

UNIVERSITY OF KWAZULU-NATAL

**A Framework to Improve Access to External Finance by Small and Medium Enterprise
Start-ups**

By

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**A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy in Entrepreneurship**

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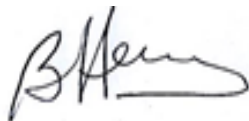
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“I can do all things through Christ who strengthens me.” Philippians 4:13

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*This work is dedicated to the memory of my late dad,
Lieutenant-Colonel Joseph Nkombe Botek'Amata, who was my inspiration and
taught me the value of good education.*

ABSTRACT

Despite the efforts of the South African government to develop the Small Medium Enterprise (SME) sector, start-up businesses not only face restricted access to but also challenges in accessing external finance, which acts as the main barrier to their growth and development. In light of the aforementioned, this study aims to propose a framework to improve access to external financing by SME start-ups. The formulation of the framework is based on a review and critique of the literature on the key determinants of the success of SME start-ups, namely, start-up awareness, management skills, and the requirements of finance providers. SME start-ups may be considered as a special case of resource-based theory due to limited resources of the firm. Start-up awareness and management skills are considered as necessary resources that will help the SME to acquire and develop other resources that will lead to a competitive advantage and superior performance.

This study has adopted a quantitative approach to collect and analyse data since this is the only way to test the various hypotheses postulated based on the resource-based theory. A sample of 252 SME start-ups was randomly selected from among SMEs located in Pietermaritzburg, the capital city of KwaZulu-Natal province in South Africa. Researchers may extend and roll out the research at the national level or other regions of the world. The data was used to conduct descriptive and inferential statistical analyses and structural equation modelling, using the Smart PLS statistical software. Seven hypothesised relationships were tested, and it was found that start-up awareness and management skills positively influence access by SME start-ups to government, corporate and personal/social sources of finance.

This study provides the necessary tools to start-up entrepreneurs to improve their access to external finance in South Africa. This study specifically highlights the different determinants of start-up awareness and management skills, and explains how the SME start-ups' applicability of these determinants would influence their external financing accessibility. Also, this study highlights how finance providers could be able to develop matured relationships with SME start-ups, assess their finance applications based on the determinants of start-up awareness and management skills. The proposed framework maps the start-up entrepreneur's business awareness and the requisite management skills with the finance providers' requirements for granting finance and provides the entrepreneur with a clear idea of the type of finance to apply for and the optimal financing options for their businesses.

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LIST OF ABBREVIATIONS

ABSA	: Amalgamated Banks of South Africa
AMFISA	: Association for Pro-Poor Micro Finance Institutions for South Africa
ANOVA	: Analysis of variance
ASGISA	: Accelerated and Shared Growth Initiative of South Africa
AVE	: Average Variance Extracted
BBSDP	: Black Business Supplier Development Programme
BPS	: Business Process Services
CB	: Covariance Based
CBO	: Communities Based Organisation
CF	: Corporate source of Finance
CFA	: Confirmatory Factor Analysis
CIP	: Critical Infrastructure Programme
CIPC	: Companies and Intellectual Property Commission
CIS	: Co-operative Incentive Scheme
CMIN/DF	: Minimum discrepancy divided by Degree of Freedom
CPFP	: Capital Projects Feasibility Programme
CPI	: Corruption Perception Index
CR	: Composite Reliability
CTCIP	: Clothing and Textile Competitiveness Improvement Programme
CV	: Curriculum Vitae
DCA	: Development Credit Application
DF	: Degree of Freedom
DTI	: Department of Trade and Industry
EIP	: Enterprise Investment Programme
FICA	: Financial Intelligence Centre Act
FNB	: First National Bank
FSB	: Financial Service Board
GAA	: Global Accounting Alliance
GDP	: Gross Domestic Product
GEM	: Global Entrepreneurship Monitor

GF	: Government source of Finance
GFI	: Goodness of Fit Index
HSV	: highest shared variance
ICC	: International Chamber of Commerce
IFC	: International Finance Corporation
IPO	: Initial Public Offering
IPR	: Intellectual Propriety Rights
ISP	: Incubation Support Programme
KRA	: Key Result Area
KSF	: Key Success Factor
KZN	: KwaZulu-Natal
MCP	: Micro-credit Programme
MFI	: Microfinance Institution
MFSA	: Microfinance South Africa
MIS	: Management Information System
MS	: Management Skills
NBFC	: Non-Bank Financial Companies
NCA	: National Credit Act
NEF	: National Empowerment Fund
NFI	: Normed Fit Index
NGO	: Non-Governmental Organisation
NPO	: Non-Profit Organisation
NYDA	: National Youth Development Agency
PCB	: Pietermaritzburg Chamber of Business
PDI	: Previously Disadvantaged Individuals
PLS	: Partial Least Squares
PSF	: Personal/ Social source of Finance
QLFS	: Quarterly Labour Force Survey
RBT	: Resource-Based Theory
SACCI	: South African Chamber of Commerce and Industry
SARB	: South African Reserve Bank
SARS	: South African Revenue Services

SD	: Standard Deviation
SEDA	: Small Development Agency
SEF	: Small Enterprise Foundation
SEM	: Structural Equation Modelling
SETA	: Sector Education and Training Authority
SME	: Small and Medium-sized Enterprise
SMEs	: Small and Medium-sized Enterprises
SMME	: Small, Micro and Medium-sized Enterprises
SPII	: Support Programme for Industrial Innovation
SPSS	: Statistical Package for Social Sciences
SRMR	: Standardised Root Mean Residual
STP	: SEDA Technology Programme
SUA	: Start-Up Awareness
SV	: Shared Variance
TCP	: Tšhomisano Credit Programme
TEA	: Total Entrepreneurial Activity
TWIB	: Technology for Women in Business
UK	: United Kingdom
US	: United States
USA	: United States of America
VIF	: Variance Inflation Factor
WCF	: World Chambers Federation

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Small and medium-sized enterprises (SMEs) have and continue to play a critical role in the economic growth of most countries worldwide (Lekhanya, 2016). From survivalist micro enterprises such as hawking, small businesses have been central in the development of several developing countries, often serving as the primary source of livelihood (Bongini, Ferrando, Rossi & Rossolin, 2017). According to Domeher, Abdulai and Yeboah, (2016), SMEs account for over 60% of the GDP and over 70% of total employment in low-income countries, and over 95% of total employment and about 70% to the GDP of middle-income countries.

Access to external finance for SME start-ups has always been an issue of debate within the circle of scholars and researchers. Issues related to capital structure decision have attracted lot of attention, because of the reason that these issues are primarily dominant in small sized and young firms. This study will therefore address the financing options that are available to these start-ups along with their pattern and duration of availability. Furthermore, with the emphasis over possible alternatives the start-ups firms can adopt in order to make sure the smooth availability of finance in crucial times.

This chapter presents the background, problem statement and significance of this study, based on global entrepreneurial development, challenges faced by South African SMEs in the start-up phase, inter alia, constraints to accessing external finance, by referring specifically to SMEs in Pietermaritzburg, the capital city of KwaZulu-Natal province in South Africa. The specific objectives emanating from the overall aim of this study are highlighted and the research questions derived from the problem statement are articulated. An overview of the research methodology, the conceptual model and research hypotheses are also presented.

1.2 BACKGROUND OF THE STUDY

The European Central Bank (2013) reported that SMEs are special since they are the backbone of the euro area economy; they constitute about 98% of all euro area firms,

employ approximately 75% of the euro area employees and generate about 60% of value added (Cœuré, 2013). Mmako, Shambare, Radipere and Dhliwayo (2017) state that any country's economic development is attributed to the level of entrepreneurial activity in that country and entrepreneurs are the primary source of the wellbeing of communities and nations (Mariotti & Glackin, 2014).

Most South African small businesses do not grow and develop, and their failure rate of 75% is one of the highest in the world (Fatoki & Garwe, 2010; Bisseker, 2014; Wagner, 2015). The authors above highlight that new entrepreneurs in South Africa do not move their businesses from the stage of existence and survival to success, take-off, growth and maturity. For small businesses to compete or have a competitive advantage, they have to grow beyond the survival stage and keep on growing (Ayandibu & Houghton, 2017). According to the Global Entrepreneurship Monitor (GEM) 2016 – 2017 Report (2017), South Africa's rate of entrepreneurial activity is very low for a developing nation, thus placing South African entrepreneurial activities below other African countries such as Burkina Faso and Tunisia.

Ayandibu and Houghton (2017) state that the vital role that the SME sector plays in the South African economy is to address sustainable development. They further argued that in South Africa, it is estimated that 90% of all formal businesses are small, medium or micro enterprises. The SME sector is one of the largest contributors to the South African economy (Gatt, 2012). SMEs are not only seen as an employment creator, but this sector also acts as an absorbent of retrenched people coming from the private and public sector (Smit, 2012). Garwe and Fatoki (2012) indicated that South Africa suffers from high levels of unemployment, poverty and income inequality. According to the Quarterly Labour Force Survey (QLFS Q3) (2017), the expanded South African unemployment rate is around 36.8%, which includes those who wanted to work, but did not look for work.

SMEs in South Africa are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic growth (Ayandibu & Houghton, 2017). According to Baldry (2016), the degree of spatial inequality in South Africa implies that the development challenges faced by the nine provincial governments differ considerably between

provinces, and the KwaZulu-Natal (KZN) province faces disproportionately large development challenges. For example, in 2017, the unemployment rate was 41%, (QLFS– Q3:2017) and KZN is the third poorest province in South Africa, with 68,1% of its population surviving on an income below the international poverty line of US\$ 1.90 per day, per person, as identified by the World Bank (2015). The World Bank Task Team (2015) asserts that the promotion of SMEs is a key area of employment generation and that SMEs having access to external financing could provide a substantial share of new job creation in South Africa.

According to the International Finance Corporation (2017), in Sub Saharan Africa, SMEs account for up to 90% of all businesses and are important drivers of economic growth in the region. Domeher, *et al.* (2016) further argued that in Africa, the symptoms of under development remain pervasive, it is a situation in which SMEs are largely failing to live up to expectations, which results in blaming SME's for their inability to significantly contribute to economic development, without examining the challenges which confront them. SMEs require an enabling environment to thrive, with access to external funding being a major factor (Domeher *et al.*, 2016; Carbó-Valverde, Rodríguez-Fernández & Udell, 2016). The South African Government through the Office of the Presidency and the National Planning Commission, launched the National Development Plan 2030, which aims to eliminate poverty and reduce inequality by 2030 (Manuel, 2012). Although priority has been given to enabling SMEs to access banking services, it is of concern that South Africa's banks do not extend sufficient credit to smaller firms, despite greater access to credit for small firms leading to the potential for higher levels of business investment and jobs (Manuel, 2012).

Despite the importance of SMEs in national economies, Bongini *et al.* (2017) indicated that SMEs are financially more constrained than larger firms, and are less likely to have access to external finance compared to larger businesses. Mazanai and Fatoki (2012) also reported that compared to German, Italian and Spanish firms, South African SMEs experience particular challenges in accessing external finance. This constraint appears to be more severe in the case of start-up businesses because of their limited choice of financing (Abor & Quartey, 2010). Many of these firms are not able to finance their

operating expenses from retained earnings or to internally invest in the firm's development. SMEs' tangible assets and profitability exhibit high volatile performances, which restricts their ability to access external finance, and in addition, finance providers view them as high-risk borrowers that limit the will of financial institutions to fund their projects. Also because of low rankings such as Global Entrepreneurship Monitor (GEM) (2016/2017) and their own risk models (Li, 2015).

Small business ventures in South Africa are fraught with uncertainties, because of the complex relationship between the key determinants of the success of SME start-ups and access to external finance by the owner-managers of SMEs (Chawla, Khanna & Chen, 2010; Fatoki & Odeyemi, 2010). The aforementioned has however not prevented managerial prescriptions from being devised on what to do and which determinants to use to improve access to external finance by these organisations (Simpson, Padmore & Newman, 2011). Although it is reasonable to expect finance providers to require that certain fundamentals or indicators (determinants) of business success to be in place before considering granting finance to SMEs, there is no general consensus on the determinants of business success. Kwatalo (2010) suggested that a determinant of start-up business success is any competitive asset or competence that is needed to succeed in the marketplace, be it a strategic competitive advantage, representing a sustainable point of advantage or merely a point of parity with the firm's competitors.

It is against the above background that this study investigates the relationship between the key determinants of the success of SME start-ups and their access to external financing in the South African context, with the intention of developing a Framework for SMEs in the start-up phase to access external finance. More specifically, the study will also assess the importance of the determinants (of business success) in ensuring that SMEs obtain start-up funding, by empirically analysing the influence of an entrepreneur's business awareness and management skills, on the SME's access to external finance.

1.3 PROBLEM STATEMENT

Pihie (2009) states that entrepreneurship can be measured in two ways, namely, actual entrepreneurship, where people that have started a business, and entrepreneurial intention or latent entrepreneurship, where people intend to start a business. In South

Africa, the percentage of adult South Africans involved in entrepreneurial activity has dropped by 34% since 2013 (Yu, 2016), and the percentage of adults in South Africa involved in a business that is less than three-and-a-half years old, also known as early-stage entrepreneurs, has decreased to 6.97% in 2015, from a 13-year high of 10.6% in 2013 (Dludla, 2015).

Total Entrepreneurial Activity (TEA) which is a measure of people in the 18-64 age group who are actively involved in the start-up process or those managing businesses for less than forty-two months old (Peroni, Riillo, & Rodrigues, 2017) reports that the TEA rate in South Africa in 2017 was 9.2% which, is significantly below the average of 13.2%, for the countries that participated in the annual GEM review. The Global Entrepreneurship Monitor (2016 – 2017) indicated that South Africa's rate of entrepreneurial activity is very low for a developing nation, thus placing South African entrepreneurial activities below other African countries, such as Angola, Botswana, Burkina Faso and Cameroon (Peroni, Riillo, & Rodrigues, 2017). In KwaZulu-Natal, there are a host of challenges that entrepreneurs may encounter. These include a lack of start-up finance, access to markets and gaining market credibility, access to appropriate technology, access to resources, especially human resources and other barriers such as the lack of entrepreneurial skills, awareness and preparedness amongst entrepreneurs; forecasts, which are rarely accurate; sub-optimal infrastructure, which is impairing the culture of entrepreneurship in KwaZulu-Natal (Nieman & Nieuwenhuizen, 2014).

A survey by Abor and Quartey (2010) showed that many small to medium entrepreneurs and business owners perceive access to funds as their major constraint, especially in establishing or expanding their businesses. Dludla (2015) also indicated that included among the main reasons for a decline in the entrepreneurship rate in South Africa is access to funding. More specifically concerning small business owners in Pietermaritzburg, the greatest challenge is raising finance (Ayandibu & Houghton, 2017). While there are a number of ways by which medium and large corporations can raise finance, access to these sources is fraught with technical restrictions, which include requests for security or collateral and capping of the minimum loan amount, which can make it too expensive for the small business owners to use this avenue to access funding

(Nieuwenhuizen, 2011). SMEs need finance to support the selling process, in terms of procuring inventory, or marketing the products or services, for paying salaries and wages, for purchasing different types of assets, and for paying business taxes (Nyoka, 2013) and as long as the business is in operation, it will constantly need financing in the short, medium and long term (Timm, 2011).

In light of the above, this study seeks to empirically identify the key determinants of the success of SME start-ups which impact access to external finance by SME start-ups in Pietermaritzburg, South Africa and, to analyse the relationships between the aforementioned determinants and access to external funding and develop a Financing Framework, which will improve access to external financing by the SMEs.

1.4 RESEARCH OBJECTIVES

The primary objective of this study is to develop a Financing Framework to improve access to external finance by SME start-ups in Pietermaritzburg, South Africa. The secondary objectives of the study are:

- To determine the challenges SME start-ups experience in accessing external financing
- To analyse the key requirements of external finance providers to SME start-ups
- To determine the access to alternate external financing by SMEs start-up
- To analyse the relationships between the key determinants of the success of SME start-ups and their access to different sources of external finance
- To develop a financing framework to improve access to external finance by SME start-ups

1.5 RESEARCH QUESTIONS

The following research questions have been generated to direct the research study:

- What challenges do start-up SMEs (in Pietermaritzburg) experience in accessing external finance?

- What are the key requirements of finance providers to SME start-ups to access external finance?
- What sources of finance are available for SME start-ups in Pietermaritzburg?
- What key determinants of the success of SME start-ups that impact their ability to access external finance?
- Which key determinants of the success of SME start-ups that can be used to develop a financing framework to assist their access to external finance?

1.6 CONCEPTUAL MODEL AND HYPOTHESES

Access to external financing is the most challenging condition experienced by SME start-ups (Bongini *et al.*, 2017). Since at different stages of a SME life-cycle, the financing needs and options change, it is necessary to design a financing framework that will improve their access to external financing at the start-up stage. The framework will be built on a combination of the determinants of an entrepreneur's business awareness and management skills, with business processes that lead to preferable external finance options for SMEs.

It is reasonable to expect the existence of the key proficiencies which finance providers should consider before financing SME start-ups. Those proficiencies are defined as key determinants of the success of SME start-ups. However, there is no general consensus on the determinants of the business success (Doom *et al.*, 2009). For the purpose of this research study, start-up awareness (SUA) and management skills (MS) are considered. The reason is that SUA and MS are considered to be the most key determinants of business success that are related to external financing and evaluated by most of the external finance providers. The key determinants of the success of SME start-ups, namely start-up awareness and management skills refer to external and internal factors respectively. While the internal determinants are organisation (individual) related elements which are controlled by the business owner or entrepreneur, and external determinants are all related to the business environment and not controlled by the entrepreneur. For this research, external determinants are referred to as start-up awareness and the internal determinants are referred as management skills. Once these

determinants are isolated, they will be evaluated about the type of finance required, and then linked to the available provision.

The key determinants of the success of SME start-ups include the determinants of start-up awareness such as opportunity awareness, differentiation factors, business model, strategy, feasibility study, business plan, location, amount and source of seed capital, and decision-making ability (Doom *et al.*, 2009; Fatoki & Odeyemi, 2010; Smorfitt, 2008). It is proposed that the aforementioned may be related to access to different sources of external finance available to SME start-ups. Thus, in order to investigate this proposal, it is hypothesized that:

H1: There is a relationship between start-up awareness and management skills

Considering that start-up awareness and management skills are postulated to be related to the source of external funding available for SME start-ups, it may also be hypothesized that:

H2: There is a positive relationship between start-up awareness and the choice of personal/social networks as a source of finance

H3: There is a positive relationship between start-up awareness and the choice of Government as a source of finance

H4: There is a positive relationship between start-up awareness and the choice of corporate as a source of finance

Management skills such as general, strategic, organisational, technical, inventory, and financial, as well as leadership and communication, marketing, contingency, control and system, and being growth-oriented (Doom *et al.*, 2009; Fatoki & Odeyemi, 2010; Smorfitt, 2008) may influence access to varying forms of external finance by start-up SMEs. Thus, in order to investigate this further with respect to the SMEs in Pietermaritzburg, South Africa, it is hypothesized that:

H5: There is a positive relationship between management skills and the choice of personal/social networks as a source of finance

H6: There is a positive relationship between management skills and the choice of government as a source of finance

H7: There is a positive relationship between management skills and the choice of corporates as a source of finance

Figure 1.1 represents the proposed conceptual model whose development will be explained in detail in Chapter 3.

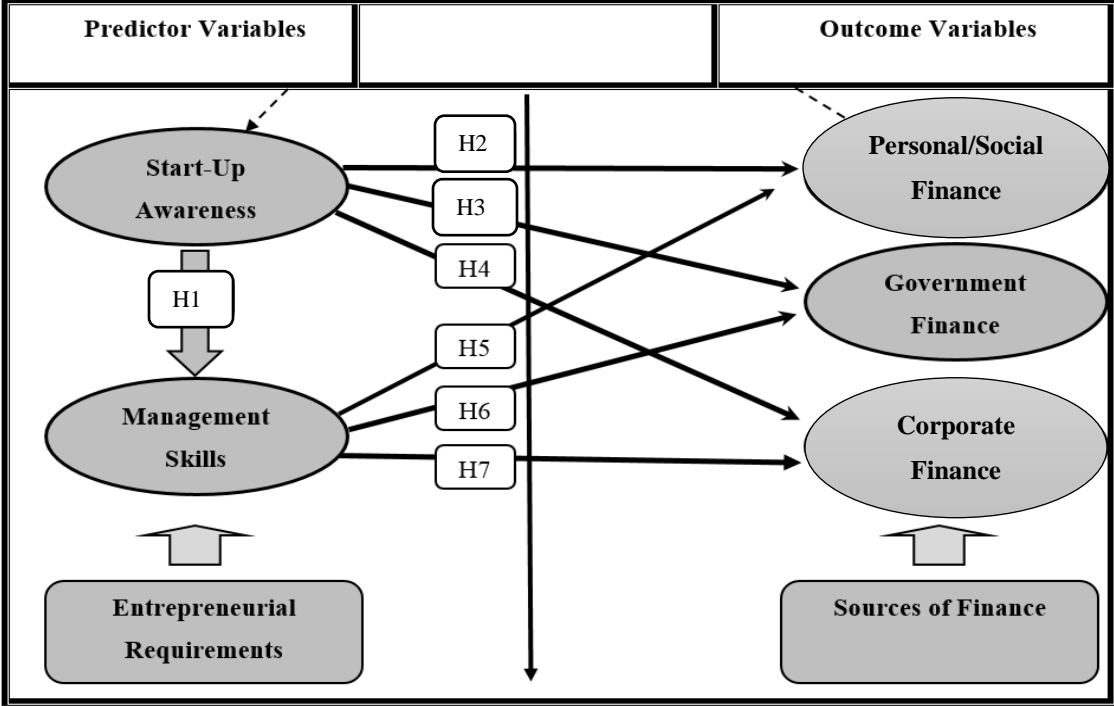


Figure 1. 1: Conceptual hypothesized research model

The constructs SUA and MS characterise, condition, and determine variables that have a direct and serious impact on the effectiveness, efficiency and viability of an organisation, programme or project (Skrinjar & Trkman 2013:50). Both two groups of constructs are linked in a sense that are external and internal factors of business success. The entrepreneur should carefully consider the determinants of start-up awareness to achieve an intended goal and overall objectives. If these determinants are identified in relation to a general population of entrepreneurs and then applied to start-up businesses, it is highly probable that the business failure rate in accessing external finance will be considerably reduced and that a good level of organisational performance will be achieved (Ahmad & Cuenca 2013).

