funding SME's and their research into SME's helped them understand that traditional SME's are often 'one man' operations in which financial statements are non-existent. Standard Bank created a unique solution for SME's in which collateral was not required, called 'SMEQuick Loan.' The working of the loan agreement was, the quicker the loan was paid off the sooner the SME owner would be offered larger loans. In this way Standard Bank has kept their risk low and helped SME owners create a credit history for more traditional loans. According to Mahembe (2011) banks have focused on investing in micro businesses as they envisage that these customers will become profitable once their firms grow. Banks have opened their loan facilities to previously disadvantaged individuals (PDI) as part of their transformation process.

Hussain, Millman and Matlay (2006) point out the importance of the relationship between the owners of SME's with their banks. A positive relationship is key for the day to day financing and functioning of their firms plus it plays an important part for gaining longer term loans. They also mention that financing from banks plays a more important role in their firms as the firms grow. Initially financing for their firms was from owner's personal savings or family and friends. The European Investment Bank (EIB) (N.D.) reports that they have actively increased their support for SME's and continue to improve this going forward. They believe that finance for SME's should be encouraged and they believe in formulating packages for SME's according to the changing needs of the market. They also back SME's through banking guarantees and offer equity financing to SME's.

The World Bank's (N.D.) programme, 'Targeted Support for SME's', (TSME) has specifically been set up to channel funds to SME's via government funding agencies and assist where banking for SME's has been lacking. The World Bank does not traditionally focus on SME's however this undertaking is playing an important role in supporting SME's. Figure 2.3 below shows the trend in the World Bank's TSME projects vs their overall portfolio.

Figure 2.3: Trend in TSME and Overall Portfolio, FY 06 - 12



2.5. Owner Personality/Characteristics.

Funding institutions often assess SME's loan approval or rejection by considering the personality of the owner of the SME. Haron *et al* (2013) mention that a person's personality points to whether they will honour the loan agreement. They additionally point out that financial institutions are striving to build long term relationships with their customers as the market has become very competitive and retaining customers is key for the banks growth and profitability. Haron *et al* (2012) give insight into the credit check of an individual playing a role in loans being given or rejected in relationship to the individual's personality as a credible payer.

Abdulsaleh and Worthington (2013) and Irwin and Scott (2010) adds further to support this by pointing out that because the owner of a SME plays a significant role in the company and is the main decision maker the assessment by the financial institution is of the owner is a key factor used when offering or declining a loan to a SME.

Ingilfsson (2011) adds that financial institutions in the U.S. use credit scoring of SME's as a basis for approving loans. The credit scoring takes into consideration the owners assets, and debts, plus their personal consumer data and income. Added to this the lending institutions assess the SME's data such as financials, credit history and data about the SME from credit bureaus. This data is then used to score the SME to give a more informed view of the SME and thereby banks are able to lessen their risk and possible default of high risk SME's. This system is not expensive and has led to an increase of loans to SME's.

Gender adds a further angle to the owner's characteristics as mentioned by Badulescu (2011) who found that men are able to raise twice as much capital as women and women face more credibility issues when trying to raise finance. This however may be a cultural issue. The concern highlighted by Badulescu is women entrepreneurs firms suffer more than males due to the added difficulty in obtaining finance and the sustainability of females firms are at more risk.

2.6. Credit risk/rating.

SME's credit risk from a banks perspective can vary however banks commonly view SME's risk as higher than large corporations as they do not have the same level of security as their larger counterparts.

According to Silburt (2012) credit risk is a view a bank takes of a SME as to whether they will be able to pay back the loan or not. The servicing of the loan is seen by banks as risky for SME's because they often operate in highly competitive environments in which profitability is low. Banks also rate the management ability of SME owners as lower than large corporates as the owners are often unqualified individuals and the SME owners often do not run their firms using tried and trusted financial models. Banks therefore have to carry losses when SME's default on payments. This results in banks offering loans at higher interest rates to SME's and giving SME's poor credit ratings.

As a result of the financial crisis and high risk in loaning to SME's, banks have cut lending to SME's and driven SME's to source financing from other sources. However banks are still able to make positive returns from SME loans through

improved assessment methods to reduce SME loan payment defaults. Banks scrutinize the SME's ability to repay the loan by investigating the industry they are in and the prospects of the industry. Assessments are also conducted into the willingness of the SME to repay the loan. This includes payment history from creditors, previous loans and even payment of taxes. (World Bank 2014)

De la Torre, Peria and Schmukler (2010) mentions that banks are evolving in the way they deal with SME's and adjusting their credit risk management systems which are becoming highly sophisticated. They have found that most banks have moved their risk analysis departments to their head offices. The risk analysts have also trained the banks staff dealing with SME's in risk management to make them more efficient in preparing credit applications and screening out poor applicants so that when the loan applications are sent to their head offices the loans have a higher chance of being approved.

2.7. Collateral.

Available collateral for many SME's is insufficient for securing loans from banks. This hampers the firm's ability to grow and often SME owners have to pledge their own assets as collateral so that their firms can obtain financing from banks.

According to OECD (2014) SME's faced increased pressure to provide additional collateral for loans as the region is undergoing economic hardship and SME's pose a greater risk to lending institutions. Banks took a view that the assets in general used for collateral were overvalued hence the increase in the collateral required.

According to Abdulsaleh and Worthington (2013) SME's with a greater variety of fixed assets are able to obtain financing at lower interest rates and have more chance of having their loans approved as they have greater financial leverage. The relationship of the SME owner with the financial institute is also key as individuals with positive relationships and good track records had fewer hurdles to overcome when applying for finance. SME's with fewer tangible assets found it was more difficult to obtain finance.

Steijvers, Voordeckers and Vanhoof (2010) add the personal wealth of SME owners plays an important role in whether or not SME's are able to obtain finance from banks. The owners often have to use their own assets as collateral as their firms do not have sufficient assets to secure loans. This places an additional burden on SME owners as they may lose their business and their personal assets should the business fail.

2.8. Quality of SME financial information.

SME's are often managed by their owners who have to multitask to ensure the survival of their firms. They are often not trained in accounting methods or managing a firm in general. They struggle to keep an accounting record that follows acceptable accounting practices and this creates gaps in their financials which often leads to the failure of their firms.

SME's need to be more active in providing banks with information about their firms operations. They will enhance the chance of receiving an improved credit rating from a bank by giving relevant information about their firm and by submitting a detailed business plan. This will give banks insight into the SME's viability and bankability. The owners of SME's need to establish trust between them and their banks by providing accurate financial information which will assist banks in assessing their firms risk. Banks often view SME's as poorly managed and find their applications for loans have gaps in financial information due to poor record keeping practices. (Silburt 2012)

Grunert and Norden (2012) point out that information supplied to banks is key for bargaining with banks to reduce the rates charged for loans. Owners of SME's are able to use their personal information such as their qualifications, experience and creditworthiness to their advantage and extract favourable loan rates from banks, when their firms financial data is lacking or they only have a short financial history due to the newness of the firm. Grunert and Norden suggest that at the early stage of a firm's existence the personal information of the owner is more important for a bank than the firm's financial information.

SME's in Africa according to Kadouamai (2013) are not very successful and are often poorly managed. Owners of SME's often do not have the skills to create or understand basic accounting practices. This results in incomplete financial records. This has a negative effect when applying for finance as the financials are not accepted by banks. SME's also struggle to understand the legal and statutory requirements required to manage and operate their firms in their own countries. These issues hamper economic growth in Africa as SME's are not able to thrive and create employment and wealth.

2.9. Degree of management skills.

SME owner's management skills and qualifications vary. According to the literature many SME owners lack management skills, specifically financial skills needed to manage a firm effectively and grow their businesses using all the available financial tools.

Olawale (2010) highlights the poor level of managerial skills in South Africa. South Africa's education system has failed to generate a large pool of innovative entrepreneurs with managerial skills to create and grow SME's that will be sustainable. SME's fail due to insufficient management training and work experience.

Jyothi and Kamalanbhan (2010) report that there is a difference in the management skills of SME owners and the management skills they require to manage their firms. This is a major reason why SME's fail in South Africa. The key skills found to be lacking were financial, marketing and human resources. The lack of financial management often results in difficulties in securing finance and ends up in firms running out of funds to continue operations resulting in the business shutting down. SME owners who were successful highlighted the need to have a team who supported them with skills they lacked.

Abor and Quartey (2010) mention the shortage of management skills in SME's is a major factor hindering SME growth. SME's struggle to attract qualified managers as large firms are able to pay higher salaries and offer career paths for qualified

managers. Large firms additionally are able to offer further training and pay for the costs associated with training whereas SME's are not able to afford this.

2.10. Asset based lending. (ABL)

SME's or their owners often lack sufficient collateral such as property or equipment. Banks however have created opportunities for SME's by offering asset based finance, borrowing against the value of their invoices. This trend is forcing SME's to manage their debtor's book more professionally and has opened up their cash flow through loans against their outstanding debtor's book. Mullen (2012) points out that asset based lending has the potential to supply SME's with more finance against their assets than any other type of lending. This type of lending helps firms grow as funding tracks sales rather than the state of a balance sheet and even firms making a loss are able to use this type of funding. A negative pointed out by Mullen is should a firms orders decline so will their financing and there will be a higher cost of funding due to the risk involved.

Shinners (2013) mentions that ABL is suitable for new SME's because as they grow their financing from banks increases. He does warn however that SME's with seasonal sales need to provide for low season periods when sales are slow, financing will be reduced which will negatively impact on cash flow.

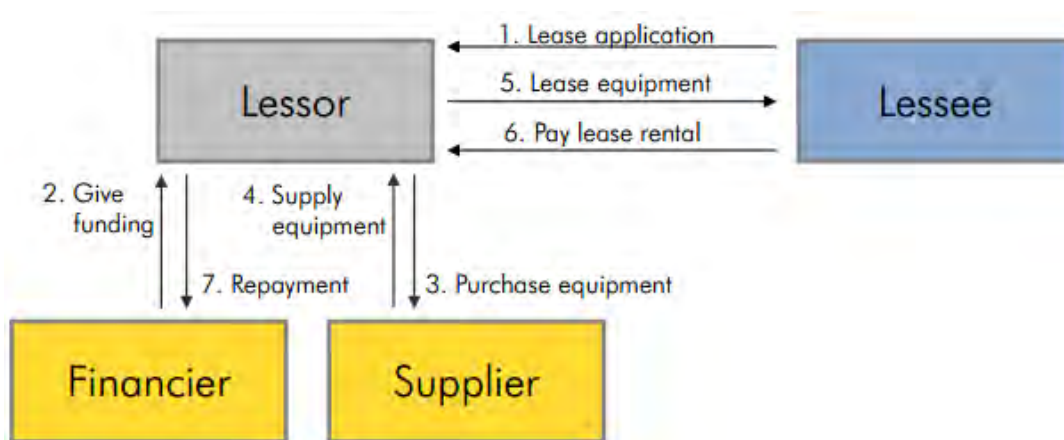
Asset based lending as reported by Berger (2011) includes the debtors book and stock, which is leveraged to secure financing from banks to ensure that firms operations are not hampered due to cash flows drying up.

2.11. Leasing.

SME's that are not able to raise finance to buy equipment through banks are often able to lease equipment as an alternative method to secure financing. Lease financing has the advantage that the cost is initially lower and improves cash flow management. Leasing gives SME's the use of an asset such as manufacturing equipment, to generate revenue for the SME's benefit and growth. Kraemer-Eis (2012) adds that ownership does not pass on to the SME during the lease period

however the SME has the option to pay a nominal amount at the end of the lease should they wish to take ownership of the asset. SME's that have a poor credit rating, may have to pay high finance costs, are able to reduce their financing costs through leasing. Leasing is a useful alternative method of financing for new SME's that do not have a credit history to secure financing through traditional means. Figure 2.4 below show the mechanisms of leasing, from the initial lease application between the Lessor and the Lessee to the interactions between the Lessor, Financier and the Supplier.

Figure 2.4: The leasing mechanisms.



Source: Based on Izumi (2006)

Hossain (2013) highlights that SME's rather than using their own funds to buy equipment have the option to use lease financing to secure the use of machinery for their firms use. This is viewed as a means to access medium term financing of assets.

Sule (2014) adds that SME's have two types of leases. A capital lease in a longer term agreement in which the SME gains ownership at the end of the lease. The second option is a short term, operating lease in which the SME does not have the option to secure ownership at the end of the lease. It would be more profitable for a SME to use a longer term lease for machinery as this would become an asset of the firm at the end of the lease period which may be used to continue to generate an income for the firm.

Leasing is a viable option for SME's that struggle to access financing to purchase equipment however the drawback is they will not be able to build up their asset base which could be used for collateral to secure financing for other investments in their operations.

2.12. Equity financing.

Most SME's use some form of equity financing according to literature whether it is internal funds of the owner or external funds from investors.

Wehinger (2012) mentions that equity financing instead of debt financing for SME's is often a better alternative for new firms. This helps with cash flow as the debt does not have to be repaid in the short term however SME owners are often hesitant to finance their firms through equity deals as they fear they will lose control to investors.

OECD (2014) adds further that investors are more cautious since the financial crisis to offer finance through equity deals. A positive was governments have increased support for equity financing through improved regulations and incentives.

Table 2.5 below gives an overview of investments by investors in equity financing deals for the countries in which OECD reported on. 2007 has been used as the base year. The 2012 growth rate in percentage over 2011 shows most countries equity deals declined however conversely Belgium, Finland, Hungary, Portugal and Russia all performed well with double digit growth in equity deals.

Table 2.5: Venture and growth capital invested, 2007-12

	Relative to 2007 (2007 = 1) and percentages						
	2007	2008	2009	2010	2011	2012	2011/2012 Growth rate (in %)
Austria	1.00	0.79	1.13	0.70	1.96	0.57	-70.9
Belgium	1.00	0.90	1.17	0.75	0.58	0.74	27.4
Canada	1.00	0.78	0.56	0.61	0.83	0.83	0.0

Chile	1.00	0.88	0.86	1.05	1.39	1.39	0.0
Czech Republic	1.00	7.59	6.74	5.50	2.51	1.25	-50.3
Denmark	1.00	0.93	0.44	0.35	0.63	0.40	-36.9
Finland	1.00	0.73	0.48	0.97	0.52	0.60	14.4
France	1.00	1.21	1.20	1.47	1.78	1.20	-32.5
Hungary	1.00	3.49	0.18	1.77	2.66	4.90	71.2
Ireland	1.00	1.08	1.28	1.37	1.21	1.19	-2.0
Israel	1.00	1.18	0.64	0.72	1.21	1.09	-9.9
Italy	1.00	1.54	0.99	0.98	1.61	1.77	9.8
Korea	1.00	0.73	0.87	1.10	1.27	1.24	-2.2
Mexico	1.00	1.02	1.06	1.52	1.52	1.63	7.7
The Netherlands	1.00	1.18	0.77	0.73	1.15	0.70	-39.0
New Zealand	1.00	0.81	0.42	1.15	0.45	0.33	-26.8
Norway	1.00	0.74	0.37	0.76	0.98	n.a.	n.a.
Portugal	1.00	0.67	0.31	0.48	0.09	0.12	28.9
Russia	..	1.00	1.06	1.17	1.40	1.84	31.5
Serbia	1.00	21.67	n.a.	220.13	n.a.	n.a.	n.a.
Slovak Republic	1.00	1.14	2.06	1.63	1.64	1.00	-39.1
Slovenia	1.00	6.78	13.80	10.06	5.85	0.94	-84.0
Spain	..	1.00	1.08	1.08	0.81	0.66	-19.2
Sweden	1.00	1.22	0.78	0.69	0.60	0.46	-22.8
Switzerland	1.00	1.03	0.91	1.19	0.74	0.79	6.5
Turkey	1.00	0.06	0.46	3.48	27.29	8.05	-70.5
United Kingdom	1.00	1.74	1.09	1.42	1.45	1.31	-9.5
United States	1.00	0.94	0.63	0.73	0.92	0.84	-8.6

Source: Data compiled from the country profiles of Financing SME's and Entrepreneurs 2014: An OECD Scoreboard.

According to Abdulsaleh and Worthington (2013) SME owners often use internal sources of equity financing from their own savings or from family and friends. External equity funding helps SME owners to spread their risk with equity investors. Again some SME owners are reluctant to use equity financing as they don't want to dilute their ownership.

2.13. Debt Financing.

Debt financing is a more traditional means for SME owners to finance their firms. The research literature on debt financing is vast and varied with benefits such as retained control of the firm by the SME owner and drawbacks such as the tying up of the owners and SME's collateral by banks to secure the financing.