1.7 RESEARCH METHODOLOGY

According to Olsen (2012), research methodology is a systematic manner to solve the research problem where the researcher will explain the different steps to logically solve the research problem. There are three main research approaches which can be used by the researcher, namely, quantitative, qualitative and mixed methods research (Sedmak & Longhurst, 2010; Henry, Foss & Ahl 2015). The quantitative approach generates data that can be subject to rigorous analysis using advanced statistical techniques, whereas the qualitative approach involves using narratives and textual data to develop a conceptual framework. Mixed methods represents research that involves collecting, analysing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon (Cameron, 2015; Saunders, Lewis & Thornhill, 2012). In this study, a quantitative approach was adopted since this is the only way to test the various hypotheses postulated in the context of the Resource-based theory.

1.7.1 Population, Sample and Sampling

The targeted population is all SME owners and managers in Pietermaritzburg, and the population is members of the Pietermaritzburg Chamber of Business (PCB), which is a registered Non-profit Organisation affiliated to the South African Chamber of Commerce and Industry (SACCI). The PCB which comprises 832 businesses, is the fourth largest Chamber of Commerce in South Africa (PCB, 2016). From the universum, Government and non-government organisations, schools and honorary members of PCB have been excluded, which resulted in the population being reduced to 678. Random sampling technique was used to select a sample of 252 participants from different SME start-ups located in Pietermaritzburg, South Africa.

1.7.2 Data Collection and Analysis

A self-developed structured questionnaire comprising closed-ended questions was used to collect data from respondents. The researcher hired a fieldworker who after being fully trained, went to the premises of sample participants in different areas in Pietermaritzburg and personally handed over the questionnaires. During the two-month period of field

research, the researcher and the fieldworker managed to collect 252 completed questionnaires. The fieldwork was conducted from September to October 2016.

The questions in the questionnaire were derived from the objectives of the study guided by the literature review. A covering letter was necessary which aimed to ensure that the respondents were informed of the nature and purpose of the research. The questions included multiple-choice questions which offered a list of alternative responses. The questionnaire was designed in English and the researcher and fieldworker administered the questionnaires to the respondents. To ascertain that all the respondents could completely understand all the questions, the researcher assisted the respondents with proper and accurate explanations/translations where necessary. The data collected, was coded, captured and analysed using Statistical Package for Social Sciences (SPSS) version 24.0. The relevant statistical analysis techniques used included descriptive and inferential statistics; the statistics which were conducted by a professional statistician. Secondary data was collected by reviewing journal articles, textbooks, e-books, databases, policy documents, newspapers and magazine reports, Government and non-governmental organisations publications and other relevant sources (Sedmak & Longhurst, 2010). Secondary data was helpful as it provided the necessary background and foundation for this research.

1.8 RESEARCH CONTEXT

This research was conducted in Pietermaritzburg, the capital and second-largest city in the province of KwaZulu-Natal (KZN), South Africa. Statistics South Africa reports that Pietermaritzburg falls within the boundaries of Msunduzi municipality with a current population of 750,864 (Msunduzi, 2017). Pietermaritzburg is both the administrative and legislative capital of the KZN province, which boosts investor confidence, resulting in the city's economy growing at an astounding rate. The Business Confidence Index for the city for the third quarter of 2017 was 93, a clear indication that businesses are positive and confident about the current and future state of business in Pietermaritzburg. Pietermaritzburg is more than just a favourable investment destination; it is one of South Africa's most desirable residential cities with well-laid-out suburbs (Pietermaritzburg Tourism, 2016; SACCI, 2017). Despite economic progress in Pietermaritzburg, its

population still experiences poverty, inequality and unemployment, and 33% of the 229 672 economically active (employed or unemployed but looking for work) people are unemployed (Msunduzi, 2017). Figure 1.2 depicts the geographic location of the city where the research was conducted.



Figure 1. 2: Map of Pietermaritzburg

Source: SA-venues.com, 2017

Incentives South Africa (2014) reported that South Africa is estimated to have approximately two (2) million small businesses, representing 98% of the total number of firms in the country. Small enterprises employ about 55% of the country’s labour force and contributes approximately 42% to the country’s wage bill. However, a problem which the country (South Africa) faces is that 87% of the small enterprises are survivalist. The SA government has long recognised the vital contribution that entrepreneurs can make

to economic development and the social upliftment of its people (Ayandibu & Houghton, 2017). A pivotal part of the government's 10-year vision of the Accelerated and Shared Growth Initiative of South Africa (ASGISA) (2004 – 2014) is for South Africa to become an entrepreneurial nation that rewards and recognises those who see a business opportunity and pursues it. The aforementioned sees South Africa as a country using a vibrant and competitive small enterprise sector with enterprises that grow in both turnover and employment. Those who were once excluded from full participation in the economy will have access to support and development services and be fully integrated into the different sectors of the South African economy, with access to local, national, African and other international markets (ASGISA, 2004 – 2014). This process will contribute significantly to helping South Africa to meet and sustain the material needs of all its people.

The South African national and KwaZulu-Natal provincial governments adopted a policy for entrepreneurial development, and the emphasis has been on the youth, creating a conducive environment for the start-up and development of small and medium business ventures as key drivers to economic growth and job creation in KwaZulu-Natal (Mahadea & Pillay, 2011). Small businesses in Pietermaritzburg need to grow beyond their survival stage, to become competitive and gain a competitive advantage (Brand, Schutte & Du Preez, 2013). However, there is no contextualised growth model that a policy maker could rely on to know which steps to take to transform small-scale, informal enterprises, into dynamic firms operating in the formal economy, particularly those in rural areas, surrounding Pietermaritzburg (Wynne & Lyne, 2010).

Wynne and Lyne (2010) further indicated that, for small businesses in the Pietermaritzburg and surrounding areas, the transaction costs associated with accessing start-up finance are substantial, because the cost of information required to determine creditworthiness might exceed the benefits gained from a relatively small loan amount. Lenders therefore rarely have enough information to determine which businesses are productive and present a low risk (KZN Top Business Portfolio, 2017). In light of the above, this research identifies the key determinants of the success of SME start-ups and their impact on access to external finance by SMEs which are the start-up phase, with the

objective of developing a Framework for them to access external finance in South Africa. It is hoped that this framework will help improve access to start-up finance for SMEs and help them grow and develop and thus, make their rightful contribution to the economy and societal development.

1.9 SIGNIFICANCE OF STUDY

This study highlights the influence of the key determinants of the success of SME start-ups on access to various external sources of finance by SMEs in South Africa. These research findings will provide the necessary tools SME owner-managers need to improve their access to start-up finance. The study will specifically highlight the different key determinants of the success of SME start-ups, and explain how the start-up awareness and management skills of the SME owner-managers will influence their financing options. By utilising this framework, SME owner-managers would become aware of their financing needs and be ready to choose the most suitable source of external finance. Each of the external sources including Government grants, commercial banks and private equity finance also respectively called Government finance, Corporate source of finance and Personal/ Social source of finance, will be thoroughly discussed to ensure that the SME owner-managers can make appropriate choices from among the available alternatives.

Also, this study will identify some areas that policy-makers may draw on to improve policies and develop new ones which could improve access to external finance by SMEs during their start-up phase. Recommendations will be made to relevant government departments on pertinent interventions either through policy or practice, which if implemented, could contribute to more successful SMEs. This study will also highlight how banks and SME owner-managers in Pietermaritzburg could improve their relationships through better understanding of each other's needs and requirements. Banks will be able to develop mature relationships with start-up SMEs, assess their finance applications based on the proposed Framework, and increase their chances of success on obtaining external finance. The proposed framework maps the start-up entrepreneur's business awareness and the requisite management skills with the finance providers' requirements for granting finance and provides the entrepreneur with a clear

idea of the type of finance to apply for. The proposed framework will assist start-up entrepreneurs in designing optimal financing options for their businesses.

This research study relies on the resource-based theory (RBT) of the firm as a basis for identifying determinants of the entrepreneurial conceptual framework that are likely to influence the SME access to external finance. Resource-based theory traditionally focuses on the relationship between resources and competitive advantage (Chiu, 2015). Resources that are valuable, relatively scarce, and difficult to imitate are strategic assets that have the ability to deliver competitive advantage (Gillis, Combs & Ketchen, 2014:450). Start-up businesses are special case of RBT. SME start-up possess no resources other than the knowledge of the entrepreneur. This knowledge (competencies) is used in the acquisition, development and application of other resources that will lead to competitive advantage and superior performance (Norhasni, Sofri & Harashid, 2014; Yu, 2016).

1.10 OUTLINE OF STUDY

This thesis comprises six (6) chapters.

Chapter 1 provides the introduction to the study, focusing on the research background, research problem, objectives and research questions. It provides a basic outline of the research methodology and thesis structure.

Chapter 2 reviews the theoretical framework for this study. It presents the need for and supply of finance to South African SMEs to identify the challenges faced by SMEs in KwaZulu-Natal, South Africa in accessing finance.

Chapter 3 is a review of the key determinants of the success of SME start-ups, which explores the entrepreneur's start-up awareness and management skills, and culminates in the development of the conceptual research model.

Chapter 4 provides a detailed discussion of the research methodology, together with the theoretical justification for the research design for this study.

Chapter 5 presents the research findings and an analysis and discussion thereof.

Chapter 6 highlights the conclusions and presents the recommendations, and limitations of this research, as well as suggestions for further research.

1.11 SUMMARY

This chapter provided the introduction, background and context of the research study which will grant the reader the opportunity to understand the research problem, research objectives and research questions. A brief mention of the methodology adopted for the study is also explained in this chapter. The potential contributions of the study to the body of knowledge were also presented. This chapter highlights the influence of the key determinants of SME start-up success on accessing to various external sources of finance in South Africa. These research findings will propose a framework to assist start-up entrepreneurs in designing optimal financing options for their businesses and constitute the necessary tools that SME owner-managers need to improve their access to start-up finance. In the next chapter, the researcher will provide a detailed discussion of the relevant literature reviewed.

CHAPTER TWO

FINANCING OF SME START-UPS

2.1 INTRODUCTION

This chapter reviews the literature on the challenges experienced by South African SMEs in accessing external finance. Different sources of external finance, mainly, Government grants, commercial banking services, and funds from microfinance institutions, NGOs and other sources will be reviewed. Although there is financial support for SMEs, access to these sources of finance remains problematic and a challenge for SME start-ups. The literature reveals various reasons, inter alia, a high rate of business failure, lack of collaterals, and lack of awareness of available support programmes by start-up entrepreneurs (Daskalakis, Jarvis & Schizas, 2013). For this research, three external sources of finance for SME start-ups are explored, namely, Government grants, commercial bank funds, and private equity finance. Respectively identified as Government source of Finance (GF), Corporate source of Finance (CF), and Personal/Social source of Finance (PSF). The funding requirements of these financial institutions are identified and analysed.

2.2 THE IMPORTANCE OF ENTREPRENEURSHIP AND SME SECTOR

2.2.1 Global perspective

Several researchers (Westhead, Wright & McElwee, 2011) concur that entrepreneurship is important in any economy since it can make several economic and non-economic contributions to development, reducing unemployment and poverty. It is also the major creator of new jobs when large firms are downsizing, irrespective of the economic cycle (Järvi, 2015), since entrepreneurial activities not only enhance national productivity and generate employment, but also help to develop economic independence, as well as strengthen personal and social capabilities among rural communities (Sarma, 2014; Ramukumba, 2014; Gutha, 2015). Chand (2015) argued that entrepreneurship can both benefit the organisation itself and the macro-environment, and help in identifying and developing managerial capabilities of entrepreneurs and sharpening the decision-making skills of an entrepreneur (Storey & Greene, 2010). Mmako *et al.* (2017) argue that

entrepreneurship results in the creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills. By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society, which results in higher standards of living for the people (Westhead, Wright & McElwee, 2011).

Scherdin and Zander (2014) argues that entrepreneurship is often regarded as a crucial tool that facilitates the transformation of a country's economy from a developing to a developed one. It achieves this by facilitating the structural transformation of countries from low-income, factor driven societies, into high-income technology-based societies. Thus, through the application of existing technologies in innovative ways or launching new technology, entrepreneurs not only increase competition in the market but also create positive market externalities (Cassim, Soni & Karodia, 2014).

Van-Praag and Versloot (2007:360) classify the economic benefits of entrepreneurship into four main categories, namely, employment generation; innovation; productivity and growth; increasing individuals' utility levels. Entrepreneurship generates economic wealth, since the firm, entrepreneurs and employees can be taxed, and government can reinvest this tax into economic development projects (Westhead, Wright & McElwee, 2011). Entrepreneurship stimulates competition, which limits the ability of dominant firms to raise prices (Yu, 2016); however, competition can lead to a reduction in prices, more consumer choices, better quality products and services. Moreover, competition encourage more efficient use of resources and the displacement of non-viable inefficient businesses (Yu, 2016).

Start-up entrepreneurial ventures are labour intensive, capital saving and capable of helping create most of the one billion new jobs the world will need by the end of the century (Agwu & Emeti, 2014). Start-up entrepreneurial activities often offer specialised services or products more efficiently, as opposed to larger companies (Gjini, 2014). Mazumdar and Ahmed (2015) stated that start-up entrepreneurship plays an important role in ensuring the survival of poor households and in building up women's confidence, skills and socio-economic status.

All over the world, SMEs play crucial roles in a variety of different economies (Mmbengwa *et al.*, 2009; Akugri, Bagah & Wulifan, 2015; Almutairi & Sathiyarayanan, 2015). According to Witbooi, Cupido and Ukpere (2011), entrepreneurial activities over the world account for, on average, about 70 percent of the global gross domestic product (GDP).

According to the Global Entrepreneurship Monitor (GEM) 2016 – 2017 report, on average, 42% of working-age adults see good opportunities for starting a business in their area, with very little difference between the three economic development levels about opportunity perception. In efficiency-driven economies, a little more than half the adults believe that they have the required skills to start a business, while a third indicate that fear of failure would inhibit them from pursuing entrepreneurial opportunities. The GEM (2016 – 2017) report further revealed that in general, 22% of the people surveyed in the 65 economies expressed an intention to start a business in the next three years. Individuals in Africa display the highest levels of entrepreneurial intention (42%), while those in Latin America and the Caribbean report the highest capability perception (63%), and the second highest rate of entrepreneurial intention (32%). On the other hand, less than 40% of Europeans perceive opportunities in their area, and less than half believe they have the skills to pursue entrepreneurial opportunities (Peroni, Riillo, & Rodrigues, 2017).

The 2013 GEM, National Entrepreneurial Assessment for the United States of America (USA) reported that, while the high number of entrepreneurs in the US tells a compelling story, it is not a complete one. The hallmark of entrepreneurship in a developed economy is the quality of its entrepreneurs, even if they are fewer compared to less developed parts of the world. In many ways, entrepreneurship may be more selective in developed economies, particularly since people frequently have other options for work. The availability of other work thus creates opportunity costs, which means that entrepreneurship needs to offer something more rewarding to justify the associated risks (Ayala & Manzano, 2014).

While every business environment has a unique set of conditions that can constrain or enable entrepreneurship in various ways, developed economies generally rate higher on factors such as the availability of financial capital, an educated workforce, legal systems,

and so forth. This environment facilitates a range of entrepreneurial endeavours, from those starting businesses that provide sufficient income to allow for an independent lifestyle, to those launching highly innovative concepts that are positioned for high growth and international markets. However, a healthy economy depends on entrepreneurship that collectively exhibits sustainability and impact.

The US has among the highest levels of innovative entrepreneurs, where slightly more than one-third of these entrepreneurs sell products or services that are new to some or all customers, and with few or no competitors (Brush & Cooper, 2012). Given its high Total Early-stage Entrepreneurial activity (TEA) rates and large population, the US clearly has large numbers of innovative entrepreneurs (Peroni, Riillo, & Rodrigues, 2017). In addition, given the high level of competition that characterises most industry environments in the US, as well as the market's receptiveness to innovations, it can safely be assumed that innovations must meet a relatively high standard, which has the potential to lead to globally competitive concepts (Poposka, Nanevski & Mihajlovska 2014).

In Africa, a study conducted by Okpara (2007) in Nigeria, reveals that lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for products and services are the most common constraints hindering small business survival and growth. Chowdhury and Maung (2013) point out that, in the emerging economies, the main limitations small business entrepreneurs face are insufficient working capital and marketing difficulties, along with low support of SME development through government programmes. Also, Agwu and Emeti (2014) maintain that major challenges to performance of SMEs are poor financing and inadequate social infrastructure, as well as the lack of managerial skills, and multiple taxation. Start-up owner-managers encounter environmental difficulties, and they highlighted that financing problems, and the lack of know-how are significantly associated with growth plans (Kozani, Oksoy & Ozsoy, 2006; Eniola & Entebang, 2015).

2.2.2 The South African context

In South Africa, entrepreneurial activities account only for 40 % of the country's GDP, with an official unemployment rate of approximately 25%, thus accelerating entrepreneurial activity becomes crucial in a developing country, such as South Africa (Witbooi, Cupido

& Ukpere, 2011). The unemployment crisis in South Africa, with now more than 25 percent of the population being jobless, and the situation is dire if those that have given up the search for work are included, the out-of-work South Africans increases to nearly 40 percent (Witbooi, Cupido & Ukpere, 2011).

The important contribution of a vibrant and thriving SME sector, in the national socio-economic development of a country, has been widely recognised (Sefiani & Bown, 2013). SMEs are increasingly being acknowledged as productive drivers of economic growth and development in African countries, including South Africa (Gatt, 2012). According to Kim (2011), in South Africa, which is considered the most economically developed African country, SMEs generate more than 55 percent of all jobs and 22 percent of the country's GDP. The national Department of Trade and Industry's (DTIs) annual report (2016 – 2017) indicated that a substantial contribution is made by SMMEs to GDP, with the contribution to employment being even greater. However, most SMEs are micro and survival enterprises with little potential for growth (Fatoki & Garwe, 2010; Bisseker, 2014; Wagner, 2015).

Cant and Ligthelm (2013) are of the opinion that the number of failed SMEs can be estimated at 70-80 percent. In many cases Radipere and Dhliwayo (2014) stated that the failure rate could be attributed to the fact that South African SMEs are unable to overcome the primary obstacle of access to funding; this translates into an inability to attain the necessary physical, human and consulting resources. Furthermore, Witbooi *et al.* (2011) indicate that the absence of entrepreneurial success factors makes it impossible for the many survivalist businesses which are active in the informal sector, to be sustainable and show any form of growth.

According to Cassim, Soni and Karodia (2014), although South Africa is one of the strongest economies in Africa, its current economic and socio-economic conditions demand serious economic reform. Naudè (2010) affirmed that entrepreneurs are the main vehicle for economic development, adding that, as the number of entrepreneurs in an economy grows, so does the economy. Entrepreneurs in developing countries have more opportunities to exploit, thereby increasing the potential for entrepreneurship to contribute to decreasing unemployment and increasing economic growth.

At the provincial level, entrepreneurs in KwaZulu-Natal, like those in some of other provinces in South Africa, experience a host of challenges, which include lack of start-up and expansion finance, access to markets and gaining marketing credibility, access to appropriate technology, access to other resources, especially human resources (Nieman & Nieuwenhuizen, 2014). Other challenges include the lack of entrepreneurial skills, awareness and preparedness among entrepreneurs, and sub-optimal infrastructure (Nieman & Nieuwenhuizen 2014).

Ayandibu and Houghton (2017) recommended a serious exploring of SME activities to reduce poverty in the province of KwaZulu-Natal. SMEs are often located in geographical areas outside the typical large urban centres. Whatever the reason, the point is that economic activity outside of the major metropolitan areas leads to job creation, and the good old 'multiplier effect', much treasured by economists, kicks in, helping to reduce the poverty in rural areas (Clover & Darroch, 2010). Not every SME is in a non-metro area, but both non-metro and metro based SMEs assist with poverty reduction through employment, training and softer social benefits (Wynne & Lyne, 2010).

Abor and Quartey (2010) found that many small to medium entrepreneurs and business owners perceive access to funds as the major constraint, especially in establishing or expanding their businesses. Dludla (2015) indicates that the major reasons for the decline in the entrepreneurship rate in South Africa are the country's poor ratings of Government programmes, poor primary education, restricted and inhibiting regulatory environment and restrictive labour laws. Those above further demonstrates that education plays a major role in entrepreneurial activity in that the more educated the person is, the more likely that person is to start a business and that the business continues to be sustainable (Dludla 2015).

It is obvious that access to knowledge, and research and development (R&D) ability, play a fundamental role in new firm formation (Desai, Nijkamp & Stough, 2011). Leadership talent is also seen as an important part of becoming a successful entrepreneur since leadership and leadership development requires an updated understanding to enhance the quality of general leadership practice withdrawing innate leadership talent and acceptance of individual learning (Ostergaard, 2014).

Regarding financial support from Government, the GEM South Africa 2016-2017 report highlights that most youth entrepreneurs are not aware of the various support programmes available and as a result, youth with entrepreneurial tendencies perceive that there is no support from Government (Peroni, Riillo, & Rodrigues, 2017). Herrington and Kew (2010) ascertained that access to Government financial support is a problem in South Africa since lack of awareness of the existence of government support programmes is another problem faced by youth. Hove (2016) added that access to finance is a major problem for the South African entrepreneur, and lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in South Africa (Fatoki & Garwe, 2010).