Zsolt (2013) reports that Banks are cautious when lending to new firms as the risk is greater and the banks do not have a history with the firms. This is more prominent in the EU where firms are struggling. Banks have also carried losses during the financial crisis and some banks balance sheets are still weak hence the hesitation to lend to unknown SME's.

Abdulsaleh and Worthington (2013) reports that SME owner's prefer to source debt financing as opposed to external equity financing so that they retain control of their firm. SME's unlike large firms do not have many choices in sourcing debt financing. They more often apply to banks and government funded lending institutions.

According to De la Torre, Peria and Schmukler (2010) banks are more inclined to offer loans to SME's as a result of technology advancements and standardized risk assessment tools which have reduced the cost and time taken to assess SME's creditworthiness. Banks use credit bureaus information about SME owners to also forecast the likeliness of loan repayment defaults and include this in their credit scoring of the SME. This reduces the time that the bank has to take in assessing the SME's often poor information submitted to banks for loan applications and reduces the banks costs in approving loans.

2.14. Factoring.

Factoring according to research literature is a viable alternative for SME's struggling to secure bank financing and helps SME's employ their resources more effectively.

Factoring according to the International Finance Corporation (IFC) (2011) is a useful tool for high risk SME's to raise finance by selling their receivable's book at a discount. The risk that is considered by the underwriter is the risk of the buyers (SME's customers) and not the SME. The creditworthiness of the buyers is therefore key to the success of the agreement and a high risk SME is able to leverage their customer's strength as a means to finance their own firm which may not be able to raise finance through traditional channels. Factoring works more efficiently when a SME has a larger number of customers versus only a few customers as the risk of default is spread over a larger number of customers so the risk is lower. Factoring therefore provides high risk SME's with working capital.

According to Santillan *et al* (2014) SME's can overcome financing difficulties as factoring allows a firm to grow without having to borrow from a bank. It was also found that factoring was not considered by many firms as they were not aware of factoring as a means to finance their firms or they had a misconception that factoring was complicated to set up.

Shuzhen, Liang and Zheng (2014) highlights the benefits of factoring for SME's as many firms working capital dries up while they wait for their customers to pay them. Traditionally firms would borrow from banks to overcome cash flow shortages however this is costly and not all SME's are able to obtain bank finance. Factoring helps SME's as they sell their receivable's book instead of borrowing.

2.15. Trade Credit.

Trade credit is one of the best ways for SME's to obtain short term external credit financing. SME suppliers normally have the financial strength to offer trade credit to SME's and the literature is growing regarding the benefits of trade credit for SME's as an alternative to bank finance.

Trade credit according to Abdulsaleh and Worthington (2013) is a key source of short term financing for SME's. Trade credit works to the benefit of SME's and their suppliers as they are able to manage their cash flows more efficiently. This type of financing for SME's is often the cheapest form of funding and is easier to obtain versus bank funding. Trade credit is beneficial for new start up SME's as banks view them as high risk so the cost of finance through a bank is high versus trade credit being low.

Sola, Teruel and Solano (2014) explains that trade credit for firms is a way of funding their customers businesses in which the seller is able to increase their sales and hence their profitability. SME's benefit as they are given credit financing from their suppliers. In effect their suppliers are investing in their firm's growth and the seller benefits by an expected increase of sales from the SME's as they grow. The relationship between the seller and the SME's is further strengthened during times of financial difficulties because the seller is able offer extended trade credit to SME's as their access to bank finance becomes more limited.

Carbo-Valverde, Rodriguez-Fernandez and Udell (2012) strongly suggests that their research results show that trade credit is the greatest alternative choice to bank finance for SME's struggling to obtain credit and that this source of funding is key for SME's during times of financial difficulty.

2.16. Crowd Funding.

Crowdfunding is a relatively new means for SME's to secure finance. The literature is growing on the topic and offers an interesting alternative to more traditional financing such as debt financing through banks.

Mach *et al* (2014) report that due to the financial crisis of 2007/8 trust in the traditional banking institutions has declined and alternative funding methods for SME's have been established. SME's difficulties in obtaining finance from banks has also helped create opportunities for crowdfunding to fund SME's. Crowdfunding has developed rapidly due to use of the internet. There are internet sites where SME's advertise their firm and individuals donate towards the firm's proposal and others in which equity is sold to individuals.

According to Sellars (2014) SME's lack opportunities to acquire external finance for their firm's growth. The traditional banking solutions offered to SME's, due to their strict collateral requirements, are becoming unattractive to growing SME's. The alternative funding sources such as private equity and venture capitalists are often expensive as the entrepreneur has to give away a large portion of their firm or the process to obtain funding takes a long time. Crowdfunding by contrast is rapid and the network of investors is vast. Often investors return on their investment is given to them by receiving a firm's product at a reduced cost or having their name published on the crowdfunding website.

Wehinger (2012) adds crowdfunding is a growing trend in which SME's can attract funding at a low cost compared to traditional bank funding. Investors also benefit as their returns over the initial growth period of the firm results in higher returns than are available through bank deposits. Crowdfunding is becoming more popular for SME's however large investors are hesitant to invest through websites as there is no come back if the firm fails. Harrison (2013) continues by reporting that crowdfunding has benefitted SME's in obtaining funding as an alternative to main stream bank funding.

According to Salomon (2014) crowdfunding is a new way of financing new start up SME's through websites versus the older form of funding through venture capital (VC). Crowdfunding is built more on trust as the investor often does not have the information to do an assessment of the venture as it might be across the globe. Discussions do take place on the crowdfunding websites and potential investors are able to discuss new ventures. Many private investors are often not qualified investors and lack the ability to evaluate an investment. They therefore rely on the SME owners' proposal as a means of judging to invest or not.

Table 2.6: Traditional Venture Capital vs. Crowdfunding.

	Venture Capital Managed Fund	Crowd Investing Intermediary Platform.
Start-up Industry Sector	1-2 specific sectors	No specific sector (All industries)

Investors	Professional experienced investors only	Various investors (professional/private; experienced/not experienced)
Funding Instrument	Active partnership	Mostly silent partnership
Minimum Investment limit	CHF 500k	100-250 €
Intermediary fees	2% (management fees) + 20% (Capital gain)	5%-10% (founded sum) + various services (coaching)
Financial circuit	Centralized financial circuit connected to Global cities	Decentralized financial circuit

Source: Hagedorn and Pinkwart (2013), Metrick and Yasuda (2011)

Salomon (2014) shows the differences between traditional venture capital and crowdfunding in Table 2.6 above. Crowdfunding has the potential to attract investors from a wider base of qualified and unqualified investors. Investors are mostly uninvolved through crowdfunding as opposed to Venture capital investors who are more actively involved in the partnership.

2.17 Summary.

The researcher has discussed the literature covering various topics relating to the financing challenges faced by SME's in securing financing to grow and flourish. The definition of SME's was examined and viewpoints from a South African and global perspective were considered. SME's were defined according to the number of employees, annual turnover and gross assets.

The division of works under review led the discussion to the size of SME's and how this affected SME's ability to attract investment and access finance. The literature strongly suggested that initially the owner funded the SME using internal financing and as the firm grew external finance was secured through traditional means such as debt financing, equity investments and nontraditional financing such as supply chain finance. The literature backed up the business life cycle in

which as the firm grew financing became more accessible from a larger number of sources. The literature covering support from the banking sector was discussed and it was noted that banks are supportive of SME's as they have the potential to be a profitable sector when sophisticated screening and assessing is undertaken by banks to weed out potential bad debts before they occur. The SME owner's characteristics were discussed and the literature pointed out that the owner's relationship with financial institutions was important for gaining finance as well as the owners experience, age and gender. This assisted with banks assessing SME's and doing credit ratings. The owners of SME's according to the literature had to use their own personal assets to secure loans as SME's often lacked assets to be used as collateral. The financial information used in applying for finance, the literature pointed out was in some cases lacking. This could be related to the degree of management skills of the owners of SME's in which financial skills were often lacking.

Lastly the literature covering various financing options was discussed, such as Asset based lending, leasing, equity financing, debt financing, factoring, and trade credit and lastly a fairly new method of funding, crowd funding was discussed.

Chapter Three

Research Methodology

3.1. Introduction.

This chapter includes a detailed description of the research methodology that was utilized in the study. This study is focused on understanding the challenges faced by SME's in securing finance from a lenders perspective. The chapter is arranged to provide a framework of the methodology that was used to conduct the research

Firstly the researcher will consider the participants and location of the study, in which we will identify the participants and the geographic location in which the study will be undertaken. The research design, research approaches and data collection strategy will then be discussed. The researcher will then discuss the population, sample and sampling method. Thereafter the data collection instruments involving interviews and semi-structured interviews will be discussed. This will lead on to a discussion regarding data quality control. The researcher will then give an overview of the reliability and validity of the research followed by a discussion on the data analysis process involving data reduction and data display. The researcher will highlight the ethical considerations of the study and the limitations of the study. Lastly the chapter will conclude with a summary of the linkages of the main sections of the research methodology.

3.2. Participants and Location of the Study.

The study was conducted in the Ethekewini Metro which incorporates the city of Durban. The participants targeted for the study were senior financial business managers who dealt with SME's at financial institutions within the Ethekewini Metro. These senior managers were targeted because of their experience in dealing with SME finance. Participants who agreed to partake were from Nedbank, First National Bank (FNB), Ithala, and the Small Enterprise Finance Agency (Sefa).

3.3. Research Design.

Research design according to Sekaran and Bougie (2013) is to create a structure in which data is collected, measured and analysed using the research objectives as a base. The purpose of the study was to investigate financing of small and medium enterprises (SME's) from the prospective of the Financial Institutions as suppliers of finance. The researcher used a qualitative method for the study, conducting interviews with key SME funding specialists at Financial Institutions to gain an insight into the questions under investigation of the study.

3.4. Research Approaches.

There are two approaches that can be used when doing research, namely Qualitative and Quantitative. According to Punch (2013) Quantitative research uses data in the form of numbers or measurement and Qualitative research uses data that is not in the form of numbers but rather words.

The researcher chose to use a qualitative research method as this method allows for exploring and understanding the financial specialist's personal experiences and views relating to funding SME's.

3.5. Data Collection Strategy.

The researcher in the study is the primary instrument of data collection and analysis. The result of the research is aimed at producing a richly descriptive text highlighting the themes of the research topic giving a clear picture of what the funding specialist's views and experiences show.

Merriam (2014) highlights that —the overall purposes of qualitative research are to achieve an understanding of how people make sense out of their lives, delineate the process (rather than the outcome or product) of meaning-making and describe how people interpret what they experience.”

3.6. Population.

Sekaran and Bougie (2013) refer to “the population as the entire group of people, events, or things of interest that the researcher wishes to investigate.” The population for the study are the financial specialists dealing with SME finance at financial institutions in the Ethekewini Metro. The population considered for the study totalled eight financial institutions comprised of the four main banks, namely Nedbank, Standard Bank, FNB and Absa, three government funding institutions, Ithala, Sefa and the Industrial Development Corporation (IDC) and Business Partners, a private funding institution.

3.7. Sample.

Sekaran and Bougie (2013) mention “a sample is a subset of the population. It comprises some members selected from it.” The sample for this study is selected from the financial institutions however due to the nature of Qualitative research the researcher has used non-probability sampling. The sampling method chosen was used because the researcher did not want to generalize the findings but actively sought out participants who could add specific data and meet the goals of the study. The targeted participants were selected because they were specialists in their field. Initially seven financial institutions were targeted for the sample however three financial institutions declined to partake resulting in a sample of four financial institutions.

3.8. Sampling method.

Non-probability sampling was used for the study as this method is more suitable for qualitative research. According to Chaturvedi (2011) Non-Probability sampling uses the researcher’s own judgment to select elements of a population which the researcher believes are representative of the population. Purposive, Convenience and Quota sampling are forms of Non-Probability sampling methods Purposive and Convenience sampling will be used for the study. Purposive sampling groups participants according to preselected criteria relevant to a particular research question according to Mack et al (2005). Convenience sampling as described by

Crossman (2014) is where the researcher selects subjects who are available to partake in a study. This method does have drawbacks as the researcher has no control over the representativeness of the sample. The researcher contacted Nedbank, Standard Bank, Absa and First National Bank (FNB) of which Nedbank and FNB agreed to be interviewed for the study. Specialist financial agencies focusing on SME's were also contacted to be interviewed. Ithala and Sefa agreed while Business Partners declined. The process of setting up the interviews was time consuming as ethical clearance had to be obtained before any interviews could be conducted. This involved been given gatekeepers letters from the financial institutions authorizing that their staff could be interviewed. Ethical clearance was given once all the gatekeepers' letters had been granted. This process was in itself a type of pilot study because investigations had to be conducted to source the finance specialists at the various financial institutions. Two interviews were conducted with Nedbank, two with Sefa, one with FNB and one with Ithala totaling six interviews. The interviews were conducted at the financial institutions regional offices. Nedbank's, Sifa's and Ithala's regional offices were situated in Durban and FNB's regional office was situated in Umhlanga.

3.9. Data Collection Instruments.

Data collection instruments according to Ruben and Bellamy (2012) are the devices used to collect data. The researcher chose interviews as the best fit for the study as this data collection instrument enabled the researcher to gather relevant data from the finance specialists for the study.

3.9.1. Interviews.

Stuckey (2013) mentions that interviewing is a primary way of collecting data in qualitative research to direct the participant in responding to a specific research question.

Stuckey highlights further that in qualitative studies interviews are frequently used as a means to gain an understanding of a topic through the participant's views and experiences. There are various types of interviews that can be conducted such as structured, semi-structured, unstructured and informal.

3.9.2. *Semi-structured interviews.*

The researcher used semi-structured interviews for the study as they guided the interview process using a specifically designed questionnaire focusing on SME finance issues. Each participant was able to give their specific views regarding the questions asked and share their answers freely using their own words. This resulted in rich data that could be compared as the research questions were common to all the interviews.

The interviews were conducted individually with the finance specialists at their premises, lasting around twenty minutes each. The interviews were all recorded using the researcher's iPad. The recordings were sent to Top Transcriptions, a firm specializing in transcribing interviews. The recordings were transcribed into word documents by Top Transcriptions and emailed back to the researcher for later analysis.

3.10. Data Quality Control.

Rubin (2012) comments that the researcher should ensure their data collection instruments employed should measure the data in a consistent, reliable manner and be valid.

3.11. Reliability and Validity.

When considering reliability and validity in qualitative research the researcher will focus on the consistency, stability and dependability of the data for the study. Bapir (2014) comments that in qualitative research it refers to the methods of research conducted and to what extent the concepts used, appropriately, describe what they ought to describe. He further mentions that validity in qualitative research concerns the relationship between the data and the construct, the findings and the conclusion, the reality and the representation; in other words, validity is the other name for acceptable social knowledge.

The data required for the study was gathered from specialists at financial institutions who gave their opinions on the challenges that SME's went through when applying for finance. The opinions were given by experienced financial specialists so the researcher assumed that the information was taken from reliable

sources which would be relevant to the objectives of the study and hence as reliable and valid as possible.

The researcher recorded all the interviews for the study and each has been transcribed so that the data can be compared with existing findings discussed in the literature review and the interviews were conducted using the same interview guide to create consistency. The responses were the opinions of the interviewees and cannot be considered as bias free. The data was compared to existing literature to therefore eliminate bias and establish consistency and reliability.

3.12. Data Analysis.

Data analysis in qualitative research serves two purposes, firstly to understand the participants views and experiences and secondly to answer the research questions. According to Woods (2011) the analysis of qualitative data includes the identifying, coding and categorizing of themes and patterns contained in the data. Thematic analysis will be used to identify and extract the themes and patterns from the data. To assist with speeding up the analysis of the data the researcher used computer assisted qualitative data analysis by using the NVivo software package.

3.12.1. Data Reduction.

Data reduction is the first step in qualitative data analysis. To accomplish this the researcher read all the interview transcripts, then re-read them and highlighted similarities and differences. The similarities were given code names and arranged into themes. The transcripts were then imported into NVivo and each was analyzed line by line and as further themes (Nodes) emerged the text relating to the themes was coded.

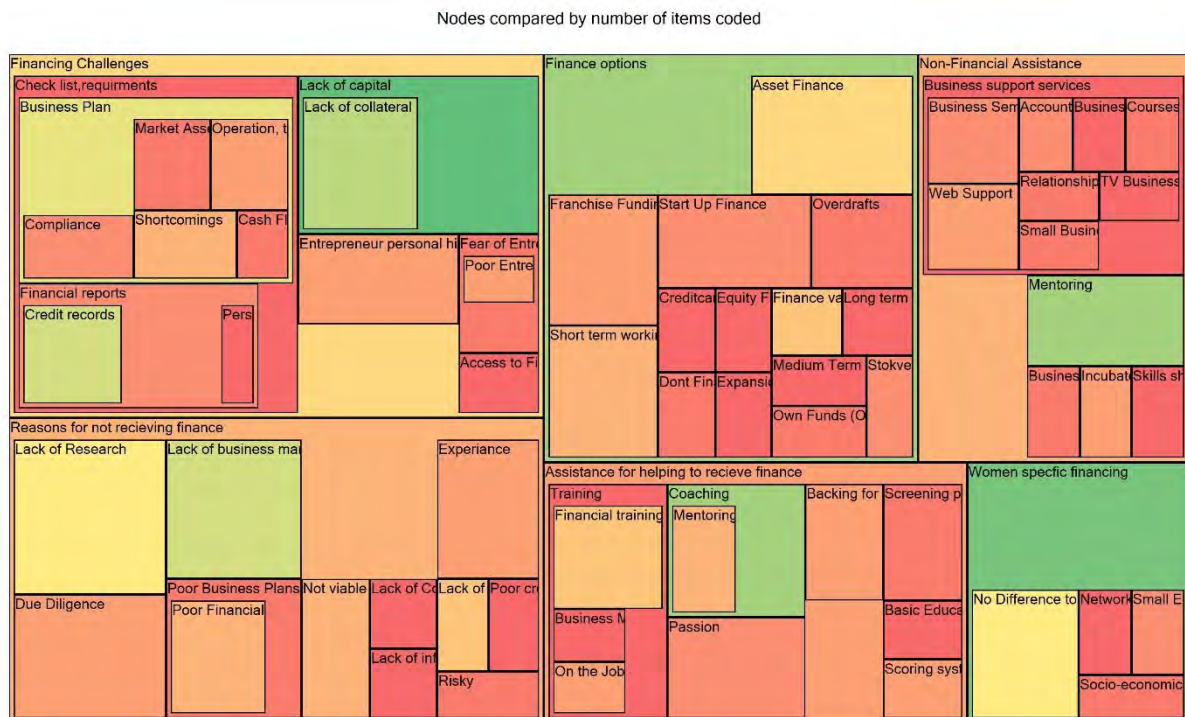
3.12.2. Data Display.

The researcher using NVivo was able to display the themes by exploring the data. The preferred method used by the researcher was figures as displayed below in figure 3.1.

The figure shows the themes with coded data which is presented and discussed in detail in chapter four. The themes that emerged are:

- Financing challenges.
- Finance options.
- Non- financial assistance.
- Women specific financing.
- Reasons for not receiving finance.
- Assistance for helping to receive finance.

Figure 3.1: Nodes compared by number of items coded.



Source: - The researcher, compiled from the transcripts coded data. 2015.

3.13. Ethical Considerations.

Ethical clearance was obtained from the University of KwaZulu-Natal's Ethics Committee. Gate keeper's letters were obtained from each of the financial institutions before the interviews were conducted. The researcher undertook to ensure the quality and integrity of the research and was given informed consent

from each of the subjects to the study. The researcher will respect the confidentiality and anonymity of all subjects to the study.

3.14. Limitations of the Study.

The study used qualitative research methods and as such there may have been some bias in relation to gaining a strong academic study as opposed to writing a good story. There may have been some trial and error. Assumptions by the researcher were stated and the study was focused on presenting facts rather than opinions.

3.15. Summary.

This chapter presented the background for the methodology of the study undertaken by the researcher. The aim of the study was to gain an understanding of the obstacles faced by SME's in gaining finance from a supplier's (financial institutions) perspective. The participants targeted for the study were senior financial business managers who dealt with SME's at financial institutions within the Ethekwini Metro. These senior managers were targeted because of their experience in dealing with SME finance. The researcher used a qualitative method for the study, conducting interviews with the financial business managers to gain an insight into the questions under investigation of the study. The researcher in the study is the primary instrument of data collection and analysis. The result of the research is aimed at producing a richly descriptive text highlighting the themes of the research topic giving a clear picture of what the funding specialist's views and experiences show. Non-probability sampling was used for the study as this method is more suitable for qualitative research. The researcher used semi-structured interviews for the study as they guided the interview process using a specifically designed questionnaire focusing of SME finance issues. The researcher used the NVivo software package to analyze the data which provided valuable insight into the data. Chapter four will provide a comprehensive presentation and discussion of the data collected.

Chapter Four

Presentation of Results and Discussion

4.1. Introduction.

In this chapter the researcher presents the findings from the data compiled from the interviews conducted with the finance specialists. Relevant themes have been identified and these are presented and discussed making comparisons to the literature that had been reviewed in chapter two.

4.2. Presentation of Data.

The researcher used NVivo to explore the data and has presented the themes using diagrams. The themes that emerged are: Financing challenges, Finance options, Non- financial assistance, Reasons for not receiving finance, Assistance for helping to receive finance, Women specific financing. The data will be presented according to the themes in the below discussion.

4.3. Overview of the Relevant Themes.

The researcher used an interview questionnaire to ensure that all the finance specialists had the opportunity to express their views on the same topics. Six themes emerged from the transcripts of the interviews, namely, finance options, financing challenges, non-financial assistance, women specific financing, reasons for financing being declined and assistance for overcoming the hurdles to receive finance.

These themes are shown below in figure 4.1

Figure 4.1:- Relevant Themes



Source: The researcher, summary of NVivo Data (2015)

Theme 1, *finance options* emerged from objective one of the interview questionnaire in which the researcher inquired about what finance options were available to SME's. This theme gave insight into the assortment of different financial products that were available for entrepreneurs such as short, medium and long term finance amongst others.

Theme 2, *financing challenges* emerged from objective two of the interview questionnaire in which the researcher investigated the challenges for SME's in obtaining finance. This theme gave insight into the obstacles that entrepreneurs encountered when applying for finance such as a lack of collateral of poor financial management.

Theme 3, *non-financial assistance* emerged from objective three of the interview questionnaire which investigated the non- financial assistance offered to SME's. This theme offered advice on what entrepreneurs have the potential to be assisted with such as mentoring.

Theme 4, *women specific financing* emerged form objective four of the interview questionnaire which investigated women specific financing opportunities and difficulties. This theme discussed issues relating to female entrepreneurs and their challenges related to obtaining finance such as a difficult Socio-Economic Environment biased towards women.

Theme 5, *reasons for financing being declined* emerged from objective five of the interview questionnaire which investigated the reasons for SME's failing to obtain finance. This theme highlighted the reasons that finance was declined by financing institutions such as a lack of collateral, poor business plans amongst others.

Lastly theme 6, *assistance for overcoming the hurdles to receive finance* emerged from objective six of the interview questionnaire which investigated what would assist with increasing SME's chances of obtaining finance. Assistance such as mentoring and education may help entrepreneurs source finance.

The researcher will now present and discuss the findings of theme one, finance options.

4.4. Finance Options.

The first objective of the study was to investigate the finance options that were available for SME's when applying for finance. The researcher will present the views of the finance specialists and contrast this with the findings of the literature review and other relevant literature.

The main findings that arose from this objective are displayed in figure 4.2 below which were loan parameters, don't finance, equity funds, start up finance, short term finance, medium term finance, long term finance and lastly franchise funding. These findings will be discussed below.

Figure 4.2: Finance Options.



Source: The researcher, summary of NVivo Data for finance options findings.

(2015)

4.4.1. Loan Parameters.

The size of the loans that SME's qualify for vary from one financing institution to another and government funding institutions are set up according to the size of the loans that they offer.

Of all the finance specialists only the second finance specialist interviewed at Sefa mentioned the amounts offered to fund SME's for instance he said *"There's a, okay then in that category we are talking about finance, which is starting from anything less than 500 000. Let me just say anything less than 500 000 and SEFA's mandate is to finance from 500 000 to 5 million...NEF is focusing on 100,000 to 250,000...Ja and IDC they are also starting from I will say one million up to 250 million. It's just that the difference is that is, we have a mandate to finance small businesses...They are financing those deals and then anything less than that is considered micro finance.*

There are a number of government and private funds available for SME's in which firstly grants are given and secondly debt/equity funding is available. Khan (2014) discusses the various scheme's such as the Black Business Supplier Development Program (BBSDP) in which majority black owned firms can receive up to R1 million as a grant , the Co-operative Incentive Scheme (CIS) offers grants up to R350 000, the Technology and Human Resources for Industry Program (THRIP) provides grants capped at R150 million. There are a number of private equity and debt funding institutions not mentioned by the funding specialist at Sefa such as Business Partners who offer equity/debt deals normally starting from R500 000 up to R10 million. Traditional banks such as Nedbank in conjunction with Khula also focus on supporting SME's with debt financing; the amounts depend on the viability of the business with Khula offering security for the loan.

4.4.2. Don't Finance.

There are industries that funding institutions avoid funding as they are sometimes seen in a negative light by society.

The first finance specialist at Sefa mentioned, *"The businesses that we do stay away from is your sin type of businesses. So tobacco, liquor, you know, and those*

types of businesses.” The other finance specialist’s interviewed did not mention businesses that they avoided financing. These kind of business it could be argued breakdown society and criminal activity is often linked to these kind of industries. This heightens the risk of supporting these institutions. Government financing institutions according to the Sefa specialist avoid the tobacco and liquor industries however there are many venture capital funds that are willing to fund these types of operations according to The Western Cape Investment and Trade Promotion Agency (WESGRO) (2010). WESGRO mentions funds such as Vunani Private Equity Partners, Phatisa Group and Origin Private Equity that have no restrictions on the type of business that they target for funding. WESGRO however mentions funds such as the Southern Africa Enterprise Development Fund and Trium Investments that specifically avoid funding the tobacco and liquor industries. This may be because of the ethical implications related to these type if industries.

4.4.3. Equity Funds.

The finance specialist at FNB mentioned *–The only way people can get funding is when there’s a like a fund, an equity fund where people are willing to take a risk with people”* .Equity funds are a way that SME owners or entrepreneurs are able to access funding where investors are willing to invest and take a joint risk with the entrepreneurs in their ventures.

Equity financing has many facets and internal sources are common for many entrepreneurs. The literature reviewed commented that entrepreneurs are often hesitant to use external equity to fund their ventures because they lose control of their business to some extent. Wehinger (2012) contrasted that equity financing is however preferred to debt financing for new businesses because the new firms do not have to pay back the funding in the short term as opposed to debt financing whereby repayments are repayable from the beginning of the loan. This assists with cash flow and the sustainability of the business as it grows and becomes more viable.

OECD (2014) adds that since the financial crisis of 2007/8 investors are more cautious when offering finance through equity deals. On the upside governments have increased their support for equity deals through improved regulations and incentives. Lastly Abdulsaleh and Worthington (2013) mention that SME's often use internal sources of equity funding from sources such as family and friends. External equity is however preferred for SME owners wanting to spread their risk which ties in with the views of the finance specialist interviewed at FNB.

4.4.4. Startup Finance.

Startup finance is key for new SME's and has a number of sources such as bank loans, personal savings, credit cards, family and friends and crowdfunding. The finance specialists had various comments regarding startup finance for SME's, the FNB finance specialist commented *–So ja there's very...various finance...finance available...business loans*" The first finance specialist from Nedbank commented that *"Okay so essentially we base it a lot around the client need although we like to structure it from an advice point of view what needs to be short, medium and long term...which starts to come in to how you start financing business."* Banks also benefit from helping finance start-ups as Mahembe (2011) comments that banks have focused on investing in micro businesses as they envisage that these customers will become profitable once their firms grow. Banks have opened their loan facilities to previously disadvantaged individuals (PDI) as part of their transformation process.

The FNB finance mentioned *–So ja there's very...various finance...finance available...Overdrafts, business loans, credit cards you know."* And the second finance specialist at Nedbank said *–We do overdraft facilities, as well."*

Traditional debt financing through banks according to the literature reviewed was a common means of funding start-ups with the added benefit of offering the owners retained control of their firms. Abdulsaleh and Worthington (2013) reports that SME owner's prefer to source debt financing as opposed to external equity financing so that they retain control of their firm. SME's unlike large firms do not

have many choices in sourcing debt financing. They more often apply to banks and government funded lending institutions.

A drawback of debt financing was a lack of collateral in many cases. Steijvers et al (2010) add the personal wealth of SME owners plays an important role in whether or not SME's are able to obtain finance from banks. The owners often have to use their own assets as collateral as their firms do not have sufficient assets to secure loans. This places an additional burden on SME owners as they may lose their business and their personal assets should the business fail.

An interesting method of financing start-ups in South Africa is a stokvel. The second finance specialist from Sefa highlighted this funding channel as he says *"Where you find that the committees come together and form financial services co-operatives...Where they save together and then acts as finance for...Ja stokvel."*

FNB (ND) has assisted the growth of stokvels by having a stokvel account in which a group of people have a joint account to save their funds and there is more than one signatory. The funds from the stokvel are shared on a rotation basis allowing members to receive a lump sum which can be used for funding a start-up business.

4.4.5 Short Term Finance.

Short term financing is considered to be financing to be paid back within 12 months. There are various types of short term finance such as overdrafts, credit cards, bank loans, leasing and trade credit. The first financing specialist at Sefa highlighted the following, *"Companies that require short term working capital type of facilities. So its guys being awarded orders, contracts that requires funding for that."*

The first finance specialist at Nedbank had the following to say about short term financing, *"So obviously across those you've got within the short term overdrafts, credit cards, those sorts of vehicles that you can look to do but that is generally to bridge debtors so it is kind of short term finance as you are waiting for somebody."*

The highlights from the Sefa specialist were SME's awarded contracts need short term financing for working contracts and for assisting with shortfalls for fulfilling orders. This kind of funding is needed urgently or the contracts may be lost and the orders cancelled. Nedbank supported this by suggesting that bridging finance is necessary for filling a financing gap. Overdrafts and credit cards can be used as a short term measure however these funding tools may end up being expensive if not paid off within a month or two. Raising working capital is often difficult for SME's as their borrowing ability is constrained as Beck, (2010) reports SME's have to use internal financing to a greater degree than larger firms.

Trade credit from suppliers is often one of the best ways for SME's to obtain short term external credit financing. SME suppliers normally have the financial strength to offer trade credit to SME's and the literature is growing regarding the benefits of trade credit for SME's as an alternative to bank finance. Trade credit according to Abdulsaleh and Worthington (2013) and Carbo-Valverde et al (2012) is a key source of short term financing for SME's. Trade credit works to the benefit of SME's and their suppliers as they are able to manage their cash flows more efficiently. This type of financing for SME's is often the cheapest form of funding and is easier to obtain versus bank funding. Trade credit is beneficial for new start up SME's as banks view them as high risk so the cost of finance through a bank using credit cards and overdrafts is high versus trade credit being low.

Lastly leasing is a cost effective alternative to buying equipment and has the advantage over purchasing as the initial cost is lower and improves cash flow management. Leasing is a viable option for SME's that struggle to access financing to purchase equipment however the drawback is they will not be able to build up their asset base which could be used for collateral to secure financing for other investments in their operations.

4.4.6. Medium Term Finance.

Medium term finance is normally from 3 to 5 years and this type of debt financing is common for SMEs. Medium term funding could be required for a number of

reasons such as asset finance or expansion finance. The second finance specialist at Nedbank gave insight to this type of funding by commenting as follows. *“Because obviously the reason for that is they don’t want to put too much pressure on the new business, to be paying large loans...So if it’s an experienced guy, then we are quite keen to do business. If it’s somebody that is new, we might call for additional security...So, the different options available, we normally look at a medium term loan, which we do over 5 years.”*

The points raised were new businesses should not be pressured with paying back large loans which could cause the businesses to fail by being over indebted. Rather new firms should focus on growing their business and improving cash flows which would be hampered by channelling funds into large loan repayments.

Experience was also highlighted as a positive which strongly improved the chance of getting a loan as the second Nedbank funding specialist commented, *“then we are quite keen to do business.”* The business management experience of an SME owner with a track good record would open doors to finance as banks consider the risks to be taken when offering loans. This is pointed out by Silburt (2012) who mentions credit risk is a view a bank takes of an SME as to whether they will be able to pay back the loan or not. A more experienced SME owner therefore has a greater chance of paying back a loan as their past success points to a future success.