Another obstacle to the success of an enterprise is the lack of willingness to take risk, and fear of failure and embarrassment prevent people with business ideas not to explore them and venture into a competitive stage. Many young entrepreneurs become risk averse because of their social environment (Kazela, 2009), and social and cultural factors can also influence latent entrepreneurial intention (Fatoki & Chindoga, 2011). Also, considering that South Africa is characterised as a high-crime-rate country and this acts also as a deterrent since crime increases expenditure or investment in security measures to eliminate or minimise the likelihood of crime. Corruption both in the public and private establishments in South Africa is growing (Fatoki & Garwe 2010).

Ehlers and Lazenby (2007) stated that economic forces can influence market opportunities and ultimately result in prosperity or adversity of organisations in different industries and different locations. If entrepreneurs have negative perceptions regarding the environment of the business, they might decide not to start their own business. Vermeulen (2017) stated that South Africa's current economic environment is characterised not only by high interest rates but also by low growth rates, high inflation rates and weakening exchange rates. The country is experiencing economic recession mainly due to the world economic meltdown which causes high unemployment rates. All these can negatively affect sales, revenues and market potential for local entrepreneurs (Wonglimpiyarat, 2015).

2.3 FINANCIAL NEEDS OF SMES

Fatoki and Asah (2011) pointed out that access to external financing is needed by SMEs not only to reduce the negative impact of their cash flow problems but to start and expand operations, develop new products, invest in new staff or production facilities. A vast majority of SMEs depend on internal finance, comprising contributions from the owner/s, family and friends and internally generated finance is often inadequate for SMEs to survive and grow (Fatoki & Asah, 2011).

Internal sources are the mostly sourced forms of finance for SME start-ups. Entrepreneurs are always going to have to dip into their pockets first, even if it is only to show potential investors they are totally committed (Xiang & Worthington, 2015). The advantage of using personal finance is that it is the least expensive source of finance to obtain, and it gives the entrepreneur the greatest level of control (or the least amount of outside interference), and the maximum level of profit. But the disadvantage is, it also means the entrepreneur carries all the risk. However, for the purpose of this research, focus has been put only on the external sources of finance for SME start-ups (Irwin & Scott, 2010).

According to Smit and Watkins (2012), a lack of credit is also a major constraint experienced by emerging African SMEs, who depend on personal savings or loans from relatives and friends, as their main source of start-up capital. Skills, business training and less rigid regulations are key elements to promote entrepreneurship, to enhance the enterprise environment, to improve competitiveness and capacity in the SME enterprise (Smit & Watkins, 2012).

Although the following sections discuss the different sources of finance for SMEs during the business life-cycle, the focus of this study is on funding during the start-up phase, which is viewed as critical regarding survival and growth.

2.3.1 SME life-cycle and financing options in developed countries

According to Beck *et al.* (2011) and Daskalakis *et al.* (2013), not every financial product is appropriate for all types of business and all stages of the business life-cycle. The funding cycle in Table 2.1 will be briefly discussed in the context of this study.

Table 2.1: SME growth phases and funding cycle in the UK

Type of SME	Start-up phase	Growth phase	Stable	Exit for external investor
Traditional, providing income for an individual, family or small group of employees	Family, friends, savings, equity in residential property	Asset-backed finance, factoring, bank debt, trade credit	Often none, but debt if required	n/a
High potential, with growth aspirations	'Angel' finance, team equity, some venture capital	Venture capital, private placement of equity, asset-backed finance, some bank debt	Venture capital; high-yield debt market, bank debt	Either exit via capital markets or direct access to competitive capital markets
Attractive, with high-tech information and life sciences IPR	'Angel' finance, venture capital, corporates	Venture capital, corporates, asset-backed finance	Corporates, bank debt	Exit typically via trade sale

Source: Adapted from Wilson & Silva (2013)

Start-up stage

At the start-up stage, SMEs are mostly financed by internal sources of funds of owner-managers, from family and friends (Badulescu, 2010:29), which investments are generally motivated by entrepreneurial ambition and personal connections. This type of finance is economically rational and efficient to SME start-ups because of insufficient information and/or lack of collateral which will make it difficult for external capital providers to assess the lending risks. Business angels will, therefore, be the only external finance possible at this stage of the business (Beck *et al*, 2011).

Growth phase

When the business is established with a clear potential growth, external equity might be made available to the business in the form of proper venture capital or corporate investment. The business can consider bank loans since, at this stage, the bank or other external finance providers can assess the level of risk, profitability and return on investment (Daskalakis *et al.*, 2013).

Stability phase

At the stability phase of a business, the firm reaches the point where it can service its debts, and if the firm has grown large enough, it can access funds from capital markets (Beck *et al.*, 2011). At this stage, the need for SME financing depends more on a country's distribution of finance to SMEs through the various categories mentioned above. However, it strongly depends on the environment. For instance, in the US, 15% of SMEs fall under the category of "high potential and attractive", but in the United Kingdom, the percentage may be lower.

2.3.2 SME life-cycle and financing options in South Africa

Being a developing country, South Africa's SME financing needs are different from those in developed countries, and Wilson & Silva (2013) have pointed out three factors that influence the availability of financing options in South Africa, namely age of the SME owner, availability of resources, and growth potential of SMEs. The available information on registered companies in South Africa reveals that the registered SME population is much younger in South Africa, compared to developed countries. Consequently, it is assumed that the number of businesses in the start-up phase is greatly higher in South Africa than in the developed countries (Richard & Mori, 2012; Angela, 2011).

Fatoki (2014) showed that many South African SMEs are Previously Disadvantaged Individuals (PDI) who became entrepreneurs, and have fewer properties at their disposal than SMEs in the developed world. Consequently, PDI comprise a small percentage of owners of SMEs in the survivalist and micro sectors. This situation is as a result of apartheid and is likely to change rapidly if SME support policies are successful (Kostov *et al.*, 2014). From their access to finance, Fatoki (2014) described entrepreneurs who are classified as PDIs, by characteristics such as having little or no savings; little or no access to family or neighbourhood finance; and little or no valuable investment in residential property.

It is statistically difficult to evaluate the growth potential of South African SMEs. However, Fatoki (2014) suggested indicators such as innovation, lack of domestic markets and fixed assets, which can be used to predict the growth of SMEs in South Africa. Research

(Mazanai & Fatoki, 2012; Osano & Languitane, 2016) shows that SMEs in South Africa are less innovative, compared to those in developed countries. Although the lack of domestic markets has resulted in exporting firms experiencing better growth, unfortunately, South African SMEs are concentrated on retail, community services and construction, and they, therefore, do not export much. Fixed assets are needed by SMEs to grow and reach economies of scale. However, the share of SMEs in the GDP is much higher than in increasing fixed assets. These indicators have justified the assumption that in South Africa, on average, SMEs grow less than those in the developed countries (Wehinger, 2012).

Table 2.2 reflects the life and funding cycles of SMEs according to Fatoki (2014), and the researcher above states that is not an easy task to arrive at clearly defined cycles.

Table 2.2: SME life and funding cycles in South Africa

Type of SME	Start-up phase	Growth phase	'Steady state' and exit	Remarks
Minority: Traditional SME (e.g. White owned Family business)	Family, friends, savings, equity in residential property	Asset-backed finance, factoring, bank debt, trade credit	Often none, but debt if required	Mainly white medium-sized Firms and some 'businesses from PDI backgrounds
High number: Emerging enterprise from previously disadvantaged communities	Few resources available – dependence on external funds			For the moment, those enterprises have barely arrived beyond the start-up phase
Minority: High growth enterprises (high-tech, life sciences or any other sector)	Angel finance, team equity, some venture capital, corporates	Venture capital, private equity, asset-backed finance, some bank debt, corporates	High-yield debt market, bank debt, corporates. Exit either via capital markets or trade sale	Presumably, a significant share (30%) of very small and small enterprises belong to this category

Source: Adapted from Fatoki 2014

Traditional SMEs

Falkena *et al.* (2002) stated that a greater number of medium-sized enterprises and almost 50 percent of small enterprises fall into this group. Falkena *et al.* (2002) further

suggested that in this category of emerging firms, some do have enough resources to expand by themselves largely.

Emerging enterprises from previously disadvantaged communities

According to Kruger (2011), more than one million firms, mainly micro and very small enterprises belong to this group. Although these companies do not have an excellent growth rate potential over a decade, however, if they access sufficient capital, these enterprises may presumably survive and provide sustainable employment in South Africa. Richard and Mori (2012) pointed out that financing of this category of businesses remains very problematic, and the principal sources of financing for these firms do not help them to make a good start. Such financing are the entrepreneur’s resources, family, friends and possible collateral. Additionally, Timm (2011) stated that traditional debt does not fit in this case because of the fragility and risk failure of these categories of enterprises. These companies face the most difficult financing challenges and requires innovative policies (Timm, 2011).

High growth enterprises

In the USA, it is estimated (Blanchflower, 2007) that 15 percent of companies fall in this group which is internationally acknowledged as attractive for venture capital providers. In South Africa, this group is supposedly represented by 25 to 40 percent of very small and medium enterprises. The number of businesses categorised in these groups are measured at 180 000 and 58 000 respectively. Consequently, the number of attractive firms for venture capitalists could be in the range from 60 000 to 95 000 even up to 150 000 (Hiam; Eshghi, & Eshghi, 2017). Table 2.3 reflects businesses owned by PDIs.

Table 2.3: The relative importance of PDIs among SMEs

	Survivalist	Micro	Very Small
Number of enterprises	184 400	466 100	180 000
PDIs and share of	163 200	271 200	15 900
PDI	87%	57%	22%

Source: Hiam, Eshghi & Eshghi (2017)

2.3.3 SME life-cycle and financing options by size and maturity

The report presented by the International Finance Corporation (IFC) at the G20 Seoul 2010 summit suggested that the financial support for SMEs seems to be limited to a very few options in the developing countries, and to a lesser extent, in some developed countries (IFC, 2010). The report (IFC, 2010) further revealed the SMEs' access to finance by looking at the most commonly used financing indicators across two dimensions, firm size and maturity of financing. In developed countries, commercial banks can serve the needs of small businesses, but in most developing countries, banks often limit their finance access to SMEs that have fully secured working capital facilities (IFC, 2010).

Kaur (2016) pointed out that microfinance firms have developed specific services and strategies to provide loan facilities to the informal sector and the smallest formal businesses but, they have limited resources to provide financing to the client firms as they grow continuously. They are also unable to provide additional non-lending products which are critical to their SME clients. The volume of such financial products as leasing and factoring remain limited in most developing countries' economies. Hence these products are necessary in addressing some of the smaller and informal business financing needs. Consequently, only few innovative small businesses with a clear growth potential have access to venture capital (Kaur, 2016).

Figure 2.1 shows the need for and availability of different types of external finance for SMEs in South Africa. The majority of SMEs in South Africa are financed by banks, either to the owner-manager or the business, and commercial banks are the main providers of external finance to SMEs.

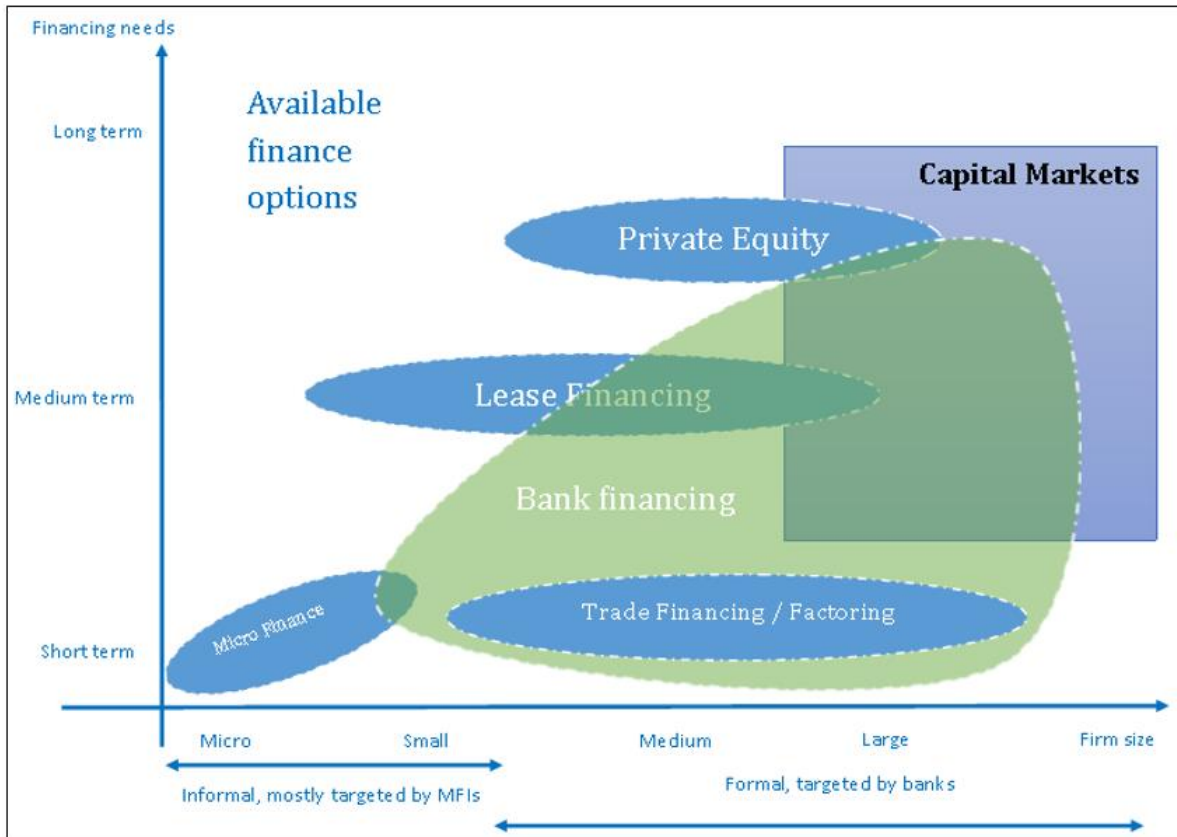


Figure 2. 1: SME finance coverage

Source: IFC, 2010

2.4 BUSINESS START-UPS

Although there are no clear definitions of start-ups, various criteria, like the number of employees, annual sales or net profit, are some of the dimensions that could help differentiate between large and small start-up firms (Tariq, 2013). There are mostly two types of start-up firms; the first is explained in the scenario of “Entrepreneur”, “Where an individual who thinks, reasons and acts to convert the ideas into commercial opportunities and to create value” (Leach & Melicher, 2012). This phenomenon refers to the stage even before the inception or start-up of the firm. In a nutshell, the owner (entrepreneur) plans to convert an idea into a profitable opportunity, by planning to start a firm (Azeem & Chughtai, 2013).

On the other hand, the second type of start-up firms are those that are already carrying their operations and are in their working phase; however, they are yet to achieve the status of a small developed and operating firm. These start-ups are usually in the inception or start-up stage of the firm life-cycle (Hisrich *et al.*, 2010).

Aurelian (2008) defined the first types of start-ups as firms where the initial business concept is formed and products and services that are to be offered are observed. The founder (entrepreneur) and some key personnel are the main employees, and the funding requirements are small, as main funding sources are owner's capital, family, friends and colleagues. The risk of failing to deliver is very high at this stage of the business.

However, the definition of the second type of start-up firm is explained by Dilger (2012) using different criteria in European and American context. According to the aforementioned researcher, the European definition refers to a start-up as "a small firm having less than 50 employees and an annual turnover of not more than 10 million Euros," whereas, the American definition of a small size start-up firm is "one with not more than 250 employees and annual sales of not more than 1\$ million."

According to some researchers (Beck, Demirgüç-Kunt & Maksimovis, 2011), a small firm is defined as start-up firm if it has between 5 to 50 employees, hence the different definitions of the start-ups. However, this research addresses the sources of finance for both types of the start-up SMEs, and how these sources of finance are made available to SMEs.

2.5 FUNDING OPTIONS FOR SME START-UPS

Personal sources

The initial funds invested at the idea stage are always from the personal savings of the entrepreneur since this will gain the trust of future investors that the entrepreneur believes in the business idea and its potential to generate earnings (Poposka, Nanevski & Mihajlovska, 2014). The funds from family and friends is the second most often used source of capital in the start-up phase (Mmako *et al.*, 2017). The investment from friends and family can also include outright gifts, forgone or delayed compensation or reduced or free rent. Priority when borrowing money from the inner circles of the family should be in

a business-like manner, honesty and openness about the potential and risks the business bears (Mariotti & Glackin, 2012).

Given the importance of networks, entrepreneurs should avoid possible damages to both personal and business relationships, especially in the very early stages of establishment (Barringer & Ireland, 2012). Personal funds and financing from family and friends are very limited and rarely satisfy the financial needs of SMEs especially in the start-up stage when cash flows are unstable (Poposka, Nanevski & Mihajlovska, 2014).

Business Angels

Business angels as a source of capital have gained importance, and mostly, the majority of the funds by business angels are invested in the start-up phase (Nanda & Rhodes-Kropf, 2014). Business angels are attracted by unique business ideas usually in a niche market. Investors retain a percentage of the profits and usually gain ownership rights which explains their appetite for innovative products with high growth potential (Katz & Green 2014). Business angels have certain advantages which make them extremely attractive among entrepreneurs (Kraemer-Eis, Lang & Gvetadze, 2015), and these include:

Business angels are willing to provide smaller investments for start-ups, in contrast to the minimum \$1 million that most venture capitalists require

Business angels are geographically more dispersed, and often invest in local markets.

Business angels are very 'hands-on' investors

Business angels together with the financial capital bring expertise and networks from the business community, especially in the given sector. Motivated by potential high earnings of the company, they are willing to provide mentorship and assistance (Kraemer-Eis, Lang & Gvetadze, 2015)

Venture capital

Venture capitalists are another form of equity financing more frequently used for financing the growth of already established enterprises. However, venture capitalists quite often fund so-called "home run" start-ups which although highly risky have a huge expected return on investment. Examples of such start-ups are Google, Cisco Systems, eBay and Facebook. In practice, venture capitalists usually turn down many solid entrepreneurial

proposals which do not fulfil their requirements for innovativeness and exponential growth (Barringer & Ireland, 2012).

Hisrich *et al.* (2010) showed that most of the venture finance goes into buyout funding provided to help one company acquire another, whereas the start-up and seed capital represented only 5% in the total venture capital market share. Moreover, venture capitalists make only minimum investments of \$1 000 000 and require return on investment of even 50% when investing at the early-stage of development (Hisrich *et al.*, 2010).

Debt financing

The business cycle theory identified debt financing as a source of capital used in the later stages of business growth. However, according to Chowdhury and Maung (2013) debt financing is the most common use of capital used among SMEs. The first disadvantage of debt financing is their interest-bearing instrument (Azeem & Chughtai, 2013), which implies that the contract between the entrepreneur and the lender (person or institution) obliges the entrepreneur to repay the loan with a certain interest rate. For that reason, lenders prefer candidates with strong cash flows and low leverage, rather than innovative, high growth opportunities. The most common providers of loans and credits are commercial banks which primarily evaluate SMEs' creditworthiness depending on their history of payments and healthy balance sheets. In addition, tangible guarantee or collateral is required for credit approval (Barringer & Ireland, 2012).

Debt financing as source of capital provides SMEs with the needed financial resources mainly through bank loans which can provide both, short-term and long-term financing for different purposes (Hisrich *et al.*, 2010). Credit lines or bank loans are mainly used for cash flow financing which is most frequently used by entrepreneurs. The arrangement ensures that a line of credit is available for use by the SMEs when needed, for which the company pays a commitment fee and an interest on any outstanding funds borrowed from the bank (Hisrich *et al.* 2010:315). In 2014, from April to June 65% of SMEs in Denmark and Poland were using this type of financing, while Greece had the lowest percentage of 36%. On a European Union level, more than half (53%) of SMEs have either used this

source of capital or were planning to use it in the near future (Kraemer-Eis, Lang & Gvetadze, 2015).

Leasing enables young firms to access facilities or equipment with little or no down-payment (Barringer and Ireland 2012). With the licensing agreement, the owner of a piece of property allows an individual or business to use the property for a specific period in exchange for payments. Licensing is frequently used by entrepreneurs especially when growth strategies require additional space and technology. This alternative financing source is used by more than 40% of SMEs on European Union and country level.

Factoring is an option for satisfying an urgent need for money, whereby the SME sells its accounts receivable to a third party at a discounted price in exchange for cash. In the European Union, this is not a popular source of capital, and only 11% of SMEs indicated using it.

2.6 FINANCING OPTIONS FOR SME START-UPS IN SOUTH AFRICA

The diverse nature of SMEs requires different types of customised financing for their unique operations, which results in the banking sector and financial institutions launching broader types of products to fulfil the finance needs of SMEs. According to Azeem and Chughtai (2013), the financing needs of SMEs are at three stages, such as start-up, expansion and rehabilitation. Investment is required for growth and development, and investment in different areas such as technology up-gradation, asset acquisition, new market development, capacity expansion and diversification, requires long-term financing.

According to Irwin and Scott (2010), large firms have the advantage of accessing the capital market and getting quick financing at low cost, but this is not the case with SMEs in South Africa, owing to high levels of regulatory and other constraints. Financing of SMEs at the market level is very minimal, that compels them to get finance from Government grants, bank loans and different types of private equity finance. The essential requirements of lending institutions do not exactly match the ability of SMEs by making it tougher to get financing at appropriate and affordable terms and conditions.

According to Abor and Biekpe (2009), the SME sector in South Africa faces three types of challenges, namely, asset financing, regulatory requirements and infrastructural. Asset financing is prominent among all and requires immediate action of Government to boost this flourishing section of the economy, and this includes, collateral issues, absence of suitable banking products aligned to SMEs' needs, lack of awareness by and access to SMEs, and the absence of credit enhancement and other alternatives. The South African government is trying to concentrate on this segment through international collaboration and enthusiastic efforts. For example, the South African government launched different entities through the Department of Trade and Industry (DTI), Small Development Agency (SEDA), NPOs and donors to boost the performance of the sector with crystal clear objectives. Despite all these efforts and measures, the goal of getting maximum benefits from this sector is quite far from the true destination and requires serious attention.