The second Nedbank funding specialist pointed out the opposite regarding funding inexperienced SME owners when they said, *“If it’s somebody that is new, we might call for additional security.”* Risk for banks since the financial crisis is a critical aspect of approving loans to SME’s and World Bank report (2014) mentioned due to the financial crisis and high risk in loaning to SME’s, banks have cut lending to SME’s and driven SME’s to source financing from other sources. However banks are still able to make positive returns from SME loans through improved assessment methods to reduce SME loan payment defaults. Banks scrutinize the SME’s ability to repay the loan by investigating the industry they are in and the prospects of the industry. Assessments are also conducted into the willingness of the SME to repay the loan. This includes payment history from

creditors, previous loans and even payment of taxes. We will now consider what the finance specialists mentioned regarding expansion finance.

Expansion finance is critical for funding growth as internal cash flows often don't keep up with the firm's growth. The first finance specialist at Sefa commented, *“So the type of businesses you will find is start up type businesses, existing businesses, if, to require expansion. ... Expansion type of businesses that's looking for asset finance and a bit of working capital for part of their expansion. .”*

The comments from the Sefa expert highlight growth through expansion finance. Expansion funding from a finance institution would seem to be the normal option for most businesses however there are a number of alternatives. For instance profits from operations that have not been reinvested into a firm. This does limit growth to the profits generated however the advantage is outside sources of funding are avoided that come at a cost such as giving up equity. Equity from external investors, which comes at a cost to the current owners selling off a part of their shareholding and giving up some control to outsiders.

The first *Nedbank* specialist commented, *–so it tends to be around financing equipment, machinery, vehicles, whatever you might need in the medium term for your business,”* supported by the second *Nedbank* specialist, saying *“and we also do asset finance, so if they require a truck or a bakkie or equipment for the business, we will do that in terms of asset finance.”*

These specialists highlighted the need for asset finance which is vital for a business to grow successfully and helps preserve capital while generating income from the assets financed. The financing institutions offering the funding also carry the risk of the finance and a firm doesn't have to use their own funds from their cash flow which if used, could cause a loss of income should their cash flow become insufficient to support operations.

4.4.7. Long Term Finance.

Long term funding for an SME can be sourced using debt funding through loans and equity funding through selling off a stake in a firm. The first specialist at

Nedbank had the following to say regarding long term finance. *–And then, you then get into the long terms which would go from business premises being commercial property and that to maybe even their own personal homes.”*

Many SME owners prefer to own their own premises and as highlighted by the Nedbank finance specialist business premises are often financed through long term funding. The purpose of long term funding is to help grow a firm through expanding their operation. This can be through purchasing their own premises, buying new equipment, buying competing business and funding capital intensive projects.

The cost of long term financing through debt financing is costly from an interest point of view, versus equity financing as the loan is paid off over a long period of time, for instance a bond to pay off property could be paid over twenty years and the interest adds significantly to the total amount paid. The downside of equity is the owners lose control to some degree as they sell off shares in their business as supported by Wehinger (2012). The cost of debt financing however for many business owners is worth the cost as Abdulsaleh and Worthington (2013) reports that SME owner’s prefer to source debt financing as opposed to external equity financing so that they retain control of their firm.

Deciding on how to structure long term finance for SME owners is therefore related to how much control the owners are willing to give up and the literature reviewed would suggest that debt is preferred versus equity financing although equity financing is less costly.

4.4.8. Franchise Funding.

Many entrepreneurs consider buying a franchise instead of starting a business from scratch. There are advantages to buying a franchise such as the brand is recognized, there is support from the parent company with training and marketing and there is a tried and trusted formula for running the business. The finance specialists had the following to say regarding Franchise funding.

The first finance specialist at Sefa mentioned, " *We would look at franchises we fund. So it's really all across the board when it comes to SME funding.*" The second finance specialist at Nedbank commented, *–so with the franchise we normally, we would obviously have to make sure that they have been approved as a franchisee...So, by only funding 50% the loan repayment is a lot less. In terms of the criteria, we look at experience of the owner because we always believe that you back the jockey and you don't back more than the horse.*" Lastly the finance specialist at FNB said, " *Overdrafts, business loans, credit cards you know. So ja and if they're starting up a franchise there's franchise funding available to them.*"

Franchise funding was offered by both banks and government funding institutions however from the comments of the Nedbank specialist banks prefer the franchise buyer to contribute 50% of the funds using their own funds thereby splitting the risk with the buyer. The researcher found this interesting because franchises are tried and trusted businesses which in the mind of the researcher would be less of a risk than starting a new business without any history. Experience of the purchaser was also noted as a key indicator for approving the loan as the Nedbank specialist commented, *–In terms of the criteria, we look at experience of the owner because we always believe that you back the jockey and you don't back more than the horse.*" Past success of an entrepreneur therefor plays a large part in future success, in the banks weighting for approving a loan. Diaz and Rodriguez (2012) point out that franchises are less of a rick due to their efficient design, due to well worked business models. Their business models therefore play a key factor in the success of the business as the franchisees use the franchisors methods that are tried and trusted.

4.5. Financing Challenges.

The second objective of the study was to investigate financing challenges faced by entrepreneurs when applying for finance from financing institutions. The main findings that arose from this objective are displayed in figure 4.3 below which were check lists, business plans, financial management, fear of entrepreneurship, entrepreneur history and skills, lack of capital and lastly access to finance. These findings will be discussed below.

Figure 4.3: Financing Challenges.



Source: The researcher, summary of NVivo Data for financing challenges findings. (2015)

4.5.1. Check Lists.

Applying for a loan can be a daunting task and this is often a challenge for a SME owner. Financing institutions have requirements that have to be followed and this was highlighted by the first finance specialist from Sefa who mentioned, *–Yes, I think the challenges faced, you know, we got a check list and requirements you know, from our organisations.*” The finance specialist did not go into the details of the checklist however according to De la Torre et al (2010) banks use credit bureaus information about SME owners and include this in their credit scoring of the SME. This reduces the time that the bank has to take in assessing the SME’s often poor information submitted to banks for loan applications.

This information includes personal background and personal credit reports of the owners, business plans, financial and bank statements and legal documents.

These documents are often not available or are poorly put together which hinders the loan application process. Silburt (2012) points out that SME’s need to be more active in providing banks with information about their firms operations through the documentation submitted for loan applications. This points out that SME loan applications would have a greater chance of being approved if SME owners submit detailed, and accurate information as required by the loan application checklist.

4.5.2. Business Plans.

Compiling a detailed business plan can be a time consuming task which many SME owners don’t have and they often don’t have the skills or training of how to write up a business plan.

The first finance specialist at Sefa highlighted this and commented, *“We have requirements but what is crucial is like your business plan. The biggest challenge now is compiling a business plan that’s, not to our satisfaction, but to basically to give us comfort that this is a sustainable and viable business.”*

The second financial specialist at Sefa supported this by saying, *“The major challenge financially they are ill equipped in terms of you know having a proper*

business plan. We find that the guy, he will come to us with an understanding that this is a government financial institution or agent. And I'm going to get the money or you find that when they come then we will say, give us your business plan, we show that how we are going to be sustainable once the money is given to you as a loan... they're, or they are business plan are not up to standard because obviously they don't have entrepreneurial skill."

The feedback pointed out that entrepreneurs in South Africa lack the business skills needed to compile a business plan. This is often linked to poor management and financial skills according to Kadouamai (2013) who supported the findings of the specialists. SME's in Africa according to Kadouamai (2013) are not very successful and are often poorly managed. Owners of SME's often do not have the skills to create or understand basic accounting practices.

Silburt (2012) supports this further and shows that by submitting a detailed business plan financial institutions will have insight into the SME's viability and bankability and thereby a firm will be in an improved position to receive finance.

4.5.2.1. Market Assessment.

Business plans should have a market assessment to show that the entrepreneur understands his competitors, who the customers are and the environment that his business will compete in. The first finance specialist at Sefa commented, *"One is a detailed market assessment that they need to cover, which includes a market size, what is a market size, what is a market profitability, what are the competitive forces in the market, what is a competitive advantage, who are the competitors in the market and, you know, obviously the demand for the product and why would people buy their product or services offered. That's from a market assessment, just a brief summary of that."* The finance specialist at Ithala added, *"Obviously it is ... the biggest challenges I would say is understanding the market place."*

These specialists' comments point out the importance of a market assessment for a business plan and that this should obviously be a key inclusion in a business plan that is submitted when applying for a loan. The Ithala specialist saw this as a challenge for entrepreneurs and this goes back to entrepreneur's lack of business skills which may indicate that entrepreneurs could benefit from training in business

management. Chwolka and Raith (2012) point out that business plans and market assessments are key to planning and launching successful businesses. Market assessment also guides entrepreneurs in pursuing good business ideas and discarding poor business ideas.

4.5.2.2. *Operational, Technical Plan.*

The operational, technical plan of the business plan has to make business sense and the plan has to show that the business is sustainable. Doing a due diligence if purchasing a business is vital and Van Niekerk (2014) points out that for a loan to be viable the financing institution has to consider the cost of doing a ‘due diligence’ for each loan. The business plan will therefore assist the finance institution in accessing the loan application and the viability of the business before doing a due diligence.

The finance specialist from Ithala confirmed this by stating, *“It has to be a viable, sustainable business. Obviously based on the information provided to us, based on the market knowledge that we have, based on our due diligence and technical evaluation processes.”*

The first specialist at Sefa affirmed this in detail with the following commentary, *“Second step is a technical or operational. They need to give me a step by step process of how they plan to, once they establish a market, how they plan to actually establish their business...So they need to give us a step by step process how they plan to establish the business. We need to understand the process flow of operations there. We need to understand suppliers of raw materials, if it is applicable. So we need to understand the suppliers, if they supply available. We need to understand the assets or equipment that’s being utilised and how that equipment is going to be maintained...and, you know, service, maintenance and labour. We need to understand the labour force. What type of labour force you will require; whether it is skilled, unskilled, with specialised skill. How do you plan to recruit? So that’s the basic few items that we looking for but depending on the business, you can go into detail. What is your business model; how you plan to operate; what is your mark-up? You know, so you can go into detail from a technical, operational.”*

The importance of the operational and technical plan is critical for the success of the business and the loan application as has been highlighted by the specialists. This points to the need for a professional approach when compiling the business plan from the entrepreneur. The entrepreneur would need to understand the plan and be able to effectively implement the plan. The Sefa specialist went into detail on what they look for and gave the impression that anything less would not be considered when applying for a loan.

4.5.2.3. *Legal, Compliance.*

A business plan should cover industry legal and compliance regulations because an entrepreneur operates in society and as such has to comply with legal and compliance issues. Different industries have different requirements for instance the liquor industry has strict licensing requirements. Businesses also have to comply with the National Credit Act. There are many legal requirements which are difficult for entrepreneurs to keep track of or understand. The first specialist at Nedbank pointed this out by commenting, *–So it’s kind of the way that you assess risk has got to be prudent within that environment also compliant with a lot of the acts and that. So another big loop hole is the National Credit Act. So it is really, it is there to protect the consumer but it does have certain requirements that you have to comply with and those can be from an administration point of view a challenge.*” The first specialist at Sefa supported this by highlighting the following, *“And the fourth issue is compliance. Compliance, you know, legal and compliance. So depending on the type of industry that you are involved in, we need to make sure that you are compliant within that industry and obviously from a legal point of view, we need to understand that has been catered for.”*

These comments are a challenge for many SME owners as Kadouamai (2013) highlighted SME’s also struggle to understand the legal and statutory requirements required to manage and operate their firms in their own countries. Legal and compliance hurdles are a challenge however by consulting with a business lawyer these hurdles can be explained and overcome.

4.5.3. Financial Management.

Financial record keeping is important for SME's as financial institutions require detailed and accurate financial statements when processing loan applications. The first financial specialist at Nedbank commented, *"Financial Management is probably the biggest challenge so the smaller the business the less structured the financials are so the less information that banks tend to have to be able to rely on to understand the level of ability to repay."*

This highlights the poor quality of financial information that SME's submit to financial institutions when applying for finance. The second financial specialist at Sefa supported this by saying, *"They are going to make a, I mean their balance sheet does not look normal,"* which shows that SME basic accounting records are unreliable due to the owners or managers not having the training to compile accurate financial documents.

Silburt (2012) points out banks often view SME's as poorly managed and find their applications for loans have gaps in financial information due to poor record keeping practices. Kadouamai (2013) adds SME's are not very successful and are often poorly managed. Owners of SME's often do not have the skills to create or understand basic accounting practices. This results in, incomplete financial records. This has a negative effect when applying for finance as the financials are not accepted by banks.

The first financial specialist at Nedbank added, *"So I mean for me the biggest challenges around getting the financial administration correct particularly with start-ups and that we are finding a lot of people not having good credit records so you know from a consumer point of view keeping up to date with accounts, those sort of day to day things tends to be a big challenge."*

Financial management is a challenge for SME's which is to their detriment as there are many financial firms who offer accounting services for SME's These hurdles could also be avoided by employing a part time bookkeeper or accountant

for firms who are not able to afford full time accounting staff or outsourcing their financial management to a financial management support firm.

4.5.3.1. *Cash Flow.*

Understanding and managing a business's cash flow can be a hurdle for some SME owners which is challenging because they lack financial management skills. The first specialist at Sefa commented on this as follows. *"The third area that is the cash flow. Which is your market assessment and your technical, operational information will filter into your cash flow. You know, as I've mentioned, your market assessment will determine your top line and your technical, operational will determine your cost of sales and your operational costs around this business."*

The second financial specialist at Nedbank had the following to say regarding cash flow. *"So, whether it's new or takeover, we always ask for like two years, cash flow projections so we can see that the business is going to be able to afford the loan repayment. Those cash flow projections obviously need to be done in consultation with the franchisor, to make sure that he's happy that this guy's on the right track and that if he compares it to other outlets that you know, the projections are realistic."*

The Sefa specialist's comments highlighted the need for SME owners to understand how cash flow filters into a firm from their operations and the Nedbank specialist pointed out the importance of cash flow projections being realistic.

A challenge according to Jyothi and Kamalanabhan (2010) is there is a difference in the management skills of SME owners and the management skills they require to manage their firms. This is a major reason why SME's fail in South Africa. The key skills found to be lacking were financial, marketing and human resources. The lack of financial management often results in difficulties in securing finance and ends up in firms running out of funds to continue operations resulting in the business shutting down. SME owners who were successful highlighted the need to have a team who supported them with skills they lacked.

Cash flow therefore is critical for the continuing operations and survival of a firm and this can be overcome by creating a strong team around the entrepreneur with the correct skill sets, of which cash flow management is key.

4.5.3.2. *Personal Financial Management.*

Personal financial management is important for SME owners as financial institutions focus on the owner's personal financial track record. The first specialist at Nedbank discussed this as follows. *"If you look at it kind of track records and that are really important. I think a big thing is around the ability for somebody to start to manage their finances in such a way that they start to acquire wealth and not to just spend it and that is obviously something that is really key from a bank point of view."* This shows that financial institutions believe that the financial management style of a SME owner will be followed through into the financial management of their firm.

This is supported by Grunert and Norden (2012) who suggest that at the early stage of a firm's existence the personal information of the owner is more important for a bank than the firm's financial information.

4.5.4. **Fear of Entrepreneurship.**

The step of starting a business for many prospective entrepreneurs is a daunting decision. Fear of failure underpins this decision and often results in this decision not being taken. The second specialist at Sefa pointed this out by commenting, *"Thirdly the lack of courage of entrepreneurship in South Africa in my observation. It's just my observation, which has been confirmed by many research."*

Cacciotti and Hayton (2015) confirm this finding by their research in which fear of failure is a very emotional issue for the entrepreneur as they have to take a leap of faith when starting a new venture. A lack of self-confidence and experience also adds to the fear of failure. Training and educating may however alleviate this fear to a degree.

4.5.4.1. *Poor Entrepreneurial Culture.*

Added to the fear of starting a business entrepreneurs in South Africa according to the second specialist at Sefa have a culture of free handouts and a sense of entitlement when applying for government backed funding. This was highlighted by the following comments. *“Although I don’t like to use that term, they normally have that entitlement, sense of entitlement, that I will get something from the government. As a result there’s no entrepreneurial kind of culture. You know unlike the other African countries where you find that people, they know how to start their own business, entrepreneurship is there you know. The culture, they don’t depend on ... the government is not offering nothing to them so as a result they’re very good in terms of you know, making their own businesses. So here in South Africa culture lack.”*

The comments point out that having a sense of entitlement is a poor way to approach starting a business as the funding is for free and implies, should the venture fail the entrepreneur would not lose much.

4.5.5. **Entrepreneur Experience and Skills.**

Experience and skills are important factors which financial institutions consider when entrepreneurs approach them for finance. This is discussed by the first Nedbank specialist who made the following comments. *“We look at experience of the owner because we always believe that you back the jockey and you don’t back more than the horse...lack of management ability, lack of qualified or proper staff, Lack of experience in the industry that they want to go in, maybe they have experience in other industries. Absolutely so the jockey is important they are going to be running the business. You know if you look at it, you start looking at start up what skills have they got depending on the size of the business what managerial skills have they got. If they haven’t got it will they bring somebody in? Who is coming into the business to support it that sort of thing so that is why you end up finding that most businesses are funded out of pension funds and friends and family and that sort of thing.”*

The second specialist at Nedbank pointed out that experience was a greenlight for them by commenting, *–So if it’s an experienced guy, then we are quite keen to do business.”*

The points from the specialist’s commentary that are important are firstly the jockey is backed based on their experience as they manage the business. This is important to financial institutions as they want to ensure that their loans will be repaid so the entrepreneur should have the experience and skills to manage the business in a sustainable manner. Lastly the specialist implied that many entrepreneurs had to self-fund by using their pension funds or friends and families money as they didn’t meet the lenders experience and skills criteria.

Abdulsaleh and Worthington (2013) support this by pointing out that because the owner of a SME plays a significant role in the company and is the main decision maker the assessment by the financial institution is of the owner. Oni et al (2014) support this further by highlighting that the success of a venture is linked to the managerial skills of entrepreneurs. Olawale (2010) further highlights the poor level of managerial skills in South Africa. South Africa’s education system has failed to generate a large pool of innovative entrepreneurs with managerial skills to create and grow SME’s that will be sustainable. SME’s fail due to insufficient management training and work experience.

Managerial education is therefore very important for the success of SME’s in South Africa.

4.5.6. Lack of Capital.

Entrepreneurs own equity is often insufficient or totally lacking when they start up new ventures. They also often, don’t have sufficient funds to contribute to their portion of owner’s contribution when applying for funding. This hurdle was highlighted by the FNB specialist who commented, *“You find a lot in our space. In the...with the small businesses. People have an idea, they start up, lack of funding, lack of capital to back them up for that and experience. So they, they don’t have capital.”*

The Ithala specialist added to this by commenting, *“Now if you are a new client,*

and you want a facility of, or the facility of business finance, you are not going to get it. The chances are very high that you are not ... you are not going to get it. So, this is where ... this is where a development funder comes in to ... to play, to fill in that gap where traditional banking institutions don't want to fund, but we would fund based on viability rather than the financial risk which is their own contribution requirement and their collateral requirements. To contribute, because I mean for business to be viable you need to have an, own investment. And then when you go for a loan that own investment will complement the loan that you are looking for in order to have the proper gearing. But now if you finance a guy with no own contribution, nothing. It means already they are starting on a wrong foot. So we find out they have got no, zero owner's equity what so ever. So which is a problem, which is a major problem. So in my opinion those are my observation, those are the things that are affecting them." The specialists highlighted the obstacle of a lack of own funding as a concern. Traditional banks were not going to fund entrepreneurs without their own contribution according to the Ithala specialist who hinted that Ithala may consider funding if the proposal is viable. The specialist further pointed out that gearing was important so not having an owner's contribution put extra strain on the firm. Steijvers et al (2010) supported the above two specialists by pointing out that the personal wealth of SME owners plays an important role in whether or not SME's are able to obtain finance from banks. Personal financial management is therefore key to building up owner's contribution through saving which will open doors to funding for entrepreneurs.

4.5.6.1. Lack of Collateral.

Collateral is important to reduce the risk of financial institutions when funding SME's and SME' owners often have to offer their own assets as collateral when applying for loans. The second specialist at Nedbank mentioned, *“# it's somebody that is new, we might call for additional security.”* This was supported by the first specialist at Nedbank who mentioned, *“So you kind of look at that, that is a key thing. If you start to look at it depending on if it is start up very often the lack of collateral.”*

The main point of the specialists was collateral was needed for new entrepreneurs who might have to offer additional security in the form of collateral.

Steijvers et al (2010) pointed out that the owners of SME's often have to use their own assets as collateral as their firms do not have sufficient assets to secure loans. This places an additional burden on SME owners as they may lose their business and their personal assets should the business fail. This was backed up by OECD (2014) which highlighted SME's faced increased pressure to provide additional collateral for loans as SME's pose a greater risk to lending institutions.

4.5.7. Access to Finance.

Access to finance is a challenge for SME's. The FNB specialist summed it up by saying, *"JA...I think the, the important thing here SME's don't...some...most of them don't have a proven background. So...so it's difficult. They don't have the financial means and the ability and anyone lending them money obviously you want to be assured that the money will be repaid. So I think access to finance is very tricky."*

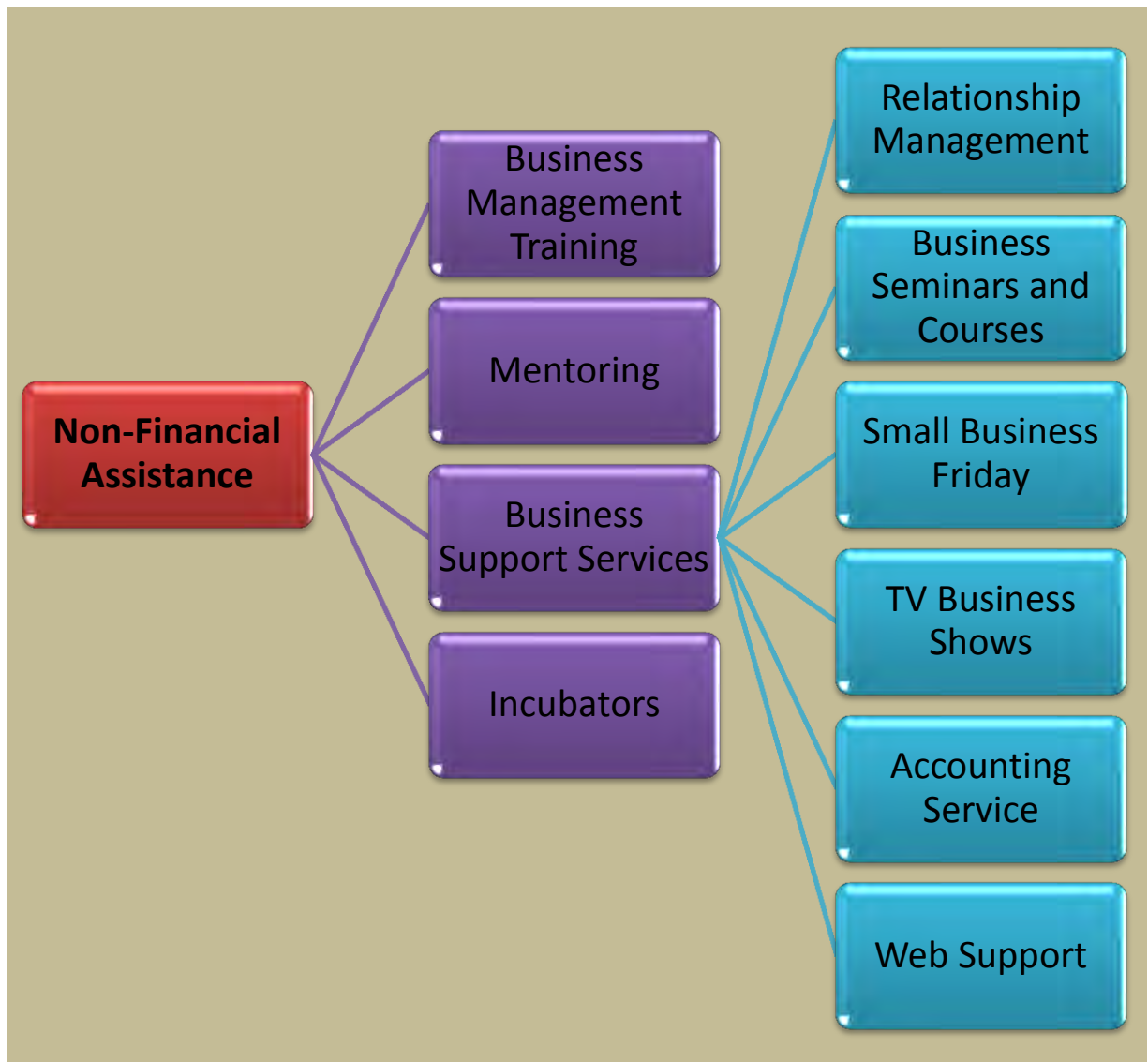
This comment hinges on the importance of entrepreneurs management skills for which there is a shortage in South Africa as mentioned by Abor and Quartey (2010). Olawale (2010) supports this by reporting that there is a poor level of managerial skills in South Africa.

The financing challenges faced by SME's when applying for finance are numerous however there is assistance that can be offered to SME's when applying for funding. The researcher will now discuss the non-financial assistance that SME's are given to assist them in obtaining finance.

4.6. Non-Financial Assistance.

The third objective of the study was to investigate the non- financial assistance offered to SME's. The main findings that arose from this objective are displayed in figure 4.4 below which were business management training, mentoring, business support services and incubators. These findings will now be presented and discussed.

Figure 4.4: Non-Financial assistance.



Source: The researcher, summary of NVivo Data for non-financial assistance findings. (2015)

4.6.1. Business Management training.

Managing a firm's operations can be a challenging task. This may be especially difficult if it is the first time that an entrepreneur has owned a business and does not have experience in managing a business. Franchises offer a solution for this by using the experience and systems of the initial entrepreneur who started the franchise. The business management training that entrepreneurs who buy franchises, saves them many headaches as they are trained in all aspects of running the firm. The second specialist from Nedbank shows this by commenting, *"With the franchisees. You will also find that the franchisor does a lot of training prior to opening with these guys. So, you know, that's part of their set up costs and part of their franchise fees. You'll find that the new owners will go through quite a lot of training. The staff will be trained, fully trained, by the franchisor as will the franchisee in terms of the financial side, how to keep control of the stocks and that sort of thing so, they do get a lot of training."*

The training by the franchisor highlights that business owners can benefit from business management training to help them overcome areas of business management that they lack skills in. Jyothi and Kamalanabhan (2010) reports that there is a difference in the management skills of SME owners and the management skills they require to manage their firms. This is a major reason why SME's fail in South Africa. The prospect of business failure is therefore reduced through improving business management skills through training.

4.6.2. Mentoring.

Mentoring of entrepreneurs helps develop an entrepreneur's skills that are needed to grow and manage a firm. Business mentors are normally business people who have years of experience in various business management skills which they pass on to new entrepreneurs through mentoring. The first specialist from Nedbank mentioned, *"We have had collaborations with mentoring partners such as business partners to refer understanding that we are bankers, we don't necessarily go and upskill our staff to be mentors to business and from a cost to serve point of view it just starts to get out of control."* This highlighted that banks are there to provide finance however they will pass on clients to business

management firms who assist with mentoring. This assists their clients in achieving greater success and increases the sustainability of a firm resulting in loans being paid back. The first specialist from Sefa commented, *“We provide non-financial assistance in a way of approved clients. We provide mentorship through external personnel and also internal. So investment officers do get involved also, where we go, on a quarterly basis, minimum on a quarterly basis, to visit the clients. We would request information from them, understand the challenges that they facing and see if we can assist at that stage. If it’s more technical and more specialised then we do get mentors involved who can assist also. Because all our, you know, entrepreneurs, there is lack of skills somewhere. You won’t get an entrepreneur that knows, you know, all the different areas of a business. So there will be gaps in the-, when they are running the business. So we try to get mentors involved. Especially if it is more technical and specialised. We like to get mentors involved also to make sure that they are keeping to what they forecasted also and what is the variance, if there is a variance,”*

This highlighted Sefa’s commitment to developing entrepreneur’s skills by becoming involved in their clients firms through actively mentoring them and improving their skills where there are gaps in entrepreneur’s skills.

Memnon et al (2015) supported this by highlighting the importance of mentoring to develop entrepreneurs. Mentors have the opportunity to guide the SME owners from when they start their business and they are able to add considerable value assisting the entrepreneur to develop products to grow their businesses. Mentoring of entrepreneurs will add value to SME’s by helping the owners and managers to fill gaps in their management skills as further supported by Cranwell-Ward et al (2004). This will result in more efficient and effectively run SME’s that will become more profitable and grow more rapidly.

4.6.3. Business Support Services.

Business support services offered by financial institutions vary. Simple things such as opening a bank account or offering to register entrepreneurs businesses are services that simplify doing business. This was highlighted by the FNB specialist who said, *“So non-financial assistance people have access to a bank account.*

This allows them to pay and receive monies. That's one. Secondly we...if you're looking at FNB they...we can register your business for you, you don't have to leave your office. So taking away the pain from operating your business you know. Ja."

The first specialist at Nedbank supported this by commenting, *"So from a banking perspective I mean we like to try and to do things such as register their businesses for them into a separate legal entity, there are such things as, we ran a support thing where if you required start up finance through us for R100 000.00 we will then give you 2 years free banking."*

The points highlighted that financial institutions offer additional services, besides banking for their clients. These services assist entrepreneurs in running their businesses and the financial institutions benefit as they keep their customers loyal to their brand.

The Banking Association South Africa (N.D.) reports that South African banks should continue to assist our country's growth initiatives such as the National Development Plan (NDP) by supporting SME's. Finance institutions by assisting SME's also help our countries economy grow through the creation of jobs. The European Investment Bank (EIB) (N.D.) mirrors this and reports that they have actively increased their support for SME's and continue to improve this going forward. There are various additional support vehicles for supporting SME's which were highlighted by the specialist which the researcher will discuss below.

4.6.3.1. Relationship Management.

In business, relationships are key for success. This is also true for financial relationships. The first specialist at Nedbank highlighted relationship management with the following comments, *"I think for us we are trying to drive relationship management. Really big in terms of building a relationship and what advice we then give linked on to that but our advice is purely around structuring how you are going to transact and then potentially borrow."*

Zhang et al (2014) point out that the equity in relationship management is critical to building brand loyalty and important to building relationships that build success for Banks and their customers. Hussain et al (2006) point out the importance of the

relationship between the owners of SME's with their banks. A positive relationship is key for the day to day financing and functioning of their firms plus it plays an important part for gaining longer term loans. This supports the comments of the specialist as long term relationships build trust and are profitable for both business and financial institutions.

4.6.3.2. *Business Seminars and Courses.*

SME business seminars and courses are a way to train and motivate entrepreneurs. The second specialist from Nedbank said, *“Okay, so in terms of the franchise offering business banking, we have courses that we run. For our clients. Obviously we have to gather quite a bit of clients before we get the guy from Joburg to come down, but what they do, is they do, like financial training.”*

The first specialist at Nedbank supported this by commenting, *“We run business seminars which we have done in a number of ways, we have run small business seminars where anyone has been welcome, advertise on the radio etcetera where we actually get people in we get key speakers not bankers from financial and marketing sales to talk to entrepreneurs about what are the pitfalls what can they do.”*

This highlighted that financial institutions take care of their customers by providing seminars and courses to train SME's in marketing and financial aspects of managing a firm. Financial management and marketing is a weakness for many SME owners and educating entrepreneurs helps further build a positive relationship.

4.6.3.3. *Small Business Friday.*

Nedbank's first specialist highlighted a unique initiative undertaken by Nedbank as follows, *“Ja we've had Small Business Friday which we are still debating to bring on where we've gone to market and not only ask everyone to support small businesses on a Friday and we set a date but we don't say it is just for that Friday every Friday but we ask our staff to basically go and support them through spending at them, just by going and associating with them, networking with them*

so that kind of, we get our staff out which has also been great to walk the streets and talk to small businesses around possible solutions and how things are going and how we can add value.”

This support for and approaching customers in their own business setting is a great learning experience for the banks staff as they get to interact directly with their customers and this builds on their relationship management. Both parties benefit as solutions are discussed for issues the businesses may have and the bank builds a loyal customer base.

4.6.3.4. TV Business Shows.

Reality TV is a popular form of entertainment. This has become mainstream with shows like *—The Apprentice.*” The first specialist at Nedbank commented, *“You also then start getting into we have run TV shows, SimplyBiz where we have, we have taken clients and non-clients who we then hope to convert into clients and put them into a TV show with business experts to analyse what challenges they have and then allow and give them solutions to those.”*

The points from the comments are entertainment can be a form of business training and coaching, (McIlvenny 2011). The audience is massive and many entrepreneurs are able to learn from business experts who come up with solutions to the entrepreneur’s challenges in the TV show.