According to Smit and Watkins (2012), access to external finance has been identified as a hindrance to nurturing SMEs in South Africa. Access to external finance has also been highlighted as a major challenge limiting the survival and growth of South African SMEs. Smit and Watkins (2012) further opined that although sufficient funds have been made available by the South African government for SME support, access to these funds remains problematic, especially for SMEs at the start-up phase, and many applications for external finance by start-up businesses are declined.

In South Africa, it is evident that SMEs have constrained access to the finance needed to flourish. Thus, access to external finance is, therefore, a priority for developing and supporting the SME sector as the engine for employment creation, poverty alleviation and socio-economic stability at large (Mazanai & Fatoki, 2011).

The 2010 FNB and Endeavor Report (2010) suggested that the issue is not so much a lack of access to capital, but the stringent and lengthy process required to access external funding. This is exacerbated by the general lack of awareness about the procedures and the courses of action involved in gaining equity funding, which leaves entrepreneurs under-prepared and under-researched. The application process tends to be bureaucratic and heavily laden with protocols and red tape as funders endeavour to gain confidence and assurance when granting funding to entrepreneurs (FNB & Endeavor, 2010).

With a better understanding and use of the Financing Framework for start-up SMEs' to access external finance, it is possible to develop a more realistic picture of the financing needs of SMEs, by alluding to the variety of financing options available and the conditions set by the finance providers. Sources of external finance such as government, commercial banks and private equity have been identified as the three main sources of external finance for SMEs in South Africa (Burke, 2006).

2.6.1 Government funding

Many SMEs face the challenge of accumulating capital to start and/or expand their businesses (Tariq, 2013). The South African government tries to deal with the problems of the limited availability of financing and lack of awareness, by strengthening this sector through the Small Enterprise Development Agency (SEDA) (Crampton, 2016). The Department of Trade and Industry (DTI) and the National Treasury are the two main government departments that play a pivotal role in the development of SMEs in South Africa. The Regulators of financial institutions such as the Financial Services Board (FSB) and the South African Reserve Bank (SARB), also play an important role in SME financing and ensuring their reasonable access to finance. Essential and effective co-operation between different governments remains critical, to ensure that any market failure is addressed by public policy, without introducing new biases or different hindrances (Mahembe, 2013; Rogerson, 2014).

The National Treasury is a key role-player in the development of South African SMEs. As a financial backbone of the country, the National Treasury supports SMEs through fiscal policy. The main objective of the Department of Trade and Industry (DTI) is the development and promotion of South African SMEs (Okello-Obura & Matovu, 2011). The most urgent tasks of the DTI concerning SME development are:

To revise the Usury Acts, such as the Hire Purchase Act and Credit Agreement Act and replace these Acts by overarching credit legislation

To increase the quality of information collected and distributed about the SME sector

To create a simple uniformed registering system and enforce commercially secured loans.

The DTI business grants are responsible for actively encouraging SMEs, and the DTI is actively searching for new business owners, specifically those who will positively affect South Africa's economy with an emphasis on valuable job creation. The DTI business grants provide financial support to various economic activities, including manufacturing, business competitiveness, export development, market access and provide a channel for foreign direct investment. Unlike a loan, a grant is an award of money that is non-repayable – meaning there is no obligation by the receiving parties to repay the money received. While the Government is one of the best sources of grants, its selection criteria is strict and paperwork intensive, and the receiving business is obligated to spend the funds in a manner specified by the provider. Most funds available in South Africa have their specific requirements, so it's advisable to research each fund carefully to assess their criteria and up your chances of receiving funding.

The Department of Trade and Industry's (DTI's) website (www.thedti.gov.za) provides in the details a number of funding options, incentives and grants, including their qualifying criteria. Due to the number of grants available and each with its criteria, the funding seeker is advised to explore and analyse each grant individually.

Loans from the Government can be a cost-effective means to get the funds needed by SMEs, but there are important things to consider on the way, such as being prepared for a lot of paperwork, strict selection criteria, and a very long wait. Most loans for business come through the Department of Trade and Industry (DTI), and its associated agencies like the Small Enterprise Development Agency (SEDA) (Government Investments Incentives, 2018). These loans tend to offer comparably lower interest rates to that of traditional financial institutions and have longer or more flexible repayment terms. Businesses that receive a loan from the Government are required to repay the loan in the same way they would if receiving finance from a bank. The difference is that interest rates are much lower and repayment terms longer or more flexible (Entrepreneur Magazine, 2017).

Each of the loans and grants have their qualifying criteria, and business owner-managers need to consider the following questions for self-evaluation before approaching

organisations for funding. According to Crampton (2017), having the answers ready for the following questions will help the business-manager get the desired finance.

- Why do I need funding for my business?
- Is your business a 'leaking bucket' in the form of too-low pricing, expenses being too high, inaccurate book-keeping?
- Am I growing too fast? The finance applicant needs to show that the loan is invested in staff and infrastructure to support further growth of the business.
- Is it the right time for me to borrow?
- Is the industry in a growth phase or turmoil?
- Are the interest rates at banks favourable?
- Is my business stable?
- How much money do I need? The loan applicant needs to know exactly how much money is needed and what for. Make sure the business plan reflects these needs
- Can I wait for finance? Whether it's through a bank or the government, the process is often very slow and frustrating. The loan applicant must be prepared to wait a long time
- Is my credit record clear? This is essential for any kind of loan, no matter where it comes from
- Is my business registered and conforms to all regulations? For an existing business, the entity needs to be registered, have a valid tax clearance certificate and a Vat number
- Can I make repayments? Carefully consider the terms and conditions of the loan to determine whether your business can afford repayments in the specified time-frame, and what the consequences of non-payment will be

Generally, though, the following requirements need to be met:

- The business needs to be majority black-owned
- It needs to have a significant representation of black managers (if applicable)
- Minimum and maximum turnovers vary from grant to grant

- The business must have been a minimum of one year in trading
- The business must be a registered entity with a tax clearance certificate, Vat number, etc.
- The business must comply with all regulations such as CIPC, SARS etc.
- All owners and major shareholders need a clear credit history

Table 2.4 reflects some of the DTI's latest programmes to support SMEs (Khan, 2014; Incentives South Africa, 2018; Crampton, 2016).

Table 2.4: South African government grants for SMEs

	Grant	Description
1.	The Black Business Supplier Development Programme (BBSDP)	This grant encourages black entrepreneurs to grow their businesses by acquiring operational capacity and assets. The BBSDP grants a maximum limit of R1 million investment to a 51 percent black-owned business, in which 50 percent of management board must be black. Of the R1 million R800 000, is shared as R400 000 is funded by the DTI, and the rest is to be funded by the firm and has to be allocated for the purchase of machinery and equipment. The remaining R200 000 has to be allocated to the development of business in the ration of 80:20 between DTI and the company.
2.	Incubation Support Programme (ISP)	This programme is designed to create and develop successful enterprises with the ability to revitalise communities and local economies.
3.	Clothing and Textile Competitiveness Improvement Programme (CTCIP)	The CTCIP aims to build capacity among clothing and textile manufacturers and in other areas of the apparel value chain in South Africa to enable them to supply their customers and compete on a global scale effectively. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate
4.	Capital Projects Feasibility Programme (CPFP)	The Capital Projects Feasibility Programme is a cost-sharing grant contributing to the cost of feasibility studies for projects that will lead to increased local exports and stimulate the local manufacturing sector.
5.	Enterprise Investment Programme (EIP)	The EIP is a reimbursable cash grant for local and foreign-owned manufacturers that wish to establish a new

		production facility; expand an existing production facility; or upgrade an existing facility in the clothing and textiles sector.
6.	SEDA Technology Programme (STP)	The STP is part of an over-arching strategy to consolidate small business support activities, formerly spread across 6 projects: the Godisa Trust, the National Technology Transfer Centre, the 3 business incubators of the DTI, the Technology Advisory Centre, the technology-transfer activities of the Technology for Women in Business (TWIB) programme and the support programmes for small enterprises of the South African Quality Institute.
7.	Critical Infrastructure Programme (CIP)	These types of grants offer cash to a maximum of 30% capped at R30 million of the development cost of qualifying infrastructure. The aims of these government funding and grants are to lower business costs and risks which will support competitiveness, provide targeted financial support for physical infrastructure and stimulate upstream and downstream linkages.
8.	Business Process Services (BPS)	This scheme aims to attract investment and create employment in South Africa through off-shoring activities. It involves a three-year tax-exempt grant for qualifying businesses.
9.	Capital Projects Feasibility Programme (CPFP)	The CPFP is a cost-sharing programme that contributes to the cost of feasibility studies likely to lead to projects outside South Africa that will increase local exports and stimulate the market for South African capital goods and services.
10.	National Youth Development Agency (NYDA)	These grants programmes are provided to young entrepreneurs as an opportunity to access financial and non-financial business development support. This programme is directed at youth entrepreneurs who are showing potential but are not fully developed yet.
11.	Support Programme for Industrial Innovation (SPII)	These are business grants which supports the development of new technology in the South African industry. The Government funding and grants focuses on the development of new technology to reinforce South Africa's international competitive edge.
12.	National Empowerment Fund (NEF)	Government funding and grants like the National Empowerment Fund are targeted at black economic empowerment transactions through the provision of financial and non-financial support as well as creating a culture of saving and investing. The NEF is divided into four different

		types of government funding: iMbewu fund, Rural and community development fund, uMnotho fund and Strategic Projects fund
13.	Co-operative Incentive Scheme (CIS)	This scheme supports co-operatives that are formed with at least five black members. A co-operative is defined as a body of people who associate for a mutual interest such as social, cultural or economic interest. This scheme funds co-operatives on a ratio of 90:10. This cash grant aims to assist co-operatives in meeting their start-up requirements. The maximum amount offered by this scheme is R350 000. This scheme funds co-operatives that are registered in South Africa, operating in emerging sectors in the rural and semi-urban areas and must abide by the codes of co-operatives. This scheme gives advantages to women, youth and disabled individuals. DTI has placed significant emphasis on this area.

Source: Researcher's compilation

2.6.2 Commercial bank funds

Angela (2011) argued that, for business establishment and growth, access to finance is a very important factor, which can be used for such needs as production processes, development of new products or investment in human capital. SMEs' access to finance is expanded to a variety of financial services, such as savings, insurance, credit, and payment facilities (Angela, 2011).

Kundid and Ercegovac (2011) pointed out that in their early stages of development, firms often rely on informal sources of funding, which include, the entrepreneur's savings, funding through a sale of assets, or retained earnings. As they grow, external sources become necessary for expanding business activities. Mahembe (2011) stated that the availability of external sources of funding determines the growth curve of the SME decisively. The external sources of funding can be informal or formal. Informal sources include family, friends or finance suppliers; and formal includes debt or equity (Kundid & Ercegovac, 2011; Mahembe, 2011).

The report presented by the International Finance Corporation (IFC) at the G20 Seoul 2010 summit stated that generally, commercial banks financing remains the most

essential source of external financing to SMEs. Banks finance a major proportion of financial needs of companies' investments and are also the significant providers of companies' working capital financing (IFC, 2010).

The 2014 Entrepreneurship Forum Report (2014) reflected that characteristically, SMEs need additional financial services that can only be provided by commercial banks. These services include cash management, transfers, insurance, and other transactional products (IFC, 2010). Not so long ago, some banks have introduced special financing programmes to increase access to financing by female entrepreneurs (Tambunan, 2011), and such a programme is offered with support such as business development skills training.

In contrast to investors in financial markets, bank depositors do not make any focused or direct investments in SMEs, but, instead, rely on their legal obligations to the bank. These stipulate the repayment of the principal at face value plus interest at the end of the investment or deposit horizon. Since the credit-risk profile of SMEs may be too high, banks can risk only a relatively small percentage of their depositors' money in SMEs (Simpasa, 2013; Ringim, 2014). Banks do, however, provide many important debt products such as those discussed below.

Supplier and Trade credit

Supplier credit is a common source of finance for many SMEs and corporations all around the world. Such transactions typically occur between two businesses. Trade credit allows businesses to delay payment for goods and services purchased and thus helps with effective cash flow management. It may also substitute for financing, such as short-term bank credit or other more formal arrangements. Trade credit is generally used to meet short-term working capital needs (Boden & Paul, 2014; Chludek, 2011).

Overdraft

An overdraft is a loan arrangement under which a bank extends credit up to a maximum amount called overdraft limit against which a current (checking) account customer can write checks or make withdrawals (Narteh, 2013). The most common form of business borrowing, an overdraft is a type of revolving loan where deposits (credits) are available

for re-borrowing, and interest is charged only on the daily overdraft (debit) balance. It is, however, also a demand loan: the facility can be cancelled (and entire outstanding amount 'called') at any time by the lender at its discretion, without any warning notice or explanation (Worthington & Welch, 2011).

If an asset or property secures the overdraft, the lender has the right to foreclose on the collateral in case the account holder does not pay. Calls usually happen where the borrower's credit rating falls, the lender has reason to believe the borrower may go into default, or the borrower has not 'revolved' the overdraft in a satisfactory manner and has turned it into a hard-core debt.

An overdraft is approved only for a fixed period (usually one year) after which it must be renegotiated (Narteh, 2013). In the US practice (where it is called line of credit or credit line), the borrower is often required to maintain 10 to 20 percent of the approved overdraft limit as cash balance in the account, and must demonstrate its continuing financial health by managing without the overdraft for a one or two-month period (called clean-up).

Loans

According to Hasan and Song (2014), a bank loan is the most common form of loan capital for a business. A bank loan provides medium or long-term finance. The bank sets the fixed period over which the loan is provided (for example 3, 5 or 10 years), the rate of interest and the timing and amount of repayments (Mitchell, 2015). The bank will usually require that the business provides some security ("collateral) for the loan, although in the case of a start-up this security often comes in the form of personal guarantees provided by the entrepreneur. Bank loans are good for financing investment in fixed assets such as plant and machinery, land and buildings. They are generally charged a lower rate of interest than a bank overdraft. The interest rate can be either fixed, for example, 8 percent per year on the amount outstanding or variable (where the interest rate varies it will depend on the Bank base rate) (Hasan & Song, 2014).

However, a bank loan provides less flexibility than a bank overdraft. The business commits to meeting the bank loan repayments and interest – which it needs to do whether

or not the cash flow position is good. A failure to meet the terms of the bank loan may lead to the bank putting the business into insolvency (Kaya, 2011).

Bank loans tend not to be offered to start-ups or businesses with a track record of poor profitability and cash flow. Such businesses are perceived as being high-risk by banks. As a result of the credit crunch, banks are more cautious about the kind of lending they offer (Wang *et al.*, 2015).

Factoring and invoice discounting

Factoring is a short-term, non-bank financing of accounts-receivable (IFC, 2010) and comprises four main types:

In maturity factoring, also called service factoring, the factor maintains the seller's sales ledger, controls credit, follows up on the payments, and pays the amount (after deducting a commission) of each invoice as it falls due, whether or not the payment was collected

In finance factoring, the factor called the financing factor, advances funds to a producer or a manufacturing firm, on the security of produce or goods that will be produced or manufactured utilising those funds

In discount factoring, also called service plus finance factoring, the factor advances a percentage (usually between 70 to 85 percent of the value of accounts receivable) to the seller on a non-recourse basis and assumes the full responsibility of collecting the debts

In undisclosed factoring, a factor buys the goods from a primary party (producer, manufacturer, or seller) and then appoints the same party as its agent to resell those goods and to collect the payments. This arrangement prevents the disclosure that goods are being sold under a factoring agreement. The undisclosed factor, as in all other types of factoring, remains liable for uncollectible payments. Factoring is a type of 'off balance sheet financing

Although factoring is a relatively expensive form of financing, factors provide a valuable service to companies that operate in industries where it takes a long time to convert receivables to cash and companies that are growing rapidly and need cash to take advantage of new business opportunities. Factoring clearly appears as an important supplementary source of working capital finance for SMEs, especially in jurisdictions

where the financial infrastructure presents gaps. Factoring entails the purchase by the lender of a firm's accounts receivables and the collection of invoices from the parties that owe money. In recent years, the concept of reverse factoring as a financial instrument has become popular. With reverse factoring, the financial institution purchases receivables only from high-credit quality buyers, resulting in the provision of low-risk loans to high-risk suppliers such as SMEs. Reverse factoring is particularly useful for SMEs in countries with underdeveloped contract enforcement regimes and weak credit information systems.

Leasing

Leasing appears as an important complementary source of investment finance, especially in developing countries where the collateral regime and the information infrastructure are weak (Callimaci *et al.*, 2011). The advantage of leasing lies in the fact that it focuses on the firm's ability to generate cash flows from business operations to service the leasing payment, rather than on its credit history or ability to pledge collateral (IFC, 2010). A second way out for the leasing providers in case of payment default is the repossession and sale of the leased asset, which provide additional risk mitigation. Leasing is also an appropriate financing instrument for demand-side reasons, as small entrepreneurs, especially those who are not incorporated might be very reluctant to yield their personal property as collateral for a loan (Churyk *et al.*, 2015).

Asset finance

According to Callimaci *et al.* (2011), asset-based financing consists of using the balance sheet assets (such as accounts receivable, short-term investments or inventory) to obtain a loan or borrow money – the borrower provides a security interest in the assets to the lender. The asset finance is more flexible when it comes to extending loans to businesses, and it stands much better chances when working with them. One of the reasons for this is that the loans are usually smaller. More importantly, since the funds are used for the purchase of an asset, the asset is often part of the collateral. This reduce the risk to the lender lower because if someone fails to repay the loan, the lender will have the right to repossess the asset. This differs from traditional financing methods, such as issuing debt or equity securities, as the company pledges some of its assets in exchange for a quick

cash loan. The most common kind of asset financing is to extend loans against accounts receivable, but other kinds of asset financing, such as lending against inventories, is becoming more common (Worthington & Welch, 2011). Generally speaking, asset financing refers to a company's pledge of its accounts receivable or inventories to obtain a loan, but other assets may be used as well (Churyk *et al.*, 2015).

Mortgage defaults may occur when the value of the asset drops below the outstanding mortgage debt, resulting in negative asset equity; negative equity is a necessary but insufficient condition to explain why borrowers default (Francke & Schilder, 2014). The mortgagee will want to ensure that risk is minimised, and therefore will normally require that the mortgagee's income will adequately cover repayments, and in the event of failure, the value of the property can be recovered through repossession and sale. The security for the mortgage will be increased if the mortgage granted is less than the full market value, and historically, it has been usual for the mortgagor to provide around 15 percent of the purchase price (Bowcock, 2015; Hullgren & Soderberg, 2013).

Equity

Equity financing is the process of raising capital through the sale of shares in an enterprise (Lau & Proimos, 2010). Equity financing essentially refers to the sale of an ownership interest to raise funds for business purposes. Equity financing spans a wide range of activities in scale and scope, from a few thousand dollars raised by an entrepreneur from friends and family, to giant initial public offerings (IPOs) running into the billions by household names such as Google and Facebook. While the term is generally associated with financing by public companies listed on an Exchange, it includes financings by private companies as well. Equity financing is distinct from debt financing, which refers to funds borrowed by a business (Xiang & Worthington, 2015). Equity financing involves not just the sale of common equity, but also the sale of other equity or quasi-equity instruments such as preferred stock, convertible preferred stock and equity units that include common shares and warrants (Irwin & Scott, 2010).

A start-up that grows into a successful firm will have several rounds of equity financing as it evolves. Since a start-up typically attracts different types of investors at various stages of its evolution, it may use different equity instruments for its financing needs (Lam, 2010).

For example, angel investors and venture capitalists – who are generally the first investors in a start-up – are inclined to favour convertible preferred shares rather than common equity in exchange for funding new companies, since the former have greater upside potential and some downside protection. Once the company has grown large enough to consider going public, it may consider selling common equity to institutional and retail investors. Later on, if it needs additional capital, the company may opt for secondary equity financings such as a right offering or an offering of equity units that includes warrants as a “sweetener” (Lam, 2010).

The equity-financing process is governed by regulation imposed by the local or national securities authority in most jurisdictions. Such regulation is primarily designed to protect the investing public from unscrupulous operators who may raise funds from unsuspecting investors and disappear with the financing proceeds (Wonglimpiyarat, 2015). Equity financing is therefore generally accompanied by an offering memorandum or prospectus, which contains a great deal of information that should help the investor make an informed decision about the merits of the financing. Such information includes the company's activities, details on its officers and directors, use of financing proceeds, risk factors, financial statements and so on (Klonowski, 2012; Wonglimpiyarat, 2015; Paulet *et al.*, 2014).

2.7 CHALLENGES IN ACCESSING BANK FINANCING

Falkena *et al.* (2002) state that since the majority of SMEs are financed from internal sources during the start-up phase; the financing provision for micro and small firms is then intrinsically linked to personal access to finance in micro-lending industries and the banking sector. Almost all micro and small businesses and even some medium-sized firms have access to debt in the name of the business owners, in their capacities (Beck *et al.*, 2011).

According to Smit and Watkins (2012), normally, two options are available to businesses that are in need of debt finance; they can directly approach investors in the capital market, for instance, in the securitised-asset market or indirectly approach investors through a financial intermediary, commonly a bank or an insurer. Even if an SME is relatively small, it can still utilise the capital markets. However, it has to bundle the specific requirements

with other SMEs and then operate effectively in the capital markets as a type of co-operative. In the same manner, investors who would like to invest in SMEs can do so either directly through buying, for instance, the equity or debt of a definite SME, or indirectly through investing instruments in, for instance, a collateralised loan-obligation fund (Wehinger, 2012).

It is very difficult for many small business owners to separate their finances from those of their businesses, and this creates managerial problems. Consequently, appropriate non-financial support has remained a critical issue for these emerging entrepreneurs (FNB & Endeavour, 2010). The 2010 FNB and Endeavour Report (2010) revealed that although it is generally accepted that most SMEs lack sufficient equity finance, it is not certain whether there is a similar lack of debt finance for SMEs. For example, the research group found no indication that the quantum of debt finance available to SMEs that have a turnover of more than R2 million is insufficient, and although there is a presumption that such debt finance might be skewed towards too-short maturities, there is still a need to produce evidence on this.