4.6.3.5. Accounting Service.

Accurate financial record keeping is important for all firms. This is a weakness for many SME’s as has been discussed. FNB has seen this as an opportunity and the FNB specialist said, *—You can use online banking and do your foreign exchange transactions. They also offer instant accounting. So it’s say like 70% of your accountants’ fees by working off your bank statement. So you do all your posting, you have access to your income statement and balance sheet. So that’s there.”*

This highlights that financial institutions have identified a key weakness in SME’s and offer an accounting service for their customers, saving them time and money. Silburt (2012) points out that banks often view SME’s as poorly managed and find their applications for loans have gaps in financial information due to poor record keeping practices. This was confirmed by Grunert and Norden (2012) as they

highlighted that SME's financial data is lacking. The instant accounting service is a great initiative as it overcomes SME's weakness of poor financial record keeping and also assists with providing financial institutions with financial information when SME's apply for loans.

4.6.3.6. *Web Support.*

Online support for SME's is easily accessible and informative. The information available is vast and entrepreneurs have the ability to learn new skills, network and promote their products or businesses. The first specialist from Nedbank highlighted this by commenting, *"We have a website SimplyBiz.co.za which has a host of guys that we have engaged with that we have put up their videos on, we get in to radio stations to be able to have chats and talk about small business and the possible pitfalls, what works well what you need to be looking at. We have a whole lot of tools on that website, how to start up your business, how to build it, we also offer networking so if you become a member of that to start to network with other businesses who have also joined the forum from a business point of view."* The FNB specialist backed this up by saying, *"That's just started helping entrepreneurs. We have different advisory desks, information online."*

The points the specialists show is that online assistance and advice are offerings that financial institutions are giving entrepreneurs. Help with how to start a business, networking and advice are empowering and training entrepreneurs to manage their firms more effectively. Abor and Quartey (2010) mention the shortage of management skills in SME's is a major factor hindering SME growth. The online services offered by financial institutions will therefore improve SME growth.

4.6.4. **Incubators.**

Business incubators assist SMEs in starting and growing through sharing resources and providing an infrastructure for SMEs to operate within. Services offered may include office space, front office, financial services and also mentoring services from business professionals. The second specialist from Sefa highlighted incubators by commenting, *"There are also a number of business*

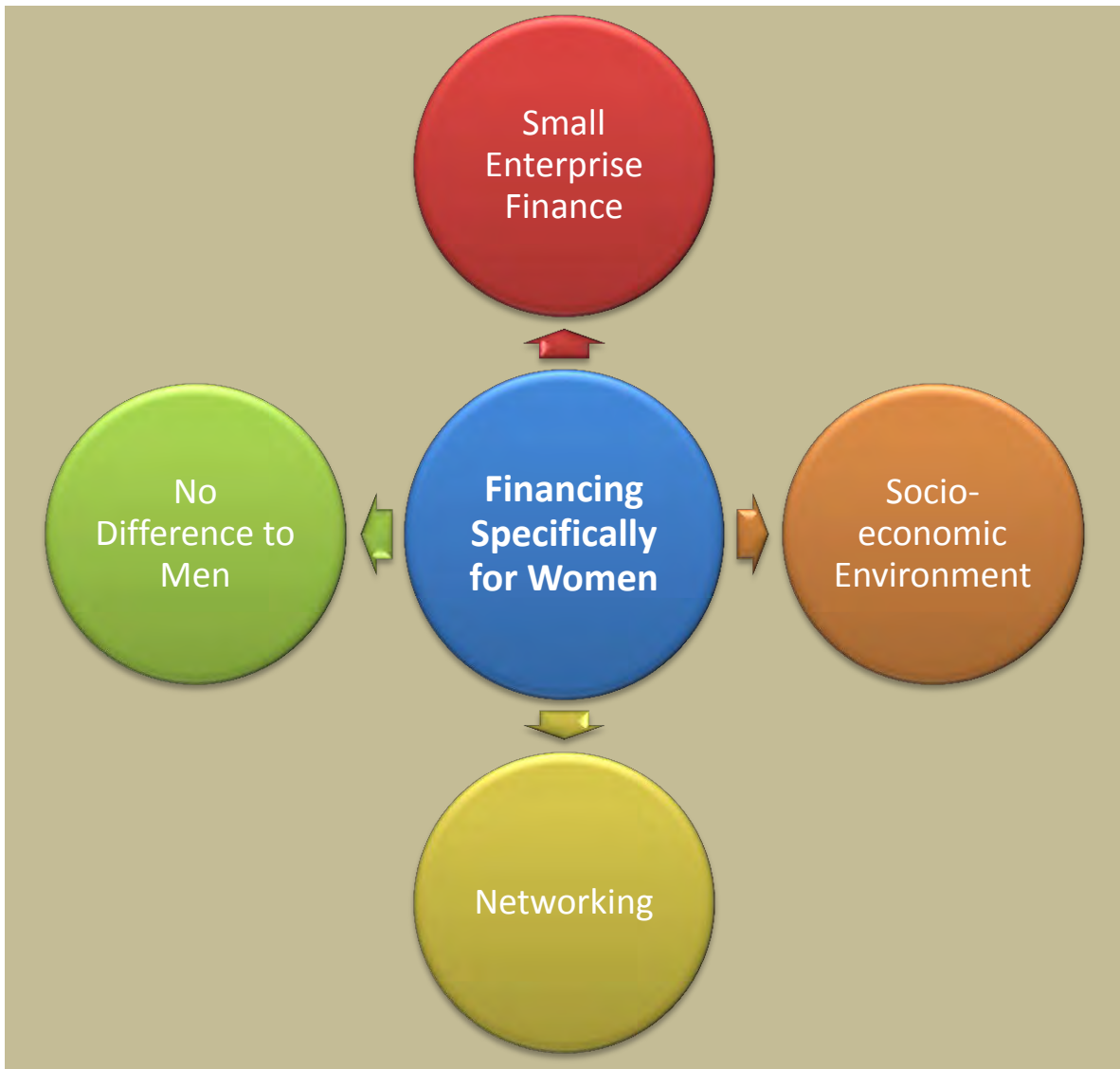
incubators... Such as Shanduka Business Umbrella. There's another one, I can't remember the name, there's another one but there are a number of other private... you know business incubators, which are assisting, funded by corporate organisation."

The highlight regarding business incubators is that SME's are offered business assistance which helps businesses grow and create jobs. Lesáková (2012) provides insight into the benefits of incubators which encourage development of new and existing businesses in communities while also revitalizing the communities which they operate in creating new jobs and income. This is a service that has the potential to assist and grow many SME's in South Africa.

4.7. Financing Specifically for Women.

The fourth objective of the study was to investigate financing specifically for women SME owners. The main findings that arose from this objective are displayed in figure 4.5 below which were small enterprise finance, socio-economic environment, networking and no difference to men. These findings will now be presented and discussed.

Figure 4.5: Financing specifically for women.



Source: The researcher, summary of NVivo Data for financing specifically for women findings. (2015)

4.7.1. Small Enterprise Finance.

The research objective set out to investigate finance institutions views to financing women specifically, as women often have to manage the role of parenting and providing for their families, as many women are single parents. The second specialist from Sefa mentioned, *“The only project that I know, which is still going strong is SEF. Ja, Small Enterprise Finance. Which is based in Limpopo. Yes, yes. Okay, unfortunate, I mean unfortunately there are a number of women, financial institutions that were formed in partnership with Old Mutual for example SISAGA is, there’s a what you call Sisagala project. There a number of women focusing, I mean based institution that were formed but unfortunately most of them are no longer existing now. And also SEFA as well. We do have budgets set aside for women. To ensure that okay if it’s a woman based own business then we will have certain concession in terms of interest, in terms of support and many other intervention.”*

The points highlighted that there were a number of financing institutions directly set up to support women however these institutions no longer exist. Sefa however does have budgets set aside for female entrepreneurs. The second specialist from Sefa, commented, *“Okay, as mentioned, we did get quite a few of applicants last year, financial year for women. So we have found that quite a portion of women are applicants but there is still, it is not coming as how we expected, you know, those type of applications, which is it is declining.”*

These comments pointed to a decline in applications for finance from females which was a concern. This may point to a gender disadvantage for women SME’s owner’s, in receiving finance as according to Badulescu (2011) found that men are able to raise twice as much capital as women and women face more credibility issues when trying to raise finance. The concern highlighted by Badulescu is women entrepreneurs firms suffer more than males due to the added difficulty in obtaining finance and the sustainability of females firms are at more risk.

4.7.2. Socio-Economic Environment.

As has been discussed the difficulties that women face compared to men are more complex. The first specialist at Sefa commented further, *“We want to see an*

increase in women businesses coming, but also, I mean, you look at the socio-economic environment also, and where they are. A lot of women are getting into a business and then after a while, you know, they decide to be at home on a full-time basis. So, you know, it is also dependent on the socio-economic environment also.”

This highlights that women struggle to balance the roles of entrepreneur, mother and in some cases wife. Badulescu (2011) pointed out that cultural issues add to this challenge for women who in some cultures are not encouraged to be entrepreneurs. Loscocco and Bird (2012) go further to suggest that women don't only struggle as employees but as business owners when competing with men as they try to achieve a work-family balance. These findings tend to support the argument that men still dominate in business.

4.7.3. Networking.

Women might be at a disadvantage when it comes to receiving finance however there are opportunities for women to network. The first specialist at Nedbank said, *–We do have a big association and sponsor the Business Woman's Association as a network however that might have been many many moons ago around driving woman into business but you really are starting to see a balance across the board. We do have a big association and sponsor the Business Woman's Association. It is still male and predominantly from an established business White male dominated and Indian male dominated kind of environment but that is changing quite considerably so we don't consider Business Owners' Association to be any different as it would be to an association with the Durban Chamber of Commerce, Pietermaritzburg Chamber of Commerce etcetera. We have a lot of woman engaged and if it is a woman platform then we are speaking to yes then we may well send a woman in because from a connection relationship point of view it might be easier to establish but there is nothing specific that we say well this is for woman so you've got insurance that it is for woman only type of thing. Nothing like that.”*

The comments pointed out that there is a networking opportunity for women to network by joining the Business Woman's Association. Further to this white and

Indian men it was highlighted, dominate business associations in general however these are undergoing changes with, it is assumed opportunities for women to become involved on a level playing field. Bogren et al (2013) show that women tend to network more using personal networks as opposed to business networks. It was suggested that this made it more difficult for women to succeed in business than for men.

4.7.4. No Difference to Men.

The playing fields it would seem are more difficult for women compared to men in applying for finance, when considering the literature. The second finance specialist at Nedbank however commented, *“We wouldn’t be more lenient. The criteria is the criteria, so, obviously it’s good for us and we need to empower women and even the previously disadvantaged so we would look at it in terms of empowering people, but the criteria will remain. So, if it is that you have got to have a contribution of 50%, that’s the ruling.”*

The point made is there is no difference between genders when applying for finance. This was backed up by the FNB specialist who commented, *“Here we not very specific on that. I think if they pass the means test and if they qualify I don’t think its gender specific. So ja, but there’s a lot of programs I know in, in the economy and in general that encourage women in entrepreneurship. I think you’ll see a lot in the papers when you read. But we are not specific you know.*

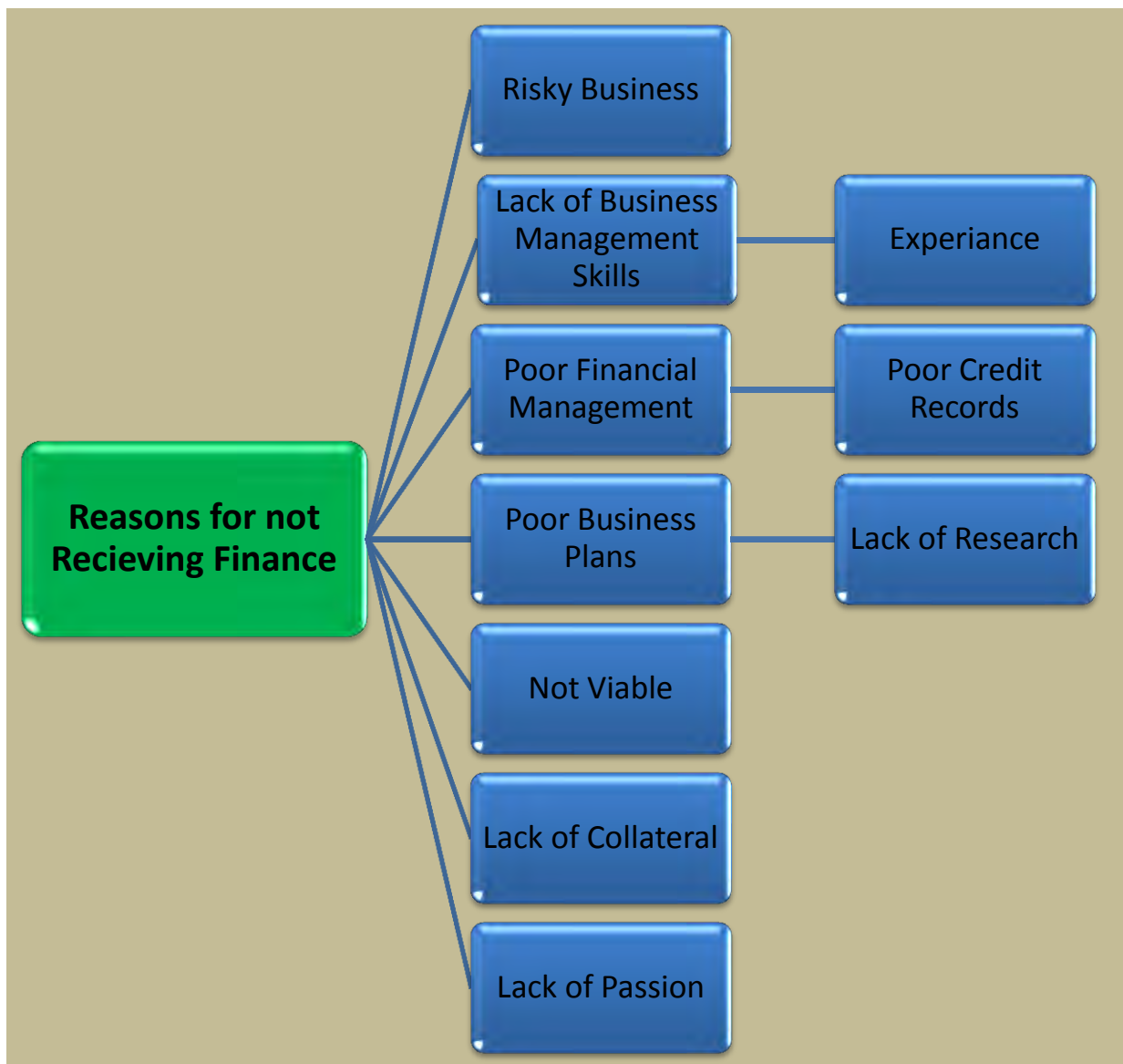
And I think the same qualifying rules and criteria applies to both male and female.”

Aterido et al (2013) however point out that there is a gender gap between men and women when applying for finance. The underlying theme that emerged is women have more challenges than men in applying and receiving finance for their businesses even though we live in a society that is striving to make the sexes equal.

4.8. Reasons for not Receiving Finance.

The fifth objective of the study was to investigate the reasons for not receiving finance. The main findings that arose from this objective are displayed in figure 4.6 below which were risky business, lack of management skills, poor financial management, poor business plans, not viable, lack of collateral and lack of passion. These findings will now be presented and discussed.

Figure 4.6: Reasons for not Receiving Finance.



Source: The researcher, summary of NVivo Data for reasons for not receiving finance findings. (2015)

4.8.1 Risky Business.

SME's often do not receive finance because they are seen as a high risk by financial institutions. Risk for finance institutions has to be managed and is a key factor that is considered when approving or declining loan applications from SME's. The track record of SME's plays a significant role in assessing loan applications. The FNB specialist mentioned, *"So I think generally banks have learnt from previous experiences and, and, and experiences and instances where people have failed us. There's a high failure rate in that section. So I...ja...like it's difficult. A lot of SME's I must say, most...the majority of them don't have a good track record."*

This negative sentiment does not bode well for SME's and Silburt (2012) highlighted SME credit risk as to whether they will be able to pay back the loan or not. The risk was further heightened in Silburts view as SME's operate in highly competitive environments in which profitability is low. The World Bank (2014) elaborates further the high risk in loaning to SME's as banks have cut lending to SME's and driven SME's to acquire financing from other sources.