Daskalakis *et al.* (2013) argued that the issue of SME access to credit is not so much about the availability of debt finance, but more about the inefficiencies of product range, service provided to SMEs, and the cost of debt finance. The researchers above further suggested that the reasons of these inefficiencies are mainly related to the SMEs' need for financial services, competitive factors and barriers to the entry of new financial services providers, for instance, the dominance of a small number of major banks (Daskalakis *et al.*, 2013).

Wonglimpiyarat (2015) suggested that the assumption that SMEs' access to debt cannot be separated from their access to bank services is not peculiar to South Africa, and developed countries are also discussing the connection between access to loans and money transmission facilities. However, the complex situation in South Africa is increased by the confusion between the enterprise's and owner's finance, which is seemingly greater than in the developed countries (Smit & Watkins, 2012).

Banks, like any other businesses, create valued services under a controlled risk. Therefore, the bank has to pay particular attention when assessing a loan application to

evaluate the risks involved and to seek methods to alleviate those risks (Benkraiem & Gurau, 2013). According to Badulescu (2010), there are various reasons why banks are not inclined to lend to SMEs, and these are discussed briefly.

2.7.1 Information asymmetry

According to Daskalakis *et al.* (2013) information asymmetry arises from small businesses' lack of financial information and standardised financial statements. The bank has limited knowledge about the borrower's company, and the prospective credit provider cannot access the entrepreneur's information about his/her business in the same quantity and quality than the entrepreneur her/himself (Kariv & Coleman, 2015). So, the bank is unable to distinguish between the good (bankable) and doubtful projects. The interest on the loan, in this case, does not make an efficient selection, it rather increases the bank credit portfolio with risky loans, and this phenomenon is known as the adverse selection (Daskalakis *et al.*, 2013; Benkraiem & Gurau, 2013).

Information asymmetry also creates a phenomenon known as the moral hazard, which occurs after the loan is granted, when the bank faces the problem of control of use of the loan according to the original application (Chowdhury & Maung, 2013). The analysis of the risk and opportunity related to the loan is a serious issue because the loan can be used, even part of it, for different purposes. To reduce the risk, the bank will ask such guarantee collateral as assets, personal goods, receivables, immovables, or will request the early repayment of the loan, or in certain cases, the bank will restrict access to the rest of the unused loan (Okura, 2013).

2.7.2 Risks in lending to the SMEs

Badulescu (2010) stated that, in comparison to the large firms, financial institutions consider the SME environment as being competitive and very uncertain, which implies a high variability of entrance of similar SMEs in the sector and that finally leads to high failure rate. Potential investors describe the higher risk linked to SMEs is due to their limited power in market; lack of relevant financial and commercial track records; considerable share of intangible assets; insufficient circulating assets or tangible fixed assets (Badulescu, 2010). Insufficient collateral presented by SMEs in return to the

creditors' request to overcome the risks related to moral hazard, is probably the main cause of difficulties of SMEs accessing credit. In the early stage of the business, the firm experiences the collaterals' insufficiency; unconsolidated but up to an exaggerated amount of credit request, above the company's real capacity to stand the project (Smit & Watkins, 2012).

Due to small businesses' inability to provide adequate collateral (Beck *et al.*, 2011), the lenders are unable to conclude whether the entrepreneur possesses the managerial, marketing and technical skills to generate satisfactory cash flows and service the loan (Bădulescu & Petria, 2012). Such issues downscale SMEs as having inadequate technical expertise, problematic in reassuring qualified technical staff and experienced management to adapt to the multiple and rapid variations in the actual-day economy (Bădulescu, 2012). Additionally, lack of accurate reports and business protection under contractual basis seems precarious; it creates obstacles for the banks to monitor the repayment capacity, real profitability of the firm, even the reliability of some collaterals. In developing countries, similar to South Africa, the risk is complementary, marked by the unsteady legislative and competitive environment, leading to negative output on the transactions' security (Bădulescu, 2010).

2.7.3 Requirements set by commercial banks

Obtaining a business loan in South Africa is not as easy and simple, and the application process is typically quite slow, as lenders require many documents and additional clarifications (LoansFind, 2017). Moreover, the banks and other companies providing business finance are traditionally risk averse, and they grant finance only to businesses which have an extremely low risk of defaulting. According to Fundera (2017), the most common requirements for applying for bank loans are as explained below.

Bank Statements

To approve a small business loan, lenders will want to look closely at the businesses' financials; thus, bank statements are some of the most common small business loan requirements (Bragg, 2017). Lenders can use the bank statements to calculate the average bank balance and feel confident that the business has enough cash to maintain

the business' operations and pay back the small business loan (Swart, 2013). Lenders typically request two years' bank statements to support the claims made about the businesses' financial history. The best practice is for the SME owner-managers to provide enough supporting information together with available financial statements.

Balance Sheet

A balance sheet which is a snapshot of the businesses' financial health (Ward, 2017) is a basic small business loan requirement, because it allows the lender to know how the business functions and whether or not the financials are in good standing. Balance sheets also show lenders what the business has and what it owes, which gives them an understanding of how well the business's assets and liabilities are managed. Lenders want to see that the business has enough assets to cover its business's operating expenses and pay back the loan on time and in full. Balance sheets are business loan requirements that lenders often consider and analyse pretty closely, so owner-managers want to make sure they are ready to provide this document (Ward, 2017).

Profit & Loss Statements

Profit and loss statements (P&Ls) are also referred to as income statements, or revenue statements (Reid & Myddelton, 2017), and they essentially provide a picture of the net income. Profit and loss statements show lenders that the business's cash flow is steady and strong enough to weather tough times and pay back the loan (Murray, 2016).

Typically, lenders will want to see both a year-to-date 'Profit and Loss Statements', updated within the past 60 days, and statements from the previous two (2) years. Lenders will need to track the business's income, so consider 'Profit and Loss Statements' must-have documents when it comes to small business loan requirements (Reid & Myddelton, 2017; Murray, 2016).

Personal and Business Tax Returns

When applying for a loan for a small business, the owner-manager might be surprised that personal tax returns are a requirement. When the business is young and small, it is making it difficult to prove to a lender that it will have long-term success. Lenders will look

into the personal financial documents, like owner-managers' tax returns, to see how they manage their financials.

Personal Credit Scores

Personal credit scores reassure lenders that business owners are responsible in managing their finances, and if the personal credit score shows that the business owner is trustworthy, odds are that he will be a trustworthy borrower as a business owner, too. The business owner's credit score plays a big role in his small business loan eligibility, so he must check his score before he gets deep into his loan application process. Business owners with scores lower than 600 might have a more difficult time securing an affordable loan.

Period of business operation

If the business owner has been in business for a long time, he has proven that he can withstand tough times, his business already has long-term success. Even if it is a young business, the business owner might be able to handle the challenges that are associated with owning a business.

Purpose of the loan

It may seem too obvious, but lenders will need to know for what purpose the SME owner requires the funds, which purpose can vary from covering seasonal downturns, funding a construction project, to buying the next best piece of equipment. Figuring out the intended purpose of the loan will help the business owner plan his debt, and most importantly, decide what kind of loan is right for his small business.

There are many reasons why a small business would want to take out a loan, and there are loan products for specific purposes. Figuring out the purpose of the loan is a great first step in the business loan search, and should be considered one of the most important small business loan requirements.

Business Plan

The business plan is an opportunity to define financial goals, sales, profits, income, cash flow, etc., and qualitative business goals.

Financial Intelligence Centre Act

The South African Financial Intelligence Centre Act (FICA) number 38 of 2001 was implemented to combat money laundering, which is the abuse of financial systems to hide and/or disguise the proceeds of crime. FICA aims to provide a legal framework for effective money laundering control, which is intended to prevent criminals from being able to integrate their ill-gotten gains into our credible banking systems. This law brought South Africa into line with international standards in the fight against crime. Sections 21 and 22 of FICA, and the Regulations to it, require for all South African Banks to ensure that they have correct details for all their customers by establishing and verifying certain customer details.

Business Debt Schedule

A business debt schedule helps business owner-managers to plan their business financials and lets lenders know the current state of any debt. It will showcase the outstanding loan and credit amounts, and outline monthly payments with interest and payment dates. Small business lenders will probably require a business debt schedule to get some insight into the business's financials and the owner-manager's organisational skills. Even if the lender does not include a debt schedule in the business loan requirements, the business owner might need to use one anyway. Business debt schedules can help a business owner never to miss a payment, keep accurate bookkeeping and forecasting, monitor the business's financial health, and determine if new debt can be taken.

Collateral

As a part of the loan application, lenders will want to know what kind of collateral the small business has, and this may be real estate, inventory or equipment valuation. When applying for a small business loan, probably the business owner needs to determine which assets he/she is willing to pledge as collateral for that loan. Whatever the business owner does choose to offer as collateral, he/she will need to prove the value of the collateral and not just the price paid. Not everyone understands valuation methods and processes, so business managers should hire a professional, certified appraiser to make sure he knows the true value of his collateral.

Cash flow forecast

While the profit and loss statement gives lenders a picture of the net income from the total revenue and expenses in the past, a cash flow forecast predicts those values for the business's future. A cash flow forecast is, of course, a forecast that the businesses' actual revenues might turn out differently than predicted. However, it is good practice to plan the cash flow realistically since this will provide lenders with a good understanding and expectation of the businesses' potential growth and opportunities. A well-thought-out cash flow forecast will show lenders that the business owner-manager cares about the future of their business, and knows how to organise the business's financials for success.

Accounts receivable

An accounts receivable turnover is a ratio that measures how effectively SME uses customer credit and collects payments on that credit. A business owner should hope for a high ratio, as a high ratio means good things for a business, namely that the business receives payments on time, collection methods are effective, and it extends credit to the right kind of customers. A good accounts receivables turnover will provide lenders with some assurance that the businesses' financials are in good standing. This balance will be especially important when looking to finance the business through invoice factoring.

Industry type

The business industry is an important consideration in a business loan application. Before applying for a loan from the banks, the business checks the eligibility standards for the loan program, and if the business operates as a private club, an agricultural business, a private club, and more, the business owner-manager has to meet special conditions to qualify for special loans in the specific sector or industry. Lenders might consider the industry type when they are deciding on whether or not to fund the business since some industries are riskier than others.

Number of employees and payroll records

As a part of the small business loan application, lenders might want some information regarding the employees such as the number of part-time and full-time workers, and the employee payroll records. Lenders want this information to confirm the size of the

business. According to the South African National Small Business Act (NSBA) Number 102 of 1996, businesses can either be measured in millions of Rand or number of employees (South Africa, 1996). The number of employees helps lenders gauge the scale of the business they are lending to, plus the number of employees might also help lenders predict the business potential for growth (or overexpansion). The number of employees is a simple business loan requirement, but an important figure to have on hand. Lenders might also ask for the payroll records from the previous six (6) months. Keeping track of payroll records is a legal requirement for your business, but lenders might also want to see them to verify some of the costs to operating the business.

Entity type

The SME could be organised as a sole proprietorship, corporation, limited liability company, etc., and the entity type is a simple business loan requirement. Considering the details of the business entity type might provide both the business owner and lender some insight into how to organise and operate the business, and how aware the business owner is of the management structure. Even if the lender is not concerned about entity type on the loan application, the business manager must be aware of the entity type and the structure behind it.

States of incorporation

Since different provinces and municipalities in South Africa have different understandings and bylaws on the running of some categories of businesses, it makes sense that the state of incorporation might be on a list of SME loan requirements. While this is mostly a simple piece of information to hand over, the complexity of this requirement is noticed once the business starts operating across multiple provinces.

Business licences, permits and approvals

The business owner-manager might have all or some of the documents above, depending on the industry and the province (in South Africa) where the business operates. Lenders will want to ascertain proof of ownership and license to operate a business. The business owner-manager must make sure that any relevant permits and approvals for the business are up-to-date, before applying for a business loan. Lenders probably will not want to fund

the business if there is a possibility that the business shuts down just because the permit were not renewed.

Landlord subordination form

While a landlord subordination form is not always included on a list of small business loan requirements, it is a document that might be needed to make a loan application. A landlord subordination form is an assurance on behalf of a landlord that a tenant will be able to remain on his or her property for the term of the lease. In other words, a landlord subordination form ensures that a tenant will get his or her property for as long as the duration of the lease, no matter what happens to the landlord. If the business is run out of a brick-and-mortar shop, this document will be extremely important for lenders to consider when they lend to the business. Getting evicted is bad for the SME owner and a lender.

The business owner-manager should ask his landlord about securing a landlord subordination form before applying for a business loan. Even if he/she is not applying for a loan, it's a good idea to have this form for the business anyway.

Full Disclosure of Tax Liens

If the business owner-manager ignores a notice of the tax due and does not pay the South African Revenue Services (SARS), when they issue a Demand for Payment notice, SARS will file a Tax Lien Certificate on the business property. This is a public document that tells creditors, lenders, and credit reporting agencies that the government has put a lien on the business property, and they can seize and sell it to pay off tax debts. It is therefore not surprising that disclosing a tax lien on the business is a crucial small business loan requirement. A tax lien is a huge red flag for lenders and severely limits the ability to secure a small business loan.

2.7.4 Specific requirements by Commercial Banks in South Africa

Beside the general and common requirements for bank business financing, each bank has its specific requirements. The following will detail the specific requirements of the four major banks in South Africa, namely ABSA, Standard Bank, Nedbank and First National Bank.

ABSA

An SME is required to meet the following criteria (ABSA, 2017) in order to access ABSA's business loans:

- The applicant must be a previously disadvantaged individual (PDI) and the business must be 100% black owned
- The applicant's business must be a small to medium-sized enterprise (SME) as defined by the Department of Trade and Industry (DTI) – includes new start-ups and existing businesses; subject to Absa credit approval. If the business does not meet the criteria for normal lending and therefore do not have access to normal banking channels
- The applicant must be a South African citizen or a permanent resident in South Africa
- As the loan applicant, the business owner-manager must be fully involved in the day-to-day operation of the business
- The applicant must have the skills and/or expertise relevant to the business and/or the industry or sector. The applicant must have a well-researched business plan and business profile
- The applicant's business must show profitability through historical financials or a realistic cash flow forecast
- The applicant's business's main transactional account must be held with Absa. No split banking is allowed
- The applicant must apply for a loan of between R50 000 and R3 million with a maximum loan term of five years. The economic benefit realised through the finance application resides in the province where the business is located (ABSA, 2017)

In addition to completing the application form, ABSA requires the supporting documentation listed below:

- Fully completed application form, contract funding (ABSA 3449) SMME Fund Khula ABSA DCA
- Minimum 12-month cash-flow projections (ABSA 2376)

- Copy of Contract/Order Document (Approved)
- Copy of original bid specification documents
- Quotations on all equipment and items to be purchased
- 6 Months' bank statements (personal and business)
- Historical financial information
- Income and expenditure of all members/directors/owners of the business (ABSA 3684)
- Statement of assets and liabilities of all members/directors/owners of the business (ABSA 1752)
- Detailed CV with employment record of all members/directors/owners of the business
- Business profile
- Detailed business plan
- Business registration document (if applicable)
- Copy of lease agreement (if applicable)
- FICA verification documentation (personal and business)
- Copy of original bid specification documents
- Copy of identity documents of applicant(s)

Standard Bank

An SME is required to meet the following criteria (Standard Bank, 2017) in order to access Standard Bank's business loans:

- The applicant must submit a business plan that includes details such as the nature of the business, the product offering, the market environment and current management skills
- The applicant must present the personal statement of assets and liabilities for all partners, members and directors involved in the business' administration
- The applicant must disclose the business financial information such as cash flow forecast; projected income and expenditure; amount and source of the business owner's contribution or stake in the business

- The applicant must indicate how the business will use the money, for example, capital expenditure or working capital; and sales and purchases budgets (Standard Bank, 2017)

In the case the applicant wants to buy an existing business, the following documents must be provided:

- copy of deed of sale or draft deed
- draft or signed lease agreement for premises
- collateral information; details of proposed or offered collateral
- credit bureau checks of business and partners

If the applicant has an existing business that has been banking at another financial institution, it is additionally required to the applicant to present:

- the financial statements of the business
- three months' bank statements
- facilities letter from existing bank
- details of collateral held by existing bankers

Nedbank

Nedbank offers loans to SMEs in the form of a Nedbank business growth loan. It offers small-business owners a structured loan with a term of up to ten years, guaranteed by an acceptable form of security. Whether expansion means a new product or upgrading an existing business, the possibilities are limited only by the applicant's own aspirations. A Nedbank business growth loan offers competitive interest rates on repayments; is tax deductible; includes the option of Nedbank credit life cover; and is structured around the business's needs, helping business owners determine the shortest payback term that can be realistically afforded. Nedbank's business growth loan is available only to juristic and non-juristic small-business clients (Nedbank, 2017).

To apply for a business loan from Nedbank, the applicant must submit a completed application form to the nearest Nedbank branch or relationship banking centre, and submit the following:

If applying as a sole proprietor, the applicant must present:

- three months' bank statements
- three months' business bank statements
- statement of assets and liabilities

If applying as a company, the following has to be provided:

- an existing rental agreement (if you receive rental income)
- three months' personal bank statements; a three months' business bank statements
- statement of assets and liabilities; a latest audited financials or management accounts
- company formation documents and the list of directors and shareholding for each director

First National Bank

An SME is required to meet the following criteria (FNB 2017) to access First National Bank's business loans.

For business finance of less than R400 000, relevant supporting documents or collateral must be provided:

- The applicant must present a six months business bank statement and must disclose the business financial information, such as annual financial statements and year-to-date management accounts
- The applicant must present the financial projections such as cash flow statements, income statements and balance sheet
- The applicant must present a detailed business plan focusing on the viability and sustainability of the business
- Should the application be successful, the entrepreneur has to open a business account at FNB

For business finance of more than R400 000, the following are required:

- a business finance application form must be filled and signed

- the applicant must disclose the business financial information such as annual financial statements and year-to-date management accounts as well as a financial projection such as cash flow statements, income statements and balance sheets (FNB, 2017)

2.8 ACCESS TO PRIVATE EQUITY FINANCE BY SME START-UPS

2.8.1 Direct Lenders and Microfinance Institutions

Direct lenders loan funds directly to small businesses and entrepreneurs who would not typically qualify for finance from a commercial bank, and they are willing to provide finance to borrowers presenting higher risk and even to ones with a bad credit record (Tariq, 2013). They can accept less valuable assets such as used machines. However, these business loans are typically costlier than those offered by banks (Poposka, Nanevski & Mihajlovska 2014). Some of the major lenders in this group are Business Partners, a former government company which was privatised and is now on the road to becoming a venture capital fund, Khethani Business Finance, which is a non-profit, organisation, and New Business Finance, which is a small business private company (Daskalakis *et al.*, 2013).

Microfinance institutions (MFIs) have also emerged to serve the smallest of these enterprises, while banking institutions have typically served the larger corporations. The microfinance credit industry experienced rapid growth in the early 1990s, when microcredit was effectively legalised at the end of 1992 by an exemption to the Usury Act number 73 of 1968 that removed price controls on small and short-term loans, enabling the large flow of capital into the sector. The exemption notice was superseded with the enactment of the National Credit Act number 34 of 2005 (Mahembe *et al.*, 2011).

Microfinance can be defined as “the provision of financial services to poor and low-income clients who have little or no access to conventional banks (Bakker *et al.*, 2014). MFIs are special financial institutions having a social nature along with a for profit nature. Their performance measurement has to be different from the usual methods that are applied by other financial institutions like banks, Non-Bank Financial Companies (NBFCs), etc. because of the social aspect (Roy & Goswami, 2013).

According to Mahembe *et al.* (2011), the microfinance sector can be broadly classified into two, namely, those MFIs which are registered with Microfinance South Africa (MFSA), a representative body of registered and legal micro credit providers with a membership of approximately 1,500. In the second category, are the developmental microfinance institutions registered with the Association for Pro-Poor Micro Finance Institutions for South Africa (the AMFISA). Mahembe *et al.* (2011) further revealed that the AMFISA currently has a membership of 14 developmental microfinance institutions that have reached an estimated 100,000 clients in the last 15 years, with loans outstanding of over R100 million to small and survivalist businesses. Two examples of MFIs registered with the AMFISA are the Small Enterprise Foundation (SEF) and Marang Financial Services (Mahembe *et al.*, 2011).

SEF began operations in 1992 with the aim of enabling the poor to increase their incomes through the provision of microcredit and the accumulation of savings. SEF provides small loans through two programmes, the Microcredit Programme (MCP) and the Tšhomisano Credit Programme (TCP). Since inception, the organisations above have disbursed 412,820 loans to the value of R532 million. MCP has 15,677 active clients whereas TCP serves 30,063 clients (Mahembe *et al.*, 2011).

Mazanai and Fatoki (2012) contend that experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include the following:

- A loan analysis that focuses on the prospective client's ability to pay (cash flow).
- Less emphasis should be placed on collateral. The analysis should be highly standardised, and loan processing times kept to a minimum
- Entitle repeat borrowers to increasingly larger loans
- Loan officers should bear full responsibility throughout the entire life of the loan and should be paid performance based salaries. If payment problems occur, there should be a powerful incentive structure in place for immediate follow-up
- Appropriate decision-making and control mechanisms should be in place and supported by a strong Management Information System (MIS) and information

technology (IT) to assist in the management and administration of the loan portfolio (Mazanai & Fatoki, 2012)

Hoque, Chishty and Halloway (2011) stated that some commercial banks around the world have learnt lending and pricing strategies that allow them to compensate for the high transaction costs of making many small loans and have adopted risk management techniques proportionate with the higher risk profiles of their SME clients. Many of the innovations originated in serving clients at the lower end of the private sector range using microfinance technologies. These innovations consisted of providing small, uncollateralised working capital loans; promising access to larger amounts for longer terms based on repayment performance; and permitting small savings accounts that were safe, convenient, and flexible regarding withdrawal (Anku-Tsede, 2014; Kostov, 2014).