4.8.2. Lack of Business Management Skills.

Not having business management skills is another reason highlighted by the financial specialists for not having loans approved. This is a concern for our country as entrepreneurship is vital for growing our economy and creating employment. The FNB specialist mentioned, *"They don't have the necessary experience. They have a good idea but they are not schooled in leadership. How to manage people. How to manage a business. What are the components of the financial leg of the business? So all of that. So those are some of the failures."*

The issues highlighted of not having the experience, leadership skills and general business management skills is a major reason why business loans are declined. The Ithala specialist mirrored the above concerns using an analogy of a horse and jockey. A great horse with a poor jockey does not win races however an average horse with a great jockey does. The below comments by the Ithala specialist went

as follows. *“Because ... look generally it also comes a bit with the management, the responsibility to run that business. Sometimes you might have the best business ever, it is like a jockey and a horse situation. You have got the best horse but if you don't have a good jockey, you are not going to win anything, you know. But if you have got an average horse but the best jockey, that guy knows how to ... how to win a race. He knows how to overcome the challenges, how to pace himself, etcetera. So it is exactly the same thing as a business. The jockey sometimes is more crucial in the viability.”*

Abor and Quartey (2010) mention the shortage of management skills in SME's is a major factor hindering SME growth. SME's owners often are not qualified to manage their businesses and also struggle to attract qualified managers as large firms are able to pay higher salaries and offer career paths to qualified managers. Jyothi and Kamalanabhan (2010) add that there is a difference in the management skills of SME owners and the management skills they require to manage their firms. Entrepreneurs experience is often lacking.

4.8.2.1. Experience.

Entrepreneurs who don't have experience in the industry that they go into struggle. This was highlighted by the second specialist at Nedbank who commented, *“So, you must have your mind right and you must know why you are doing it. You must have going for the right reasons and that is why we always look whenever we do an application we ask for a CV of the potential client to make, to see what experience they have got. Not only in that industry, but also in terms of handling staff...”*

And it's for the right reasons. Ja. Also, if I think of a couple of my franchises that have gone belly up. One of the reasons was the client didn't have the right experience, he'd been in an office job and resigned and went into a DIY store and what does he know about DIY, you know, so we backed him, obviously we took security, but he didn't make it because he didn't have that knowledge to run a business.”

The Ithala specialist backed this up by saying, *“So we ... ideally in a situation, we would like a guy from the industry, who has had experience in the industry that he*

wants to go into as a business.” Olawale (2010) supported this by highlighting that SME’s fail due to insufficient management training and work experience.

4.8.3. Poor Financial Management.

Poor financial management is a reason why SME’s fail to obtain finance from financial institutions. The FNB specialist commented, *“They don’t have the financial acumen... He doesn’t have the financial acumen to back him up. Ja. There is...it is difficult.”* The second specialist at Nedbank supported this by saying, *“You have to allow your business, at least a year, turn your profits back into the business before you start drawing an income otherwise, it’s going to put too much pressure on the cash flow, and yes, it’s not as glamorous as it seems. It’s very, very hard and you’ve got to be very careful that you don’t, once you see cash coming in, that you don’t think, okay, I can start spending. No, you must put that away, build up the reserves, and then...”*

Jyothi and Kamalanabhan (2010) backs this up by highlighting that the lack of financial management often results in difficulties in securing finance and ends up in firms running out of funds to continue operations resulting in the business shutting down.

4.8.3.1. Poor Credit Records.

Linked to poor financial management is poor credit record keeping. This also results in difficulties for SME’s when applying for finance. The FNB specialist commented, *“They either have a, an unhealthy credit record or credit history and now they’re...the situation is here.”* This highlights the importance of managing creditors and ensuring that the firm’s credit ratings are kept clean by paying bills and loan repayments on time. Ingilfsson (2011) supports this by adding that lending institutions asses SME’s data such as financials, credit history and data about the SME’s from credit bureaus. Silburt (2012) also points out that SME’s have gaps in financial information due to poor record keeping practices. Poor financial management impacts negatively on the ability of firms to obtain finance and may result in business failure.

4.8.4. Poor Business Plan.

A poorly written up business plan or one the entrepreneur does not understand hampers the funding process for SME's. Entrepreneurs in South Africa often do not have formal business training and do not have the capability to write up a business plan. They outsource their business plan to accountants or consultants and as a result do not understand the costs of running a business or understand the plan. The first specialist at Nedbank highlighted this by commenting, *"I would say business plans not being theirs. So I mean there is a thousand templates out our website SimplyBiz.co.za has one, there, what happens is that people tend to have a generic business plan and generic ideas and it doesn't really talk to the heart of their business so you can't actually connect that when get into entrepreneurs."*

The second specialist from Sefa added to this by stating, *"Let alone other factors that I've mentioned in terms of lack of skills and others, we find that the business proposal does not make sense."*

The issue of not having business plans that are understood by entrepreneurs or plans that don't make sense lead to unsustainable businesses as capital depletes and cash flows run dry. Urban and Naidoo (2012) proposed that SME's lack operational skills in the manufacturing sector which is linked to not having comprehensive business plans including an operations plan with financial projections. Barbera and Hasso (2013) suggest that hiring an external accountant benefits the growth and sustainability of SME's. The external accountant fulfils the role of a business consultant bolstering the planning and assisting with compiling a formal business plan. This assists the SME management team in managing their business in a sustainable manner.

4.8.4.1. Lack of Research.

A lack of research and understanding the market, the customers and the competition has the potential to sink an application for finance as finance institutions want to know that SME's will be able to market and sell their products or services. The first specialist at Sefa said, *"As I say, it is a lack of research done. So there's lack of research and understanding of the business, understanding of*

the operations of the business. There is a lack of understanding the market that is the biggest weakness in most applicants.” The second specialist at Sefa supported this by commenting, *“The market is already, is not there or the entrepreneur cannot prove to us that there’s a market. So the onus is on the entrepreneur to prove to us and justify that there’s market for...for the business.”*

The points from the specialists highlighted that entrepreneurs need to do research and understand the market and operations (management) of their business. Thomas et al (2014) suggest that business plans and research is not going to guarantee success, as often these are made up of god guesses.’ They propose that SME’s rather use a business model canvas as a framework and work out the details as they progress. This is contrary to what the specialists said and could be viewed as an entrepreneurial approach which differs from the standard business plan approach used by financial institutions and accountants.

4.8.5. Not Viable.

Entrepreneurs have many ideas, however when tested the ideas may not be viable or don’t make business sense. A business idea that is not viable, obviously will not be funded. The specialist from Ithala highlighted this by commenting, *“The biggest reason is by lack of viability and affordability or sustainability. I mean if you get what I am saying, and that viability is always crucial, so those are the things that generally lead to us making a ... declining an application. Mostly it plays with the viability.”* The second specialist from Sefa supported this by saying, *“The main reason as I’m saying, the most of the businesses which come to us, we find that they are not viable. So when we look at the business proposal, there’s nothing that shows that the business will be sustainable.”*

The importance of a business being viable was highlighted by the specialists. Viability from an operations point of view firstly, in that the business should be able to fund operations, pay back the loan and market a product or service successfully to generate cash flows to fund the operations and make a profit. The business should also be viable from a management point of view, does the entrepreneur have the skills and experience to manage the business. Resnik (2013) shows that leaders in SME’s are key to the success of their firms. A leader or entrepreneur

with leadership skills should have the ability to lead a firm and grow the firm.

4.8.6. Lack of Collateral.

A lack of collateral is a key reason for SME's failing to be granted finance. This was highlighted by the first specialist from Nedbank who commented, *–Collateral is always going to be one and then I think a lot of factors around understanding the market and the competitors in that so if they start to do a swat analyses they tend to be very strong around what their skills are, what they bring to the table.”*

Collateral reduces the risk of the financial institutions as SME's often do not flourish but fail and are unable to pay back their debt financing. SME's do not always have assets that they are able to offer as collateral which hampers their funding drives. This is unfortunate as there are government agencies such as Khula that offer financial institutions backing for SME loans in situations when entrepreneurs don't have sufficient collateral. Steijvers et al (2010) add the personal wealth of SME owners plays an important role in whether or not SME's are able to obtain finance from banks. The owners often have to use their own assets as collateral as their firms do not have sufficient assets to secure loans. This places an additional burden on SME owners as they may lose their business and their personal assets should the business fail. According to Abdulsaleh and Worthington (2013) SME's with fewer tangible assets found it was more difficult to obtain finance.

4.8.7. Lack of Passion.

Entrepreneurs who lack passion for what they do may add a hurdle to receiving finance as has been highlighted by the second specialist at Nedbank who commented, *“Possibly because as I say we back the jockey, so if it's somebody that's being, say for instance, being say a doctor's wife, for instance, that has been at home all her life, but now he's buying her a fish and chip shop. She doesn't really know much about fish and chips, she doesn't really know much about, about running a business, so for us it's so important that people go into this thing with a passion. They must have passion for what they doing and not just that*

they are there to make money. It is, it's not easy, hey. I always say, I admire the person that can go into business for themselves. You've got to have nerves of steel and you've got to have passion and you've got to have the willingness to work not just 09:00 to 05:00, but 7 days a week."

The specialist highlighted entrepreneurs need to have a passion for what they are doing. Entrepreneurs need to want to be involved in their business and to put in the hours needed to make their business successful.

Passion does not substitute experience however as a lack of business management experience can result in entrepreneurs not being able to cope with the finer details of managing a business. An entrepreneur may not manage stock levels or cash flow resulting in the business failing. Cardon et al (2013) suggests that passion is at the heart of entrepreneurship and the will to succeed. A lack of passion and experience may therefore result in a loan application being declined because financial institutions back the jockey.'

4.9 Assistance for Overcoming the Hurdles to Receive Finance.

The sixth objective of the study was to investigate what assistance was offered to SME's for overcoming the hurdles to receive finance. The main findings that arose from this objective are displayed in figure 4.7 below which were a poor basic education, mentoring, passion, training, screening prospective entrepreneurs, scoring system and backing for collateral. These findings will now be presented and discussed.

Figure 4.7: Assistance for Overcoming the Hurdles to Receive Finance.



Source: The researcher, summary of NVivo Data for assistance for overcoming the hurdles to receive finance findings. (2015)

4.9.1. Basic Education.

The education system in South Africa currently and in the past has not focused on developing entrepreneurial thinking which has stifled innovation. The first specialist at Sefa commented, *“So I think going forward, in future, I think, you know, government needs to spend more time, I think, making sure the education system is of high quality and standard, the resources and the infrastructures provided in those areas so that people have basic needs, you know, that is covered, for one, and also they have the crucial basics, from an education point of view, because knowledge is power.”*

The points highlighted the need for improving education so that students can learn the basics. Government has the potential to create an education system over time that meets the need to provide quality literacy and numeracy skills in students. Kolstad and Wiig (2015) show that there is a formal link between education and entrepreneurship with literacy and numeracy being key to entrepreneurial skills. Olawale (2010) highlights the poor level of managerial skills in South Africa. South Africa's education system has failed to generate a large pool of innovative entrepreneurs with managerial skills to create and grow SME's that will be sustainable. SME's fail due to insufficient management training and work experience.

4.9.2. Mentoring.

Mentoring has the potential to overcome skills shortages through guiding entrepreneurs and teaching them new methods for improving the way they manage their businesses. The FNB specialist commented, *“Ja so I think mentorship programs, going through mentorship programs. I know the Shanduka Black, Black Umbrella that take people through their mentorship programs, upskilling them in different categories of business. And then at the end of the day, once they pass, they're running a dual strategy. You're running your business, you're also applying the different mentorship programs and at the end of the day on how you...how to go and obtain business. So at that stage you'll be at a different level.”*

The points raised that mentoring upskills entrepreneurs and helps them manage their firms at a higher level. The second specialist at Nedbank commented, *“We, no, well, from a franchise perspective a franchisor would keep them under their wing, obviously so they would do that. We won’t, particularly, get involved in the day to day running of the business, so, yes, from that aspect they would need to get additional training or whatever elsewhere. The bank won’t adopt them and hold their hands through the whole process.”* This highlighted that banks don’t want to become involved in the details of helping SME’s manage their firms however where franchisors are involved there would be support and training. Brien and Hamburg (2014) note that mentoring assists SME’s in learning new ways of doing business and providing practical ways of implementing the changes which improves the sustainability of the businesses.

4.9.3. Passion.

Entrepreneurs showing passion for their business and what they do is a motivating factor for financial institutions when assessing loan applications. The first specialist from Sefa commented, *“You know. Applicants that have that passion, that drive, because we’re also not assessing businesses, we are assessing the applicant. Their background, their knowledge, and also their experience and their qualifications, but, I mean, if we can see the passion, drive from these applicants and they understand, if we ask them questions and they understand the industry and we are content with that. You know, that also motivates us to actually proceed with the application.”*

The second specialist at Nedbank supported this by commenting, *“So for us it’s so important that people go into this thing with a passion. They must have passion for what they doing and not just that they are there to make money.”*

The specialists highlighted that entrepreneurs are assessed and need passion with experience and an understanding of the industry they are involved in. Passion and experience were discussed previously in which a lack of passion hinders funding. The opposite is true and as can be seen passion is a key factor that is assessed because as Murnieks et al (2011) show passion is a fire of desire that drives successful entrepreneurs to motivate them to achieve success and

overcome obstacles. Galbraith et al (2013) showed that higher levels of passion from entrepreneurs resulted in more positive results when applying for grants. These studies confirm what the specialists pointed out.

4.9.4. Training.

Training entrepreneurs helps them learn new skills and ways of managing their firms. An entrepreneur who does an MBA will understand different aspects of his business and will therefore manage the business more proficiently. The first specialist at Sefa commented, *“I think more, you know, training involved. Maybe, I know Seda gets involved in a lot of training initiatives in certain industries.”*

The government through agencies such as Seda actively train entrepreneurs so that they will be more successful and our country will benefit as a whole. Sanchez (2011) showed that entrepreneurship training increased the skill level of students and enhanced their motivation to start their own businesses. Boukamcha (2015) highlighted that entrepreneurial training increased students desire to go into business and create new firms. Jones et al (2013) found that SME training needs to be specific to the industry that they operate in to be more effective and stressed that trainers need to meet the needs of their market.

4.9.4.1. Financial Training.

Financial training for entrepreneurs will be beneficial as they will understand how to manage their cash flow and compile and analyze financial documents. This will assist their firms when applying for debt finance. The second specialist at Sefa commented, *“Whereas because the challenge is that they can’t put down the financial information in terms of budgeting you know to show us how are they going to sustain themselves? Ja I think the challenge hopefully this new department of small business will look at that. Create a structure, which is going to assist the client who are looking for finance in terms of preparing the loans, you know. Prepare packaging the application properly.”*

The specialist highlighted that there is a need for training entrepreneurs to put together financial information when applying for finance. Many entrepreneurs are not competent in managing this process and once competent their access to

finance through an increased loan application acceptance, will assist their firm's growth and prosperity. Nyamboga et al (2014) highlights the need to provide financial literacy training for entrepreneurs to increase their financial management skills. Dauda (2014) adds that governments needs to assist SME owners in financial management training and in funding their businesses. Fatiki (2014) supports this further as financial literacy is key to decision making for entrepreneurs as they understand financial information and how to manage their firm's financial management.

4.9.4.2. *On the Job Training.*

On the job training is one of the primary methods for teaching new skills in SME's. Entrepreneurs have the opportunity to learn from skilled workers which the Ithala specialist has highlighted. The specialist elaborated with the following comments, *"But if they want to be in the said industry, I suggest go and get some experience in the industry. Even if you ... for example, you have got a guy who is working at a supermarket, now he wants to produce blocks, right ... go and get a job at a block yard. Go understand the cost and the formulas, the recipes etcetera. The market ... at least know how to make a block before you want to buy a business or start a business to make blocks. So you understand what it takes to make the blocks. More experience in the specific industry. That's the biggest challenge is the entrepreneurs lack of knowledge of the industry that they want to go into."*

The specialist pointed out that experience can be gained by learning on the job which gives entrepreneurs an understanding of the industry that they may wish to target. Jacobs and Bu-Rahmah (2012) found that on the job training was beneficial as there was a reduction in the development time for learning new skills and confidence increased in the skills of new employees. Swedberg et al (2015) supported these findings by finding that on the job training improved staffs performance and competence. The experience gained by entrepreneurs who received on the job training in the industries that they wish to do business in will assist entrepreneurs when applying for debt finance as they will understand the industry.

4.9.5. Screening Prospective Entrepreneurs.

Screening prospective entrepreneurs and their ideas' may not seem helpful in assisting them to be granted debt finance however it guides the financial institution in judging the potential of the applicant and their business. This was highlighted by the second specialist from Sefa who commented, *"Before even the guys come for a loan, sit down with the guy and spin them. Ask, I mean take them through the process. Check whether their business idea makes sense or not and then once we have screened those that have got a potential, we take them to a, to the next level."* The specialist pointed out that it is worthwhile finding out what the entrepreneur's idea is about and whether the idea is worth supporting. Should the idea be viable the specialist suggested they would assist in developing the concept with the entrepreneur. This saves time in processing a loan application that may be viable or rejecting an idea that may not be viable.

The second specialist at Nedbank was aligned to this thinking and mentioned, *"Yes, because we do and we do the interview, as I said, we assess you and we get a feel for your business acumen and what knowledge you've got because we are backing the jockey, see."* This highlighted that entrepreneurs are assessed according to their business management skills and understanding of how to run a business. The financial institution assesses the entrepreneur's ability regarding whether or not they will be successful. De la Torre et al (2010) mentions that banks screen out poor applicants so that when the loan applications are sent to their head offices the loans have a higher chance of being approved. Certhous and Perrin (2013) suggest that financial backers of SME's first meet the entrepreneurs and learn about their idea or business and at that stage screen out the great opportunities and progress with them while rejecting the poor ideas saving time and money for both parties.

4.9.6. Scoring System.

Rating SME's and applying a score has the potential to assess the loan application process in a fair and equitable manner. The second specialist at Sefa highlighted this by commenting, *"So where I think they need to develop tool like*

that. Work in collaboration with universities, academics to develop a user-friendly tool, which is, make it easier for these people to...to, to, to give the information and then maybe the system must be able to score them. To say in terms of the knowledge we feel that we have got reasonable knowledge or don't have a clue what is happening."

Hasumi and Hirata (2014) suggest that scoring systems sift out window dressing problems and bias in relation to financial statements. De la Torre et al (2010) shows that banks are more inclined to offer loans to SME's as a result of technology advancements and standardized risk assessment scoring tools. Scoring tools however are standardized and there needs to be a soft approach involving the people involved and the benefits of what the SME's will do in, for instance job creation and community upliftment.

4.9.7. Backing for Collateral.

Financial institutions aim to manage their exposure to risk. Therefore SME's that have assets that could be used for collateral when applying for debt finance are well on their way to achieving a positive outcome as long as their proposal is viable. The first specialist at Nedbank highlighted this by commenting, *"Collateral is always there because it is risk. Because you can always go and get into Khula where we have agreements to secure it but the business has to have shown that it is strong and viable before we even start to get into that."*

He was supported by the second specialist at Nedbank who said, *"You know, when I am thinking with my bank hat on now, you know, banks are always for security and assets in the background and a lot of these people don't have and I mean, I'm thinking of the BEE market, a lot of them don't have it, so, yes, it's very difficult. I'm just thinking if, if there could, I'm not, I'm not sure because you know you would, we always lend against security and we lend based on the jockey so inevitably for us this guy must have some assets."*

The specialists both pointed out that collateral is a necessary requirement for finance. The business proposal also needs to be valid and strong. SME's who don't have collateral do however have the option to secure a guarantee using Khula to offer surety. Maeseneire and Claeys (2012) pointed out that SME's face

severe financing shortages due to insufficient collateral which hinders the growth of their firms. Abdulsaleh and Worthington (2013) found that the relationship of the SME owner with the financial institution is also key as individuals with positive relationships and good track records had fewer hurdles to overcome when applying for finance. SME's with fewer tangible assets found it was more difficult to obtain finance. Moro et al (2012) contrasted this by showing that collateral was more important in the loan application process to receiving finance than having a positive relationship with their financial institution.

4.10. Summary.

The research and literature have shown that there are a number of constraints for SME's in securing debt finance. Finance options were discussed and it was found that SME's funding varies from as little as R100 000 to millions with some financial institutions that avoid funding in type of industries such as tobacco and liquor. Equity funding was preferred where entrepreneurs wanted to spread their risk with investors and keep the cost of debt funding low. Equity funding was often used for startups where debt funding was not accessible however the downside of this was entrepreneurs lost some control of the firms by selling shares. SME's used short term, medium term and long term financing depending on the needs of their firms such as short term cash flow constraints, medium term capital investments and long-term building funding. Financing challenges were discussed with business plans coming up strongly as an obstacle to receiving funding due to entrepreneurs having a poor understanding of how to compile a business plan or not understanding aspects of the plan such as the market assessment, the operational plan and compliance issues. Further challenges that were highlighted were a shortage of management skills and a lack of owner's contribution.

In the area of non-financial assistance that was offered to SME's, entrepreneurs were offered business management training, mentoring services, business support services and incubator services to assist with managing and growing their businesses. Focusing on financing specifically targeting women entrepreneurs it was found that there is not much support for gender specific funding however women it would seem, struggle to a larger degree than men do in acquiring

funding for their firms. A number of reasons were discussed as to why SME's struggle to receive funding. The finance specialists pointed out that they don't fund businesses that they deem risky and avoid funding entrepreneurs who lack business management skills. Entrepreneurs who lack financial management skills and who submit poor business plans were also seen in a poor light and struggled to acquire funding. Businesses that were seen as not been viable were also not given funding and entrepreneurs who lacked collateral and passion for their ideas were also shunned. Lastly assistance for overcoming the hurdles to receive finance were discussed. It was pointed out that by educating entrepreneurs, offering mentoring and training support that the likelihood of receiving funding improved. Screening entrepreneurs and scoring their loan applications also helped financial institutions in approving finance for qualified entrepreneurs. Lastly backing for collateral through institutions such as Khula assisted with funding applications as the financial institutions risk was lowered.

Chapter Five

Conclusion and Recommendations

5.1 Introduction.

This study has undertaken to investigate and understand the constraints faced by SME's when applying for finance, from a supplier's perspective. This chapter will discuss the conclusion and establish if the questions to the problem have been resolved. The implications and benefits of understanding the challenges faced by SME's in obtaining finance will be highlighted followed by the limitations of the study. Recommendations to overcoming the hurdles faced by SME's in obtaining finance will then be covered linking the findings to the objectives of the study. The chapter will then conclude by providing recommendations for future studies.

5.2 Conclusion.

The background for choosing the topic was that SME's struggle to secure funding for their business and thereby have difficulties in growing and flourishing. The researcher undertook to investigate and understand why financial institutions turned down SME loan applications. The findings and discussion in chapter four clearly highlighted the main reasons why SME's loan applications were declined by financial institutions. The various key findings for loan applications being declined were linked to entrepreneur's lack of experience, management skills and education. This resulted in poor overall business management. Financial management of firms was found to be inadequate with gaps in financial information which resulted in loans being rejected. Business management skills were found to be lacking and resulted in poorly written business plans which were often not understood by entrepreneurs which also hampered applications for finance. The research problem has therefore been addressed as the findings point out the shortcomings of why loan applications were declined by financial institutions. These findings were presented and discussed in detail in the previous

chapter and the highlights from the findings will be shown in the recommendations later in this chapter.

5.3. Implications and benefits of understanding the challenges faced by SME's in obtaining finance.

The findings from the research have added to the body of knowledge and literature regarding SME's struggle to obtain finance. The results show that there are legitimate reasons why financial institutions decline loan applications. Silbert (2012) points out credit risk is a view a bank takes of a SME as to whether they will be able to pay back the loan or not.

Risk was seen as a contributing factor for loans being declined. SME's are seen as risky due to poor track records, poor financial management, high failure rate and poor management of the businesses. SME owners would benefit by gaining an understanding of how financial institutions view them and endeavour to improve this perception by working on ways to lower their risk profile with financial institutions.

Not having business management skills is another reason highlighted by the financial specialists for not having loans approved. This is partly linked to the risk assessment mentioned above. Jyothi and Kamalanbhan (2010) report that there is a difference in the management skills of SME owners and the management skills they require to manage their firms. This is a major reason why SME's fail in South Africa. The lack of financial management often results in difficulties in securing finance and ends up in firms running out of funds to continue operations resulting in the business shutting down. The research highlighted that financial institutions back the jockey so an entrepreneur with competent business management skills has an advantage over an entrepreneur who lacks business management skills. Experience in an industry and passion for what they do was also highlighted as a benefit for an entrepreneur as financial institutions look for experience and passion when assessing loan applications and experienced entrepreneurs stand a greater chance as 'the jockey' to have loan applications approved.

Poor financial management came up strongly as a reason to decline loan applications. Linked to poor financial management is poor credit record keeping. This also results in difficulties for SME's when applying for finance. Banks often view SME's as poorly managed and find their applications for loans have gaps in financial information due to poor record keeping practices. (Silburt 2012) Entrepreneurs will benefit from this highlight as they have the opportunity to strengthen this weakness should they not have financial skills by enrolling in financial management courses.

Poor business plans were also highlighted as a concern by the financial institutions when entrepreneurs applied for finance. A proposal for entrepreneurs is to do a course on entrepreneurship which will help them benefit from this point by giving them the tools to write up business plan.

Further to this a lack of collateral is a key reason for SME's failing to be granted finance. Entrepreneurs who lack collateral have the opportunity to approach institutions such as Khula for backing for their loan applications. Financial institutions will reduce their risk as the loan will be backed with a Khula guarantee should the business fail.

5.4. Limitations of the Study.

Research has limitations and in this study the researcher had to deal with the following limitations:-

- e) The research quality was dependent on the individual skill of the researcher and may have been influenced by the researcher's personal biases. The researcher studied other highly qualified researcher's methods to improve the skill of the researcher and quality of this research project.
- f) The volume of the data made analysis and interpretation time consuming. The researcher used NVivo to assist with data analysis.
- g) The researcher's presence during data collection may have affected the subject's responses. The researcher made a point of making small talk before each interview was conducted to allow the respondent's time to settle down.
- h) Findings were difficult to present in a visual way. The researcher used diagrams to assist with presenting the findings.

5.5. Recommendations to solve the challenges faced by SME's in obtaining finance.

The research has highlighted a number of practical ideas that have the potential to overcome the difficulties that SME's face when sourcing debt financing. The following is recommended:-

- a) Entrepreneur's education was found to be lacking in both literacy and numeracy. Our department of education should focus in increasing the standard of basic education focusing on these two key aspects. Entrepreneurship should also be offered as an option for grade ten to twelve students.
- b) Training courses for entrepreneurs who lack business management skills would assist in educating SME owners and help entrepreneurs become more successful. These training courses could be run at higher education institutions and entrepreneurs could be encouraged by financial institutions to be enrolled in the courses as a requirement for applying for a business loan.
- c) Mentoring of entrepreneurs who lack skills for managing and growing their businesses would be useful as mentors would be able to teach entrepreneurs practical ways of doing business and train them in the finer details of financial management, marketing and sales, operations and supply chain management, which are key aspects of business management.
- d) Government led schemes for backing SME's who lack collateral such as Khula could be expanded to include backing for 100% of loans for entrepreneurs who are willing to first go through training courses as mentioned in b) above. This would encourage entrepreneurs to go on training courses and overcome the hurdle of not having collateral.

5.6. Recommendations for Future Studies.

The research covered reasons why SME's failed to gain finance from financial institutions from a suppliers prospective. This is just one aspect of why SME's growth is difficult. The recommendations for future studies are as follows:-

- a) Financial constraints are only one area that hinders SME growth. Factors in the macro environment could be explored in how they benefit or constrain SME growth.
- b) Future studies could be extended to cover financing hurdles from a user's perspective.
- c) It would be interesting to investigate the level of success for SME's in relation to the level of education that the entrepreneurs have.
- d) Competitive advantage of SME's compared to larger firms could be investigated in relation to SME's decision making timespan.
- e) Government support or lack thereof for SME's could be conducted as a research project. The suggested studies and their findings may assist in complementing the results of the study undertaken by the researcher.

5.7. Summary.

The potential for SME's to overcome the hurdles to receiving finance is a great opportunity for our country as a whole because as has being discussed in chapter two SME's play a crucial role in economic development, especially in creating employment and wealth. SME's are key drivers of economic growth however they face challenges in achieving growth through difficulties in raising and obtaining finance.

The study was conducted by interviewing financial specialists who dealt with SME finance so that the researcher could understand the hurdles SME's faced from a suppliers perspective. The views and opinions that were given by the financial specialists highlighted a number of issues that entrepreneurs faced when applying for finance which have been presented and discussed in chapter four. From these findings it has been shown that the study question has been answered and

possible solutions were given which were presented earlier in this chapter. The study is just one of many that have investigated the constraints SME's have in obtaining finance for their businesses. The findings of literature have supported and complimented the findings of this study which in the mind of the researcher points to a successful research project.

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Appendix 1

The Questionnaire Guide.

Part A

Hi my name is Jonathan and as discussed telephonically I am doing a study on SME's access to finance for my dissertation as part of my MBA, through the University of KwaZulu-Natal. Thank you for agreeing to meet with me. The results of this study will be treated in strict confidence and should they be published will be published in aggregate form only.

Part B

Objective 1: Investigate what Finance options are available to SME's.

Prompt: Could you tell me about the finance options available for SME'S?

Prompt: How do SME's apply for finance? (If not covered in the above)

Prompt: How do SME's apply for state assisted funding/grants? (If not covered in the above)

Objective 2: Investigate the Challenges for SME's in obtaining finance.

Prompt: Tell me, what do you feel are challenges for SME's when applying for finance.

Prompt: How does a person's education affect their success in getting finance? (If not covered in the above prompt)

Prompt: How does the financial management of an SME affect their application? (If not covered above)

Prompt: How does the SME's business plan affect their application? (If not covered above)

Objective 3: Investigate the Degree of Non-Financial assistance offered to SME's.

Prompt: What kind of non-financial assistance is offered to SME's?

Prompt: How do business coaches/Consultants assist? (If not covered above)

Prompt: What kind of training is offered to SME's? (If not covered above)

Objective 4: Investigate women specific financing opportunities/difficulties.

Prompt: How are women assisted with financing?

Prompt: How does a woman overcome difficulties in accessing finance?

Prompt: Do you have any general advice for women? (If above two not answered in depth)

Objective 5: Investigate the main reasons for SME's in failing to obtain finance.

Prompt: What do you believe are the main reasons why SME's don't get financing?

Prompt: How does red tape affect SME's financing?

Prompt: How does a person's education affect their application for financing? (If not covered above)

Prompt: How does the size of the loan affect the SME's success in obtaining finance?

Objective 6: Investigate what would assist with increasing SME's chances of obtaining finance.

Prompt: What do you think are the most important issues that will help SME's in gaining finance?

Thank you for the time you have taken to be part of the study. Do you perhaps have any questions?

Appendix 2

Ethical Clearance.



22 May 2015

Mr Jonathan Luke Cameron (213569352)
Graduate School of Business and Leadership
Westville Campus

Dear Mr Cameron,

Protocol reference number: HSS/0122/015M

Project title: A study to gain an understanding of the challenges faced by SME's in obtaining finance

Approval Notification – Amendment / Expedited Application

This letter serves to notify you that your application and request for an amendment received on 22 May 2015 has now been approved as follows:

- Change in Research Sites

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

Please note: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....
Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dr Muhammad Hoque
Cc Academic Leader Research: Dr Muhammad Hoque
Cc School Administrator: Ms Zarina Bullyraj

Appendix 3

Turnitin.

11/8/2015

2015 GSOB8FDW1 MBA Dissertat... Dissertation Final Chapter - Part 1 (Moo...)

Originality GradeMark PeerMark

A study to gain
BY JONATHAN CAMERON

turnitin 5% SIMILAR OUT OF 100

UNIVERSITY OF KWAZULU-NATAL

A study to gain an understanding of the challenges faced by SME's in obtaining finance.

By

Student Name: Jonathan Luke Cameron
Student Number: 213569352

A dissertation submitted in partial fulfillment of the requirements for the degree of
Master of Business Administration

Graduate School of Business & Leadership
College of Law and Management Studies

Supervisor: Dr. Muhammad Hoque

Match Overview

Rank	Source	Similarity
1	Submitted to Universit... Student paper	1%
2	www.oecd.org Internet source	<1%
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PAGE: 2 OF 118

Text-Only Report

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