Some microfinance institutions have modified their microfinance business models to incorporate SME operations by taking advantage of their market knowledge and networks, and by adapting their microfinance methodologies (IFC, 2010). These up-scaling MFIs typically target the lower end of the SME spectrum, namely very small businesses that have more features in common with their main target market of microfinance clients, as reflected by the average loan size of these institutions (Kariv & Coleman, 2015). For small firms operating on the verge of informality, up-scaling of microfinance to SME finance seems to have great potential. In such cases, up-scaling would comprise offering financial services/products that cater to the special needs of a small enterprise. The benefits of up-scaling may encourage a transition from an informal to a formal enterprise (Lam, 2010).

2.8.2 Organisations facilitating Access to Finance for SMEs

Outside the public sector and bank financing, two seemingly contradictory processes have picked up momentum in recent years. Yu (2016) noted that many of the non-governmental organisations (NGOs) and community based organisations (CBOs) active in the small enterprise support sphere have faced declining public or foreign (donor) funding, which forced them to rationalise, scale down the range and spread of activities, merge with other bodies or close down altogether (Matamanda & Chidoko, 2017). At the same time, there has been a rapid increase in the number and activity range of private,

profit-based service suppliers focusing on particular needs of small enterprises. These include private persons helping entrepreneurs with the preparation of their business plans, mentors, marketing agents and more generally, the suppliers of financial, business and property services, as well as training and related consultancies (Ntiamoah, Li & Kwamega, 2016). Some of these services are supplied as part of the service packages of financial, marketing, insurance and human resources service suppliers, whereas others focus more narrowly on specific needs of small enterprises. In many cases, these private services are financially supported by public sector support programmes (through vouchers for example,) which means the private service supplier is only the implementing agency.

Business Angels

According to MacAn-Bhaird and Lucey (2011), private investors who invest directly in private unlisted businesses, in return for an equity stake, and who perhaps take a seat on the firm's board, are often referred to as business angels. The concept of a business angel is unknown in a fiscal sense in South Africa. MacAn-Bhaird and Lucey (2011) further stated that overseas, business-angel risk capital is defined as financial investments made by private persons (individually or in small groups, but not an institution) directly in SMEs. So, the term business angel does not apply to the entrepreneur as such, the employees of the company or existing investors or partners. The businesses concerned are often of a high-tech and high-risk nature, and the tax incentives are designed to support such entrepreneurial businesses (Wonglimpiyarat, 2015).

Macht and Robinson (2009) suggested that falling within this category is the steadily expanding trend of larger enterprises providing development services or outreach programmes for small enterprises – be it their clients, suppliers or some other target groups. This can be in the sphere of procurement, in training programmes or the sponsoring of vouchers for discounts on service charges education and training institutions here, for example services Sector Education and Training Authority (SETA), since many have steadily expanded their offerings of training programmes or short courses for small enterprise managers or entrepreneurs (Daskalakis *et al.*, 2013).

There are organisations which do not provide direct financing to SMEs but can guarantee a part of the bank loan which the business owner-manager takes out. The business owner-manager must guarantee the remainder of the loan with his/her asset. Out of this group of organisations, there is Khula Enterprise Finance (Crampton, 2016), which is a government agency that is the most prominent one.

There are also organisations covering the cost which the lender incurs for processing loan applications from small businesses. They also work to reduce the risk for the lenders by assisting businesses with managing their operating and finances and repaying the loans. One such organisation is Sizanani, which assists businesses with obtaining bank loans for up to R100 000.

Venture Capitalists

Private equity financing is often necessary to enable firms to grow, invest in fixed assets, and support increased needs for debt (Richard & Mori, 2012). Typically, private equity investors receive a return on their investment through an initial public offering (IPO), a management buy-back, or the sale of the controlled business to a larger one. Private equity investment in start-ups and very young firms are also known as venture capital finance. Venture capitalists inject cash into such companies and are likely to provide management expertise (Entrepreneurship Forum, 2014). In some countries, business angel investors (“informal venture capitalists”) contribute their capital and business experience to assist fast-growing companies with high potential (Kariv & Coleman, 2015). A few specialised private equity companies have started investing in SMEs in developing markets with positive development outcomes and financial returns.

The venture capital funds do not offer loans but invest directly in businesses for getting a return, which is a share of the profit, and the venture capitalist typically takes a board level position in the business. They will sell their shares in the company within three to seven years. The shares can be sold to the business owner or another investor. Venture capitalists usually aim for getting a 30% return on their investment. This makes it difficult for most small businesses to obtain finance in this way. The Government agency for small business loan, Khula, has its venture capital fund which has more easily accessible finance.

Table 2.5 summarises the main requirements for accessing start-up financing from the three main external sources.

Table 2.5: Requirements for accessing financing

Types of finance and the related requirements			
Type of finance	Government grants	Commercial bank loans	Private equity finance
Requirements	<ul style="list-style-type: none"> • South African black owned business • Nature of the business • Business plan • Financial statements • Comply with CIPC & SARS • Credit history 	<ul style="list-style-type: none"> • South African Black owned business • Management skills • Financial statements • Business plan • Credit history • Statement of assets and liabilities • Collateral information 	<ul style="list-style-type: none"> • Financial information • Appropriate decision-making • Control mechanisms

Source: Researcher's compilation

2.9 SUMMARY

This chapter has analysed different options of external financing for SME start-ups. Large firms are advantaged to access the capital market and getting quick financing at low cost, but this is not the case with SMEs in South Africa, owing to high levels of regulatory and other constraints. SMEs are compelled to access finance from a limited financing options mainly from Government grants, bank loans and different types of private equity finance. The information about the requirements to access to these financing options were discussed. Table 2.5 summarises the main requirements for accessing start-up financing from the three main external sources.

The next chapter discusses the key determinants of the success of SME start-ups, namely, start-up awareness; and requisite management skills will be discussed culminating in the development of the research model and hypotheses.

CHAPTER THREE

START-UP AWARENESS AND REQUISITE MANAGEMENT SKILLS

3.1 INTRODUCTION

In Chapter 2, the need for finance, financing options and requirements for obtaining finance from various sources were discussed. It became apparent that SMEs cannot access external funding easily, as the requirements of lending institutions may not match the ability of SMEs to get financing on affordable terms and conditions. The general requirements of most finance providers have been reviewed, as well as the specific requirements of the four major banks in South Africa.

This chapter discusses the Resource-based theory (RBT) which is the theoretical framework for the study. After that, the chapter will review the literature on start-up awareness and management skills which are important for an SME seeking finance, and this will culminate in the development of the research hypotheses and theoretical research model.

3.2 RESOURCE-BASED THEORY

The field of strategic management assumes that firms strive to differentiate themselves from rivals to earn and sustain a competitive advantage (Hitt, Xu & Carnes 2016). Therefore, it is not surprising that strategic management scholars identified and translated original ideas to understand how firms create advantages over industry rivals with their strategies. Wernerfelt (1984) was one of the first to do so by linking competition among product market positions to competition among resource positions. A scholarly dialog between Barney (1991) and Dierickx and Cool (1989) further advanced the understanding of resource-based competitive advantages.

The resource-based theory (RBT) argues that firms possess resources, a subset of which enable them to achieve competitive advantage, and a subset of those that lead to superior long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution (Beck & Wiersema, 2013)

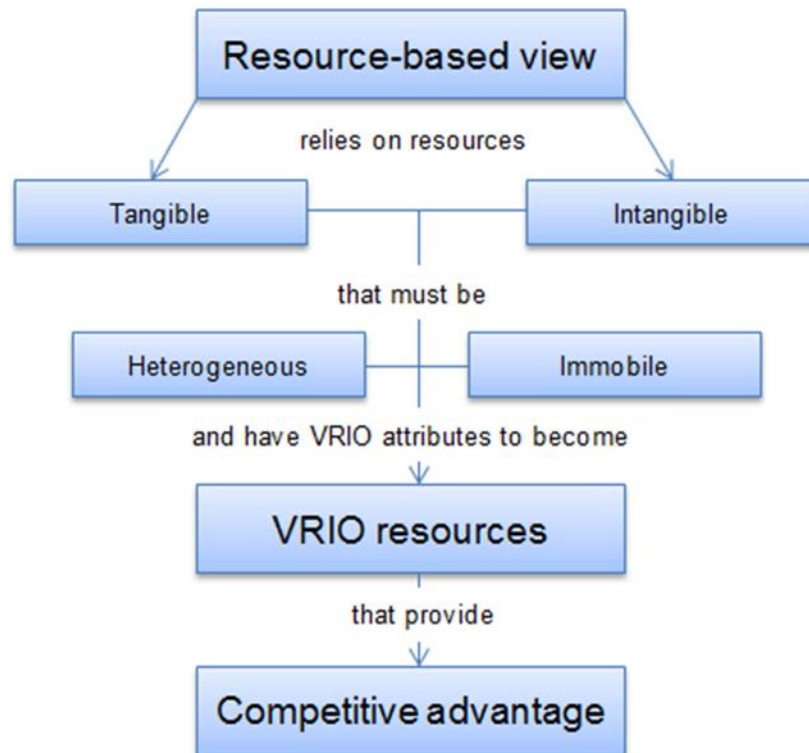


Figure 3. 1: Resource-based view concept

Source: Jurevicius, 2013

The RBT has three assumptions:

- a firm is a bundle of resources
- resources that are Valuable, Rare and Inimitable and Organised with a supported business model (called VRIO framework) creates a sustainable competitive advantage for the firm
- resource position of the firm determines its position in the markets and its competitive strategy in an industry.

The RBT traditionally focuses on the relationship between resources and competitive advantage (Chiu, 2015). Resources that are valuable, relatively scarce, and difficult to imitate are strategic assets that can deliver competitive advantage (Gillis, Combs & Ketchen, 2014). Possessing only strategic assets, however, is not sufficient (Barney,

Ketchen & Wright 2011), because resources must be actively assembled, organised, and deployed to create valuable products and services. In this way, the RBT has organisational implications, since different ways of organising affect the ability of managers to leverage different strategic assets (Gillis, Combs & Ketchen, 2014). Rashidirad, Soltani and Salimian (2015) stated that resources and capabilities are important for understanding the sources of sustained competitive advantage for firms. The authors above also define resources and capabilities as bundles of tangible and intangible assets, including a firm's management skills, its organisational processes and routines, and information, to help choose and implement strategies (Barney, Ketchen & Wright, 2011).

Ferreira, Azevedo and Cruz (2011) suggested that SME start-ups may be considered as a special case of RBT because a SME start-up has few if any, stock of resources, other than the knowledge of the entrepreneur(s). This knowledge is in turn used in the acquisition, development, and application of other resources that will lead to a competitive advantage and superior performance (Louw & Venter, 2013). In other words, the critical task of the entrepreneur is to determine the flow of resources that will create 'costly-to-duplicate' stocks of resources (Norhasni, Sofri & Harashid, 2014; Yu, 2016). Both entrepreneurs and potential external finance providers assess the expected returns of a start-up business according to their perceptions of the entrepreneur's ability to develop unique resources that can be applied to a particular market or markets (Liao & Duy, 2017).

Ferreira, Azevedo & Cruz (2011) argued that knowledge is the foundation for the rent-earning potential of all resources, and individuals create knowledge. Furthermore, because it is difficult to exchange, "tacit knowledge (knowing how)" that can be applied to a situation will be more important for building a competitive advantage than "explicit knowledge" (facts or theories), which can be exchanged more readily (Ferreira, Azevedo & Cruz, 2011). The early years of RBT's development focused on establishing theoretical and empirical relationships between the presence of resources and the development of sustained competitive advantage. More recently, Barney, Ketchen and Write (2011) suggested that the central issue of where resources come from has begun to attract attention. Wernerfelt (2013) considers the processes through which a firm can acquire

resources, and he argues that its current stock of resources creates asymmetries in competition for new resources. Wernerfelt (2013) developed two simple models to illustrate how this can work through linkages on the demand and/or cost side. The normative implication is that firms should expand their resource portfolios by building on their existing resources. Different firms will then acquire different new resources, and small initial heterogeneities will amplify over time (Liao & Duy, 2017).

In applying the Resource-based theoretical foundation to the current study, the key determinants of the success of SME start-ups influencing the ability of start-up businesses to access external finance, are considered as key resources and capabilities that the entrepreneurs should develop in order to establish a successful start-up business.

3.3 KEY DETERMINANTS OF THE SUCCESS OF SME START-UPS

Generally, success reflects the achievement of intended goals and objectives in whatever sector, and success and failure are two key terms in management, they interpret and measure good or indifferent management. Mostly, success refers to a firm's financial performance (Gomezelj, 2013; Philip, 2010).

According to Chawla, Khanna and Chen (2010), the determinants of business success, also called key success factors (KSFs) or key result areas (KRAs), are the areas that the entrepreneur must take into consideration to ensure the success of a business. Varying from 3 to 12, these determinants characterise, condition and determine variables that have a direct and serious impact on the effectiveness, efficiency and viability of an organisation, program or project.

The key determinants of SME start-ups' success, are grouped in two categories, namely start-up awareness (SUA) and management skills (MS), these respectively refer to external and internal determinants. While the internal determinants are organisation related elements which are controlled by the business owner or entrepreneur, the external determinants are all related to the business environment and not controlled by the entrepreneur. For this research, external determinants are referred as start-up awareness, and internal determinants are referred as management skills.

3.3.1 Start-up Awareness

During the start-up phase, the entrepreneur must be aware of the opportunity, since opportunities will lead to a potential sustainable business. Furthermore, a business plan must be completed to pull together all the elements necessary for success and determine the amount of seed capital required, as well as the source of this seed capital. During this process, it is also important to select the correct geographic location for the potential business.

Business opportunity

Awareness of the business opportunity is a starting point, and it is defined by Short *et al.* (2010) as “a set of exploitable circumstances necessitating the involvement of commitment and resources with unknown risky result.” The business is likely to fail if there is a lack of opportunity since a good idea is not enough to make profit within an existing market (Short *et al.*, 2010; Chell, 2013).

Market research

After understanding and defining the business opportunity, the entrepreneur will define the way the business can gain a competitive advantage in the market, and certain researchers (Mariotti & Glackin, 2014), argued that market research is the effort through which a new company (business) which is not a market leader, will move up. The researchers above further argued that a new business will gain competitive market advantage through three strategies: cost leadership, niche markets and differentiation (Mariotti and Glackin 2014). SMEs are however improbable to be market leaders using cost leadership alone; they will gain market share through differentiation or targeting niche markets (Short *et al.*, 2010).

Differentiation

Sen (2014) argued that differentiation means “making a product or brand to stand out as providing a unique value to customers compared to its competitors.” The new firm has to lower its prices through cost differentiation with the intention to lure some customers away from competitors. By adding extra value to its products, the company will make sure to keep the same price and expect to attract more potential buyers. Competitive products or

brands must be differentiated like any innovation since developmental power is likely to be rapidly copied (Sen, 2014). The challenge of choosing the appropriate services that the company can offer must not be taken lightly, and both the company's strategy and sources of market differentiation have to be considered (Raddats, 2011).

Business model

According to Blackburn, Hart and Wainwright (2013), the reason for a business model is to define how the business delivers value to customers, lures customers to pay for value and from these payments profits will be made. Basically, a business model reflects organisational and financial planning of a business. The minimum standard requirement that the business model has to meet is to reflect its competency by projecting the cash flow and profit for a certain period. The entrepreneur will consider drawing a business plan given the context of the industrial sector in which the company will trade (Blackburn, Hart and Wainwright (2013). For a start-up business, the business model will reflect a tentative thought on how the company will deliver "what value", "to whom". For an established company, the business model will be changed to become more competitive, and when it is necessary to change the business model profoundly, it will be called business model innovation, in which the consequences of such innovation will be reflected (Philipson, 2016).

Business strategy

According to Blackburn, Hart and Wainwright (2013), strategy is conceived as "think out in advance, is valid only in some cases, in which the business model is a complex system that has been conceived in advance." The fundamental strategic question that will be raised is how does the entrepreneur build a sustainable competitive advantage and make abnormal profit? Because of easy imitation of products and services, developing a successful business model will not be enough. Blackburn, Hart and Wainwright (2013) suggested that the company outperform its rivals by establishing a difference that it could preserve, and such a difference will be maintained when the firm can make choices given organisational practices, and demotivate competitors to imitate discrete advantages. Competitors will not be able to profit from imitation unless they match the whole activities system (Blackburn, Hart and Wainwright (2013).

Phillipson (2016) outlined the difference between the business model and business strategy as follows. “On the one hand, a business model creates value for customers and develops a model around that value, and emphasis is placed on capturing the value created, and the other hand, the emphasis on the value captured and its sustainability is more on the realm of strategy.” Therefore, business strategy will require more analysis, calculations and choices that are reliable information available in the entrepreneur’s hands (Phillipson, 2016). Additionally, Abraham (2013) opined that, “while the business model determines who the company’s customers are, and how to make profit by providing value, business strategy will look at how the company will beat its competitors through differentiation.”

The company will not be able to analyse and develop its competitive advantage by using a business model, but that can be done using business strategy. Hence, the range of strategies such as low-cost leadership, differentiation, focus acquisition, being acquired, merger, and liquidation can be analysed using business strategy and not a business model. Abraham (2013) affirmed that “the business model serves the basis of business viability, while the business strategy will move the business to the next level of achievement of superior profitability.” Blackburn, Hart and Wainwright, (2013) argued that “small businesses are likely to use strategies that emerge over time, that are flexible and unconstrained. Business planning is more likely to be considered in small businesses than just developing a written document for strategy formation.

Feasibility study

Irwin (2014) defined feasibility study as “a start-up business success factor that is used to determine if the intended outcome of an applied situation is likely to be achievable.” Feasibility study precedes and serves the groundwork for a business plan. Morden (2016) stated that the feasibility study mainly involves five other studies, namely, technical viability study, organisation viability study, competitor analysis; market viability study and financial viability study.

The technical viability study consists of analysing the technical aspects of the product or service; it would determine if it is practically possible to deliver the intended product or service, which would give advantage to innovations. Issues such as supply chain in

getting the raw materials, delivering of the final product to client, the ability to convert the intellectual property into a tangible product or service, and the ability to comply with the legal and regulatory requirements have also been taken into account (Stoney & Greene, 2010).

The organisational viability study considers the cost and availability of human capital and infrastructures required for the business. Also, the organisational structure should focus on business strategy. Otherwise, the business strategy will not be achieved. A financial viability study involves the analysis of the starting and working capital requirements, sources and cost of capital, and projected financial statements. A competitor analysis assists the company to understanding which competitors exist in the market, what are their products and pricing, and understand their strategies. The company will anticipate the existing competitors' potential reactions to strategic decisions of the company to launch a product or service.

A market viability study includes market research, which serves the company to ensure the existence of demand for the new product or service, and it would determine if the market is large enough and if the competitive sphere will easily accommodate the new product or service. In so doing, in return, market viability study will assist the company define a marketing strategy (Greene, 2012). A financial viability is the degree to which a strategy, program, project or change is financially possible and attractive. This can be estimated using several common methods, such as cost estimation, return on investment, payback period, and net present value (Maghrebi; Sammut & Waller, 2015).

Business plan

According to Jones and Penaluna (2013:805), a business plan is a "tool that serves to identify and analyse uncertainty in the process of investment, and through which the entrepreneur foresees both internal and external benefits." Jones and Penaluna (2013:805) further stated that "from the external point of view, a business plan is a synopsis of the potential business and the blueprint to exploit it which is provided to potential investors." Alternatively, from the internal point of view, it is a roadmap to be followed. These two (internal and external) perspectives when combined, "highlight why an entrepreneur should write and analyse a business plan before starting-up a business,"

(Jones & Penaluna, 2013:805). Schiraldi and Silva (2012) pointed out that “a business plan is a compulsory requirement for loan applications or co-investors; however, it is still an important instrument for internal management.” While writing a business plan, the entrepreneur must indicate the mission, goals, objectives, strategies, core competencies, the action plan that links between resources and core competencies, and feedback and monitoring systems.

Amount and source of seed capital

After establishing the plan and strategy of the start-up business, the entrepreneur needs to solve the issue of seed capital, inter alia, the amount and source, which are very important in starting a business. An incorrect source of seed capital will lead to inability to raise finance, and consequently business failure (Burke, 2006; Mmako *et al.*, 2017).

Location

Fatoki and Odeyemi (2010) noted that the location of a new business also influences market potential and growth opportunities. A new business that is geographically located close its buyers or suppliers creates an enabling environment that identifies and exploits growth opportunities in the market. Freeman and Style (2014) pointed out that, “Geographic location implications on the new firm exist in its access to markets and resources.” Indeed, the export and import performance of SMEs are influenced by its location; for example, firms in an urban city have the advantage of access to import-export related infrastructure and services, compared to those located in remote regions.

Decision-making ability

The literature on decision making shows that rationality plays an important role, and several researchers have attempted to define the concept. Francioni, Musso and Ciopi (2015) described rationality as “the extent to which the desire to make the best decision is reflected in the process of decision making, that is taken under such circumstances as intended rationality.” However, the entrepreneur would endeavour to collect the necessary information to formulate expectations about different changes that will be used in the final decision (Francioni, Musso & Ciopi, 2015). Smorfitt (2008) stated that the decision speed is often related to decision accuracy; therefore, the entrepreneur is under

pressure to understand how to make relevant decisions relatively quickly. Sometimes, intuition has been recommended to guide among a wide range of acute decisions in the company. Dane and Pratt (2007) suggested that decision-making skills may be essential in completing difficult tasks that need short time horizons, such as business planning, stock evaluation, and performance assessment. Dane and Pratt (2007) further emphasised that decision-making skills serve the entrepreneur to make both fast and appropriate decisions in the organisations.

3.3.2 Management skills as key determinants of the success of SME start-ups

Management skills are equally important to start-up awareness, and play a major part in the success of a start-up business. Start-up businesses are critical and there is no doubt that starting and growing a business will make a greater contribution to job creation and GDP growth rates (Mazanai & Fatoki, 2012). Management skills, according to Jones and George (2015) improve the likelihood of business success. There is once again no academic consensus on the question of critical management skills for ongoing business success. No single determinant has been identified as being of particular importance or more important than any other determinant, and no particular combination of determinants has been identified as being more likely to lead to failure or success.

General management skills and experience

Fatoki and Odeyemi (2010) suggested that managerial competencies are “sets of knowledge, skills, behaviours and attitudes that contribute to personal managerial effectiveness.” The researchers above further examined the importance of management competencies in the success of SME start-ups and found that lack of managerial experience, skills and personal qualities as well as other determinants such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why SME start-ups fail.

According to Chell (2013), entrepreneurship and innovation skills are likely to be specific to those activities and to aim to produce particular outcomes, which vary from business funding, growth and sustainability of an enterprise. The SME start-up will, therefore, be capable of developing innovative products and services, enabling enterprises to compete locally, nationally or globally (Chell, 2013; Gill & Bigger, 2012).

Strategic management

Strategic management, as a research field and practice, emerged to address the question of why firms enjoy different performance, and consequently, how these performances, when superior than competitors, can be maintained or even improved. A good strategy, resulting from a proper planning process, is, therefore, the instrument to strive for keeping high performances and preserving success (Braun, Latham & Porschitz, 2016; Ghezzi, 2013). However, as the rate of change and innovation increase rapidly, such strategy should be characterised by an adaptive or resilient nature. This will continuously create endogenous innovation or catch up exogenous changes, to maintain an adequate strategic fit between the firm's strategy and the surrounding internal and external environments (Louw & Venter, 2013; Ghezzi, 2013). Also, sometimes change is not only incremental, it is configured as a discontinuity which radically departs from the original state and introduces unexpected, unplanned – and often dramatic – variations (Louw & Venter, 2013; Ghezzi, 2013).

Technical skills

Obiajunwa (2013) stated that lack of technical skills or related experience in the chosen business also has an enormous impact on the ability of the business to succeed. The SME owners should have adequate technical skill and a good working knowledge of the business. Also, Obiajunwa (2013) noted that the SME owners must have expertise in project management techniques, maintenance job planning, basic maintenance engineering and logistics. The acquisition of sufficient knowledge of the technology of the business is necessary to enable the managers to understand all aspects intelligently (Obiajunwa, 2013).

Organisational structure

According to Jones and George (2015), a key component of staff management is the organisational structure. The organisational structure will be a simple structure in most of small businesses, but as the business grows, or intends to grow, the organisational structure will be required to change to suit changing needs within the business. The purpose of organisational structure is the division of work among members of the company and the coordination of their activities, so they are directed towards the goals

and objectives of the organisation. Organisational structure makes possible the application of the process of management and creates a framework of order and command through which the activities of the company can be planned, organised, directed and controlled.

Organisational structure is clearly important for any business, whatever its size. However, in the small businesses, there are likely to be fewer problems of structure. The distribution of tasks, the definition of authority and responsibility and the relationship between members of the company can be established on a more personal and informal basis. With increasing size, however, there is greater need for a carefully designed and purposeful form of organisation, there is need for a formal organisational structure. There is also need for a continual review of structure to ensure that it is the most appropriate form for the particular organisation and in keeping with its growth and development (Mullins, 2010; Qiu, Wang & Nian, 2014).

Financial management skills

Nieuwenhuizen (2011) stated that financial management skills and systems are important criteria in the ongoing success of a business, and key to these skills is the ability to interpret financial statements. A great marketing team may generate the necessary sales, but unless the cash is managed and a constant flow of cash maintained, the business will fail in the short term (Burke, 2006). Financial management depends on the accountants' role which ranges from being involved in company audits through the internal audit program, to appraising investment proposals with an eye to the company benefits, to the analysis of waste and energy costs in order to encourage their reduction, and to the provision of information to support company management (Mariotti & Glackin, 2014).

According to Mistry, Sharma and Low (2014), the management accountants' role has been obscured by the more prominent roles of accountants who are engaged in financial reporting, auditing, and taxation activities. The role of management accountants was mainly seen to be in direct contribution to the planning and control of organisational operations. Increasingly management accountants are seen to be playing an important role in organisational decision-making processes. Mistry, Sharma and Low (2014) further presented the roles of management accountants using various descriptors denoting a

bean counter type role, and some, a business partner type role where the business partner role generally denotes an increasing emphasis on a more strategic, forward-looking and collaborative role orientation (Mistry, Sharma & Low, 2014).

Leadership skills

Nieuwenhuizen (2011), and Mmako *et al.* (2017) pointed out that a lack of leadership skills can be crucial in a SME, where the entrepreneur might be the only manager in the enterprise, leading to poor management of staff. Leadership skills in any business are critical, but in an SME, individual leadership skills play an even more important role due to the lower numbers of managers in the organisation. Entrepreneurs need entrepreneurial, leadership and managerial skills sets. Entrepreneurs are not by default great leaders or managers. Therefore, the entrepreneur needs to do a detailed self-assessment and gain the skills required to fill the gaps in his /her skills portfolio (Kearns *et al.*, 2015).

Bamata's research (2013) on leadership styles which focussed on the orientation of the leader toward completing tasks versus motivating people, the leader's use of power and symbolism, the leader's approach to delegation, and the decision-making styles of the leader, posit that leaders should diagnose the needs and motivations of their followers and adjust their leadership style accordingly. However, another body of literature has described what leaders do and how they add value in the organisations they serve (Bamata, 2013).

According to Kearns *et al.* (2015), the skills employed by leaders to carry out their various tasks and roles, can be summarised in three very broad sets of leadership skills:

Technical skills: the leader's knowledge and proficiency in a particular type of work or activity that is distinctive to the organisation and/or the industry in which it operates. Some people refer to these as business skills that are essential to the mission of a given organisation.

Human (interpersonal) skills: the leader's ability to work with people including subordinates, peers, and superiors; helping people work cooperatively toward a common goal. These skills include motivating employees, communication and active listening, persuasion, and building trust.

Conceptual skills: The leader's ability to work with ideas and concepts including vision, strategy, and putting goals into words (Kearns *et al.*, 2015).

Communication skills

Jones and George (2015) stated that communication is also a critical component of business life. Businesses are required to communicate both internally and externally. Businesses communicate externally with customers and potential customers, and the ability to create demand for the businesses' products or services is dependent on how well the business communicates. Similarly, one of the roles of the entrepreneur as a manager is to control and co-ordinate resources to facilitate the most effective and efficient use of the limited resources that every business has. Communication systems, such as e-mail, are also critically important in any communication system today. Similarly, the use of intranet and extranet systems will also enhance the firm's communication and information systems (Westhead, Wright & McElwee, 2011).

Bambacas and Patrickson (2009:111) suggested that "the ability to manage staff is closely related to communication, management and leadership skills." However, management of staff is critical to ensure a successful business. Staff form one of the three resources a business has, and which requires management to make the business effective and efficient in delivering the products and services it offers to customers. Bambacas and Patrickson (2009:111) further suggested that a "business' human capital is the foundation of its strategy and that without the correct and sufficient human capital, strategic objectives cannot be met." The ability to communicate effectively has gained importance for the entrepreneurs wanting to succeed, and programs for entrepreneurs planning a successful business are encouraged to develop competencies stemming from communication. Especially, those who are managing a small group of subordinates are expected to have good personal communication which later builds to effective relationships in growing business, and establishing trust, credibility and high integrity as they progress to the latter part of their businesses (Bambacas & Patrickson: 2009).

Inventory management skills

According to Swart (2013), inventory management skills include financial and inventory controls. Inventory is cash in another form, and therefore it impacts directly on financial

controls. Overstocking uses cash unnecessarily, and understocking leads to the loss of sales, and similarly, debtors too consume cash unnecessarily. This requires consistent and tight controls to ensure that the current assets of the firm are well controlled. Uncontrolled growth, together with poor financial and inventory control, are also major contributory reasons to business failure, and poor controls within a business lead directly to business failure (Burke, 2006).

Marketing skills

Boone and Kurtz (2011:353) explained that "marketing is an organisational function and a set of processes for creating, communicating, and delivering value up customers and for managing customer relationships in ways that benefit the business and its stakeholders." Marketing efforts are a serious attempt by a firm or business in setting these processes (Mogontha, 2013:2297). Marketing channels exist to make goods available to end-users in the right place, condition, quantity, and time. This knowledge is important for business owners and practitioners and can inform the development of richer contingency theories about marketing channels in an era dominated by increased globalisation (Onyemah & Akpa, 2016:115).

Contingency management skills

Jones and George (2015) pointed out that marketing skills in a business are critical to the success of every business, as are contingency management skills, which allow the owner to adapt to ever changing circumstances. There will also be a greater requirement for contingency management in that small and medium businesses are not market leaders or market challengers but rather market followers and market niches (Bamata, 2013). As a consequence, they need to change in response to changing circumstances within their environment more than the market leader would need to and would often have to change in response to changes implemented by the market leader (Smorfitt, 2008).

Prior research (Wadongo & Abdel-Kader, 2014) has identified contingency variables in the internal and external organisational environment, which influence the performance management of the business. These variables include size, organisational structure, strategy, technology, culture and leadership. External environment is a significant contingent aspect that includes a degree of environmental unpredictability or uncertainty,

the degree of competition or hostility exhibited and the environmental dynamism or turbulence faced by the organisation (Wadongo & Abdel-Kader, 2014).

Control skills and systems

Management control systems are vehicles for organisations to achieve their goals by securing organisational conformity with underlying social expectations, which is the source of legitimacy and resources (Schäffer, Strauss & Zecher, 2015). According to Swart (2013), in the current information age in which businesses find themselves, systems that meet the current and future needs for information, are essential components in a firm's portfolio of criteria for success. Giant steps in information technology-enabled initiatives have greatly increased the importance of investing strategically in information technology. Furthermore, it is important that information technology continually progresses and adds value to the business. Too many firms have a reactive response, rather than a proactive strategy, to the implementation of information technology. These integrated systems need to include an accounting function, a sales management function, communication systems (e-mail) and a marketing intelligence management system (Mariotti & Greene, 2014).

Growth oriented skills

Another important determinant of start-up business success that must be considered is whether the entrepreneur desires to grow the business. Many business owners are merely seeking to grow the business sufficiently to provide income that will meet their personal needs in the present and have no motivation nor perhaps the ability or capability regarding resources and expertise, to grow the business to its full potential (Ayandibu & Houghton, 2017).

The business that intends to grow will most likely reflect this intention in their marketing strategy (Greene, 2012), as part of their business plan. It is important to note that when evaluating a firm's growth strategy, the growth of the industry in which the business is trading in, or is intending to trade in, is also to be considered. Growth strategies in declining industries are extremely difficult to achieve. Growth should be one of the main goals and objectives of every SME. However, uncontrolled growth has led to the demise of many businesses. The starting point is to set, carefully, the required growth targets and

to then work towards the achievement of these goals through the efficient utilisation of the business' resources. Careful management of the growth process makes it possible to avoid the problems associated with uncontrolled growth (Poposka, Nanevski & Mihajlovska 2014).

Klofsten and Jones-Evans (2013) suggested that firms are prioritising their participation in training programmes which facilitate the supply of the necessary skills and competences required by managers, which can then lead to greater innovation and growth within the company. More importantly, research has shown that entrepreneurs who are prepared to invest in the long-term development of the company through training and learning programmes are more likely to show greater entrepreneurial orientation and be more open-minded towards new opportunities for growth (Klofsten & Jones-Evans, 2013:300). Small business growth strategies proposed by advisors, and policies to encourage growth, are destined to fail if small business owners are not prepared or willing to grow their firms (Weber, Geneste & Connell, 2015:30). The personal motivations and intentions of business owners will impact on whether they want to grow the business or not. As pointed out, there are some reasons small business owners deliberately ignore opportunities to grow their firms, including concern for employee well-being, loss of the positive "small" business atmosphere, less involvement and job satisfaction (Weber, Geneste & Connell, 2015:32).

3.3.3 Other determinants of business success

Other factors that impact on the SME's success in South Africa can be classified as either start-up awareness or management skills, which include networks; personal qualities and traits of the entrepreneur; economic variables and markets; crime and corruption; and labour, infrastructure and regulations. These will be discussed briefly in the context of the aim and objectives of this study.

Networks

Fatoki and Odeyemi (2010:131) describe networking in a small firm context as "an activity in which entrepreneurially oriented SME owner-managers build and manage personal relationships with particular individuals in their surroundings." The researchers above further agreed that networking can be used to reduce information asymmetry in

creditor/debtor relationships. Social obligations between connected parties, and information transfer through social relationships, influence venture finance decisions. The researchers above found that long-standing relationship between a trade creditor and new SME owner does convey any advantage in the case inter-firm trade. Also, networks and relationships increase a firm's legitimacy, which in turn positively influences the firm's access to external financing. Networks also help a firm learn appropriate behaviour and therefore obtain needed support from key stakeholders and the general public. In large part, networking substitutes for the lack of effective market institutions, can be an effective way for SMEs to access external financing, including bank loans in emerging economies. Networking could be expected to provide to the trade creditors information on legitimacy, which in turn should give the SMEs advantages in accessing trade credit (Fatoki & Odeyemi, 2010:131).

Personal qualities and traits

According to Bamata (2013), personal qualities and traits make an individual a successful entrepreneur. This means that if an entrepreneur's confidence or power is great and strong enough, it will motivate others to believe in them. It is accurate that an effective leader possesses other qualities in different levels such as compassion, although confidence is the most significant, the one extremely necessary qualification. Adair (2009) lists 17 personal qualities and traits, namely, ability to make decisions; energy; humour; sense of justice; determination; lead by example; physically fitness; pride in command; loyalty; sense of duty; calmness in crisis; assurance (confidence); ability to accept responsibility; human element; initiative; resolute courage; and enthusiasm.

Economic variables and markets

According to Fatoki and Garwe (2010), economic variables are external determinants that have a direct impact on the potential attractiveness of various strategies and consumption patterns in the economy and have significant and unequal effects on organisations in different industries and different locations. Economic variables include the fiscal and monetary policies of the government, inflation, interest rates and foreign exchange rates. These variables influence the demand for goods and services and hence the growth of new SMEs (Fatoki & Garwe, 2010). South Africa's current economic environment is

characterised not only by high interest rates but also by low growth rates (low consumption), high inflation rates and declining exchange rates. Consumption and confidence have fallen with a lot of firms showing reduced sales, and all these determinants can affect sales, revenues and market potential of new SMEs (African Economic Outlook, 2017).

Fatoki and Garwe (2010 732) further noted that the extent of competition and potential competition also impact on the market potential and growth opportunities of SME start-ups. Potential entrants are entrants that enter an industry for the first time and offer a substitute product or service to a particular sector. The potential competitor is very important in competitive industry analysis. To survive and achieve success, SME start-ups need to understand the dynamics of competition in their industry and develop skills and competencies that give them a competitive advantage. Therefore, owners of SME start-ups have to scan and interpret environmental changes (especially the extent of present or future competition) to maintain their firms' viability and performance (Fatoki & Garwe, 2010 732).

Crime and corruption

The United Nations Office of Drugs and Crime (2014) pointed out that South Africa is amongst the world's five most-murderous nations. Fatoki and Garwe (2010) pointed out that business is the largest organised group suffering from crime and violence, and the effect of crime on business in South Africa is not only alarming but also growing. According to the South African Police Service (SAPS) crime statistics (2014), while the incidences of virtually all major categories of crime has fallen during the past year, business related crime is on the increase, most of these robberies were on small business premises.

A survey sponsored by Standard Bank and Forest Technologies and conducted by Rectron (2015) found that owners of SMEs are not aggressively pursuing avenues to grow their market shares and stay ahead of competitors. Rather they are focusing on operational matters because of the high crime rate. Furthermore, crime increases expenditures or investments in security measures to eliminate or minimise the likelihood of crime. According to Transparency International (2015), corruption both in the public

and private establishments is growing in South Africa. The 2016 corruption perception index (CPI) published annually by Transparency International, ranks South Africa 64th. Fatoki and Garwe (2010) argued that the reason why SMEs engage in corruption is often linked to problems with regulatory compliance and bureaucracy.

SMEs lack the bargaining power and influence to oppose requests for unofficial payments and similar solicitations. The World Bank (2015) found that about 70% of SMEs perceive corruption as an impediment to their business compared to approximately 60% for large enterprises.

Labour and related regulations

SME start-ups require access to a pool of suitable skilled and motivated labour to sustain growth. Fatoki and Garwe (2010) found that it is difficult and expensive for SME start-ups to hire skilled labour in South Africa. Labour can only be hired at a cost and within the confines of the labour regulations, such as the Employment and Minimum Wage Regulations. The quality of infrastructure can affect the growth prospects of new SMEs especially in developing countries such as South Africa. Many developing countries suffer from the deplorable state of basic infrastructure like transportation, telecommunication and electricity. Electricity supply in South Africa does not meet the demand leading to power cuts which can affect the production and turnover of new SMEs. Also, the cost of regulation may impact on the growth of new SMEs. New SMEs have to obtain registration licences and pay taxes (Fatoki & Garwe, 2010; Gill & Bigger, 2012).

3.4 RELATIONSHIPS BETWEEN SUA, MS AND EXTERNAL SOURCES OF FINANCE

Tariq (2013) stated that the inability of entrepreneurs to meet the requirements of financial institutions remains one of the principal challenges SMEs experience when accessing finance. Therefore, the key determinants of the success of SME start-ups, namely, start-up awareness and requisite management skills seem necessary to achieve successful and sustainable SMEs.

Ahmad and Cuenca (2013) argued that the key determinants of the success of SME start-ups need to be considered in such way that the strategic components in which the

business must excel to outperform competitors, must be clearly defined. This situation is reinforced by the requirement of essential competencies in specific business activities or in managing the linkages between business activities. It is against this background that (Skinjar & Trkman 2013:50) asked the following question: to what extent can the South African business owners be supported to build their capabilities that will enable them to access financing as well as perform their businesses?

The entrepreneur will apply the determinants of start-up business success with care and a high level of excellence to achieve the intended goal and overall objectives. If these determinants are identified in a general population of entrepreneurs and then applied to embryonic firms, there is a high probability that the business failure rate will be considerably reduced, and high organisational performance will be achieved (Chawla, Khanna & Chen, 2010; Skinjar & Trkman, 2013).

In this chapter, the determinants are grouped in two categories, the first considers the determinants that are related to start-up awareness, and the second considers management skills. Drnovšek, Wincent and Cardon (2010) assert that the business start-up phase is “an embryonic stage of a business in which the entrepreneur tries to concretise his ideas by securing the finance of the business, structuring and initiating basic operations and trading.” The later phase of the start-up is when the business moves from the idea to a stage of competitiveness in market share (Drnovšek, Wincent & Cardon, 2010).

The key determinants of the success of SME start-ups are analysed and summarised in the South African SME start-up context, and an effort is made to assess their importance and influence on access to external finance sources by SMEs, and in meeting the conditions of finance providers. Once these determinants are isolated, they will be evaluated about the type of finance required, and then linked to the available provision. The key determinants of the success of SME start-ups, namely start-up awareness and management skills refer to external and internal determinants respectively. While the internal determinants are organisation related elements which are controlled by the business owner or entrepreneur, the external determinants are all related to the business environment and not controlled by the entrepreneur.

3.5 CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT

The basic ideology behind designing a conceptual framework is to logically integrate all the relevant aspects of a concept to arrive at a process that can provide the best possible explanation of the problem stated (Kumar & Rao, 2016). Uyar and Guzelyurt (2015) suggested that the lack of finance is one of the major issues influencing the establishment and development of SME start-ups in South Africa. Thus, this indicates the presence of a significant gap in the existing finance options and preferable finance options for SME start-ups. The choice of a type of external finance is so important that most small business failures are attributed to its inadequacy or inappropriateness (Kumar & Rao, 2016). Since small firms differ from large firms in several respects, they use different financing options and methods. Unlike large and publicly traded businesses, SMEs have limited or no access to certain types of external financing such as long-term debt and issuing equity. Therefore, they are more dependent on short-term debt in many cases (Uyar & Guzelyurt, 2015).

The above scenarios justify the need for developing a Framework for SMEs to access external finance, which framework must be built on a combination of the determinants of an entrepreneur's business awareness and management skills, with business processes that lead to preferable external finance options for SMEs. As financing needs and options change with the size and age of a firm, it becomes imperative to design a framework that can provide guidelines for the identification and analysis of the business success factors that would improve SME access to external finance during start-up phase. Sources of external finance for SME Start-ups include finance from the South African government grants, commercial bank finance and private equity finance.

Therefore, to evaluate the relationship between the key determinants of the success of SME start-ups and access to external finance by SME start-ups, it is hypothesised that:

- H1: There is a relationship between start-up awareness and management skills.
- H2: There is a positive relationship between start-up awareness and the choice of personal/social networks as a source of finance.
- H3: There is a positive relationship between start-up awareness and the choice of government as a source of finance.

- H4: There is a positive relationship between start-up awareness and the choice of corporate as a source of finance.
- H5: There is a positive relationship between management skills and the choice of personal/social networks as a source of finance.
- H6: There is a positive relationship between management skills and the choice of government as a source of finance.
- H7: There is a positive relationship between management skills and the choice of corporate as a source of finance.

The conceptual framework may take various forms indicating the main research variables and how they are related (Koopman, Powers, Wang, & Wei 2011). Figure 3.1 is a depiction of the conceptual model to be used in this study.

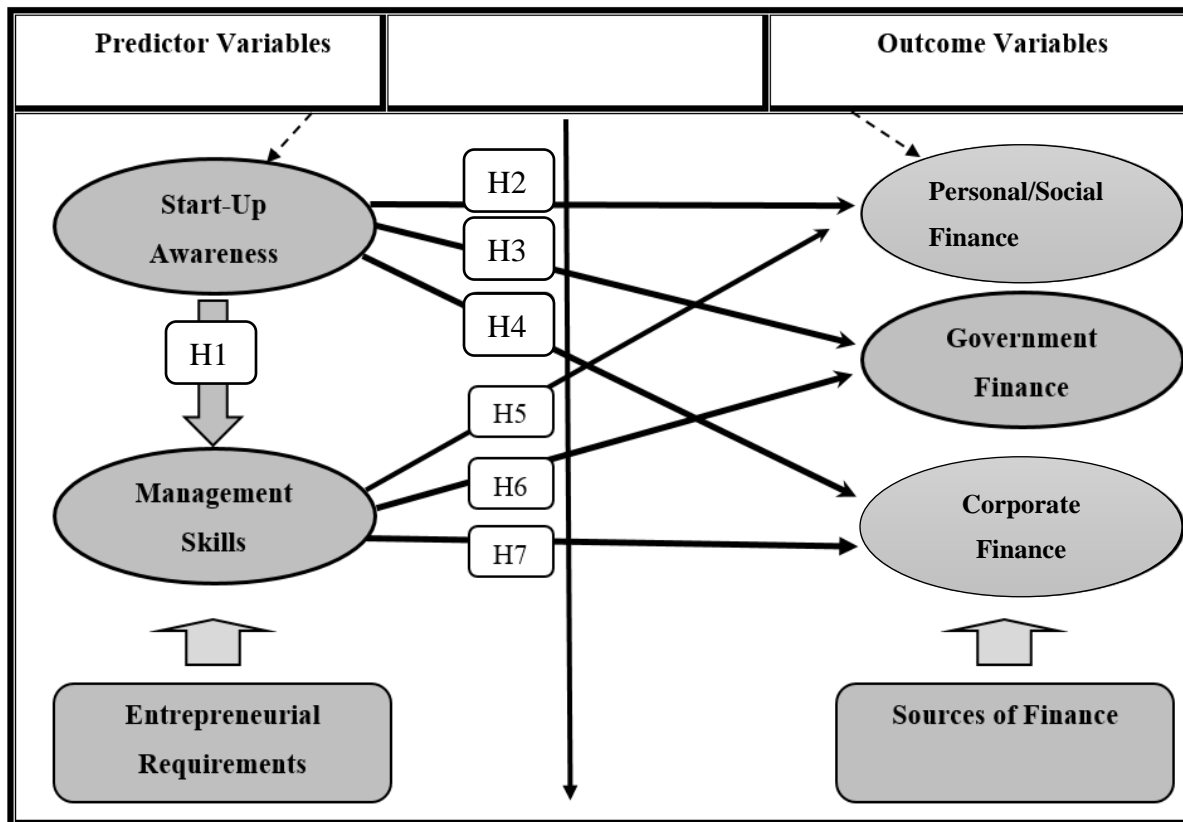


Figure 3. 2: Proposed Conceptual Model

The above model will be assessed using empirical data from a sample of SME owner-managers in Pietermaritzburg, South Africa. The research methodology and data analysis techniques used to collect and analyse the data are described in the chapter that follows.

3.6 SUMMARY

Start-up awareness as key determinants of the success of SME start-ups are related to external issues, which the start-up entrepreneur cannot control, but in the context of which he needs to make choices and decisions. Although they relate to external issues, they are still dependent on the entrepreneur making the correct decisions. On the other hand, management skills are related to internal issues controlled by the entrepreneur, and relate directly to his/her skills.

Through this literature review, the key determinants of the success of SME start-ups are identified and analysed with objective of developing a Financing Framework, which when implemented by SME start-up owner-managers, could positively improve their access to external finance.

This chapter reviewed in some detail the different key determinants of the success of SME start-ups and their importance in general, and concluded in the postulation of several hypotheses and development of a conceptual research model which will be empirically evaluated using the methodology explained in the next chapter.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

According to Olsen (2012), research methodology is a systematic manner to solve the research problem, a science that studies how research is done scientifically since a research study is an effort to expand knowledge in a particular field of study. Research methods provide ideas, instruments and models that demonstrate how to conduct sound research (Babin & Zikmund, 2015).

This chapter describes the research methodology adopted to achieve the aim and objective of the research. A brief description of the research philosophy and design is followed by an explanation of the sampling procedure, as well as data collection methods. The validity and reliability of the measuring instrument, as well as the administration of the questionnaire, are also described. The chapter concludes by describing the statistical analysis of the data.

4.2 RESEARCH PHILOSOPHY

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed, interpreted and used (Saunders *et al.*, 2012). The term epistemology (what is known to be true), as opposed to doxology (what is believed to be true), encompasses the various philosophies of the research approach. Some of these will be briefly explained, followed by an explanation of the preferred philosophy for this study.

Positivism

Positivists believe that reality is stable and can be observed and described from an objective viewpoint, for example, without interfering with the phenomena being studied (Hall, 2014:308).

Interpretivism

Interpretivists contend that “only through the subjective interpretation of and intervention, in reality, can that reality be fully understood” (Wynn & Williams, 2012:788).

Realism

Realism refers to scientific inquiry emphasising the reality projected by our sense as truth. Realism proposes that objects have an independent existence from human mind. However, this view contrasts between direct realist and critical realist (Wynn & Williams, 2012).

Pragmatism

Pragmatism emphasises utilising both positivist and interpretivist philosophy and views both of them as continuum rather than contradictions. A pragmatist avoids going into an argument on concepts of truth and reality, and they focus on studying the issues of interest and value and use different ways to bring out positive consequences (Miller & Sullivan De Estrada, 2017:27).

Olsen (2012:3) argued that in human behavioural research, the positivist approach must be limited to what a person can observe and measure objectively, and independently of individual feelings and opinions. In this study the positivism philosophy was adopted, since this philosophy argues that reliable knowledge comes from scientific knowledge and such knowledge is the positive affirmation of theories using strict scientific method and techniques in view of investigating phenomena based on evidence and subject to specific principles of reasoning (Mastin, 2017).

4.3 RESEARCH DESIGN AND APPROACH

A research design provides the researcher with the basic guidelines for project completion (Babin & Zikmund, 2015). A quantitative research design usually refers to the description of a population with consideration to important variables, and a qualitative research design is usually concerned with developing a richer theoretical perspective than the one that already exists in the literature (Saunders *et al.*, 2012).

The three main research approaches which can be used by a researcher are quantitative, qualitative, and mixed methods research approaches (Sedmak & Longhurst, 2010). The quantitative approach creates data in a quantitative form that can be subject to a rigorous quantitative analysis, whereas the qualitative approach involves using a variety of qualitative data collection techniques and analytical procedure to develop a conceptual

framework. Qualitative research has become a more widely used method in the social sciences and medical research settings and has steadily been gaining ground in business and management sciences in recent years (Ponterotto 2013). Quantitative methods of social research involve, on the one hand, counting and measuring those human behaviours which are plausibly quantifiable, and on the other hand applying the data as evidence in the interpretation and analysis of the issues addressed by the various social sciences (Payne & Williams 2011). Silverman (2011) claimed that the quantitative versus qualitative debate ought not to focus on which methodology is adequate or even more appropriate, but rather on which methodology is most suitable for the problem being researched (Burman 2011; Dickerson 2013).

Mixed methods research involves collecting, analysing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon (Cameron, 2015). Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone (Sedmak & Longhurst, 2010; Vaismoradi, Turunen & Bondas, 2013).

Mauthner and Edwards (2010) stated that the quantitative research is appropriate in situations where the variables are known, and it is possible to develop reasonable ways of measuring or controlling them. The key determinants of the success of SME start-ups and their application by entrepreneurs is a quantifiable phenomenon, and it can be controlled. However, the requirements set by SME finance providers are not quantifiable as such. Thus they cannot be subject to inferential statistical analysis. This research aims to measure the influence that the determinants have on access to external financing by the SMEs since the majority of empirical studies are related to issues about access to finance by large business (Venkatesh *et al.*, 2013). Thus, this empirical study has been systematically undertaken in such a way that the key determinants of the success of SME start-ups are described and tested in the context of the resource based theory.

4.4 RESEARCH CONTEXT

The study was conducted in Pietermaritzburg, the capital and the second largest city in the province of KwaZulu-Natal, South Africa (Pietermaritzburg Tourism, 2016), whose

population was 750 860 at the time of the study. Pietermaritzburg doubled its economy in the past two years, and the uMgungundlovu District's economic activities achieved remarkable growth since 2004 (Pietermaritzburg Tourism, 2016).

4.5 TARGET POPULATION

The target population is a group of individuals who display one or more common characteristics that are of interest to the researcher, and identification of the target populations is a necessary preliminary step, as it provides a base from which sample units and sample size are deduced (Babin & Zikmund, 2015). The targeted population in this study was business owners and managers of different SMEs located in Pietermaritzburg, drawn from the members of Pietermaritzburg Chamber of Business (PCB). The PCB is a registered Non-profit Organisation affiliated to the South African Chamber of Commerce and Industry (SACCI), the International Chamber of Commerce (ICC) and the World Chambers Federation (WCF). The PCB is made up of 832 businesses and is known as the fourth largest Chamber of Commerce in South Africa (PCB, 2016).

4.6 SAMPLE SIZE

The targeted population of 832 SME business owners located in Pietermaritzburg, was large enough and provided useful information that could be statistically analysed. From this universum, government enterprises, non-government organisations, schools, and honorary members of PCB were excluded, since they do not qualify for business funding, and this resulted in the population being reduced to 678. From the population of 678 businesses, a simple random sample technique was used to select the participants, since it is the purest and the most straightforward probability sampling strategy. In simple random sampling, each member of the population is equally likely to be chosen as part of the sample (Dudovskiy, 2017). The sample was randomly selected at a 95 percent level of certainty and a confidence level of 5%, and this resulted in a sample size of 252 resulting from using the following formula.

$$\text{Sampling size formula: } n = \frac{N}{1+(N(e^2))}$$

N = population; e = precision = 5%; Confidence level = 95%; P = 5

Table 4.1: Sample size

	Database	Large	N	e = 0.05	N
PCB	832	154	678	0.05	252

4.7 PRIMARY DATA

Some researchers (Venkatesh, Brown & Bala, 2013:32) concurred that in order to select the appropriate research instruments, the researcher needs to consider data collection methods and instruments which are adequate, efficient and effective to address the research objectives and produce data appropriate to test the research hypotheses or address the research questions in an ethical manner. Based on the guidelines above, the researcher used a structured questionnaire to collect the data.

4.7.1 Questionnaire

According to Babin and Zikmund (2015), a questionnaire consists of a formalised set of questions destined to extract information and in most cases, it associated with survey research to produce primary data, irrespective of the method of administration. The researcher should consider three parameters before development of the questionnaire (Tuli, 2010). The problem was clearly defined to determine the required information to solve it, the population to be surveyed was delimited, and the best means of collecting the required information.

A questionnaire was used to conduct the quantitative research study by utilising descriptive, analytic, causal and evaluative questions (Olsen 2012:148). The questions assessed whether a business falls outside of the SME definition criteria according to the National Small Business Act (NSBA) number 102 of 1996 (South Africa, 1996), leading to the exclusion of this data from the study.

Despite certain limitations (Amari, Vandebek, Montgomery, Skarsgard & Ansermino, 2010), inter alia, lack of control over the situation, places, moods, browsers and loading speeds which means that the questionnaire validity may be compromised, a self-administered questionnaire was used, because it is less costly, less time consuming, and reduces biases from differences in administration. An additional advantage of a self-

administered questionnaire is that it provides the participants with enough time to think about their responses (Amari *et al.*, 2010: 340).

The questionnaire consisted of structured closed-ended questions which focused on a specific area to accurately generate data which would facilitate statistical analysis. By using structured closed-ended Likert-scale questions, the respondents had to choose from various predetermined alternative responses. The questionnaire consisted of structured questions with a mix suggested by Sedmak and Longhurst (2010:82), and outlined below:

- dichotomous questions, which offer a choice of only two fixed alternatives
- multiple-choice questions with single answers, where the response is restricted to one of the given alternatives
- multiple-choice questions with multiple answers, which allow the respondent to select more than one response
- checklists, where the respondent is requested to rate the responses regarding the criteria given by their importance
- ranking, where the respondent is asked to place a set of items in order of importance regarding a given set of criteria

According to Sedmak and Longhurst (2010:82), the Likert scale consists of statements that express either a favourable or unfavourable attitude toward the object of interest, are the most frequently used variation of the summated rating scale because it is easy and quick to construct. In this study, respondents were asked to choose between five levels of agreement, ranging from 'strongly agree' to 'strongly disagree'. The major advantages in using closed-ended questions are that they reduce the variability of responses, are less costly to administer, and are much easier to code and analyse (Babin & Zikmund, 2015).

4.7.2 Questionnaire Design

According to Rowley (2014:308), if the questionnaire does not extract the correct information from the respondents, irrespective of the quality of the statistical analyses, the results will be of no use, and the findings will not add to the body of knowledge. The questionnaire was designed specifically to try to reduce interpretation errors by

encompassing only closed-ended questions. Where any confusion could arise, most of the questions used a nominal system, in a bid to further reduce errors through misinterpretation during the completion of the questionnaire by the respondents. All data capturing was checked twice to ensure that no errors were made during the data capturing process (Rowley, 2014:311). The questionnaire (Appendix 9) was divided into three (3) sections:

Section 1 – Demographic and business characteristic

Section 2 – Key determinants of the success of SME start-ups

Section 3 – Access to financing related information

Section 1

Questions 1 and 2 were standard demographic questions which determined the gender and race of the respondents. The responses will assist in the assessment of the relationship between race and gender and success in obtaining external finance from various sources since the literature alludes to preference for women and previously disadvantaged groups.

Section 2

Questions 3 intended to ensure that the owner-manager supplies the data, and not by someone authorised to do so by the owner/s, since some owner/s may delegate the task to an employee.

Questions 4, 5 and 6 requested information on the level of formal education of the respondents. This is important data since, in the resource-based theory, skills are deemed to be critical in making an enterprise profitable, and therefore it is necessary to assess whether there is a link between the formal education levels and success of the enterprise.

Question 7, sub-question 7.1 requested information on practical management experience, since this information would help the researcher in establishing the association between practical management experience and access to external finance.

Question 8 requested information on the age of business, since the start-up stage, extends from 0 to 5 years, and from the 6th year of existence the business reaches the

growth phase, and from the 10th year, it reaches maturity and sustainability. Therefore, this question will assess and classify the stage of business.

Question 9 requested information on the number of employees in the business, since the number of employees, is an important criterion for defining a SME in South Africa.

Question 10 considers the legal persona of the business for statistical analysis of the primary data and using this nominal data to explore if any relationships exist between the data sets.

Question 11 enquired about the industry sector in which the respondent traded, and ascertained data about financing that was aimed at specific market sectors, and in respect of the impact on the various industry sectors. This data is important as the South African government does offer selective financial support for specific industry sectors, and it is important to establish whether a link exists between the financial support and a particular Industry sector. Furthermore, it will help to identify which sectors are favoured in accessing external finance.

Question 12 considers the location of the business, the intention being to allow the researcher to identify the influence that a location has on the success of a business.

Question 13 considers the reason/s for starting or buying a business, the intention being to allow the researcher to identify whether or not this reason/s was linked to the finance being available, an effort on the part of the owner, or whether it was a family business.

Question 14 determines if the respondents knew start-up awareness factors. The response to this question will help the researcher to determine if the respondents were aware of these determinants before starting their businesses. The respondents were required to indicate their agreement on a scale which ranged from 1 = strongly disagree to 5= strongly agree.

Question 15 requested information on the respondents' knowledge of management skills, which response allowed the researcher to measure the impact of the management skills on business success. This question also measured the impact of management skills on

the growth and success of the business, as well as allowed the researcher to determine the relationship between management skills and access to different sources of finance.

Section 3

Questions 16 and 17 determined the sources of financing during the start-up and growth phases of the business. Question 18 ascertained the reasons why the respondents sought external funds.

Questions 19 to 23 attempted to determine whether the business owner was aware of any financing opportunities from the Government and banks, and if (where applicable) their applications were successful. If they were successful, then the impact of the finance received on their businesses was ascertained.

Questions 24 and 25 determined the business owner's awareness of alternative sources of finance. The sub-questions were intended to determine and review the impact of each source of finance on the respondents' business.

4.7.3 Administration of the Questionnaire

The researcher planned to collect data from 252 respondents from different SME start-ups located in Pietermaritzburg, South Africa. A fieldworker, being a University of KwaZulu-Natal postgraduate student was trained to assist with distribution and collection of the questionnaire, as well as administration in some cases. Both the researcher and the fieldworker travelled to the premises of certain respondents in different areas in Pietermaritzburg and personally handed the questionnaire to the respondents. During the two-month period of field research, the researcher and the fieldworker managed to collect 253 completed questionnaires. The fieldwork took place from September to October 2016.

A covering letter was included which provided details on the research, and supervisor/s, aim of the study, as well as the value of their participation. The researcher assured the participants of the confidentiality and anonymity of their responses.

The completed questionnaires were collated and numerically referenced to facilitate data capturing on an Excel spreadsheet. The analysis of the data, using both descriptive and

inferential statistics, was undertaken by a qualified statistician; however, the interpretation concerning the research objectives was done by the researcher.

4.8 VALIDITY AND RELIABILITY

According to Hair *et al.* (2010:7), the researcher's objective of reducing measurement error can follow several paths, and the researcher must address two important characteristics of a measure, which includes the face validity of the questionnaire, and the reliability of the questionnaire to produce consistent results.

4.8.1 Validity

Validity is related to the test measures that the researcher actually wishes to measure; it is the level to which the researcher measures the accuracy of representations compared to what it is supposed to be. Ensuring validity starts with a thorough understanding of what is to be measured and then, ensuring that the measurement is correct. However, accuracy does not assure validity (Hair *et al.*, 2010:7).

The face validity of the questionnaire is tested using a pilot study to assess the quality of the questionnaire regarding its ability to achieve the research goals. Pre-testing of questions was done to make certain that the respondents understood the questionnaire and had furnished the right responses. Pretesting also ensured relevance, effectiveness and clarity of the questionnaire. An initial group of Ten SMEs was selected using a randomly selected sample from the population of the Pietermaritzburg Chamber of Business. Pilot study was conducted in the first week of August 2016 and the data from the pilot study were not included in the study.

The statistician advised on whether the expected output from each question was within the research parameters, and the expert's feedback was used to modify the questionnaire where appropriate and necessary. The questionnaire was designed shortly and succinctly to prevent misinterpretation and any ambiguity. The language was simple and easy to understand. To ensure validity, questions were adjusted by responses and comments received from the pre-test.

The study assessed both convergent and discriminant validity. Convergent validity results will be provided first and then followed by discriminant validity. According to Hair, Black,

Babin, Anderson and Tatham (2006:771) convergent validity is “the extent at which indicators of a specific variable converge or share a high proportion of variance in common.” It simply explains the extent at which a scale correlates with other measures of the same construct to the same direction. According to Carlson and Herdman (2012), weaker convergent validity is evident using values deviating from one while values closer to one are normally accepted.

The average variance extracted approximately reflects the total elements of variance in the indicators which are accounted for by a latent construct. Dillon and Goldstein (1984) suggested that an AVE value greater than 0.50 demonstrates that the convergent validity of the variable is good. According to Fraering and Minor (2006), an AVE value of 0.4 is seen as satisfactory. The values were calculated using Amos software and were cross-checked again with the manual calculation, which resulted in same values using the formula below:

$$V\eta = \frac{\sum \lambda y_i^2}{(\sum \lambda y_i^2 + \sum \epsilon_i)}$$

AVE = {(summation of the squared of factor loadings)/ {(summation of the squared of factor loadings) + (summation of error variances)}}.

Kline (2011) defined discriminant validity as contrary to convergent validity in the extent that variables alleged to evaluate different variables shows discriminant validity. Discriminant validity describes how measures in the same study are distinct from other measures. Inter-construct correlation matrices and Average variance extracted (AVE) compared to Shared variance (SV) were used to assess the discriminant validity in the current study.

The discriminant validity of the study was examined through an examination of the correlation values of the research constructs. The correlation values range from 0 – 1. A low correlation between research constructs indicates that the research constructs are unique and distinct from one another – while the reverse indicates the absence of discriminant validity. Theoretically, a correlation value less than 0.6 is deemed an indicator of discriminant validity. However, practically, a correlation value that is less than 0.85 is still regarded marginally acceptable (Chinomona, 2011).

4.8.2 Reliability

Reliability refers to the accuracy and precision of a measurement process (Hair *et al.*, 2010), and if the validity is assured, the researcher must still consider the reliability of the measurements. According to Hair *et al.* (2010:7), reliability is the level to which the researcher measures the true value of the observed variable, and that it is error free.

The reliability of the measurement instrument was assessed using both the Cronbach alpha coefficients and Composite Reliability indicators. Cronbach's coefficient alpha was used to evaluate the measurement scale in the study. Thus, Cronbach's alpha was used to verify the internal consistency of the variables – that is, to evaluate the reliability of the measurements of each variable. According to Kipkebut (2010) values for Cronbach alpha ranges between 0 and 1. Hair *et al.* (2009) also indicated that “values higher than 0.6 were considered as being reliable”.

The Composite Reliability (CR) index was also used to check internal consistency of the measurement model. Ramayah *et al.* (2011) observed that, composite reliability shows the extent to which variable indicators identify the latent variable. Urbach and Ahlemann (2010) posited that values that are acceptable are normally between zero and one. According to Vicente, Abrantes and Teixeira (2015), it is recommended that composite reliability values must exceed 0.7. The composite reliability test was calculated using the following formula:

$$CR_{\eta} = (\sum \lambda_{yi})^2 / [(\sum \lambda_{yi})^2 + (\sum \epsilon_i)]$$

Composite Reliability = (square of the summation of the factor loadings) / {(square of the summation of the factor loadings) + (summation of error variances)}.

4.8.3 Ethical Considerations

Garrard and Narayan (2013) suggested that ethical considerations are critical issues to be considered in research. In fact, for human participation in a research study, it is ethically required that the researcher should obtain an informed consent from the participants. Thus, the consent form (see appendix 10) was sent to the participants as an attachment to the questionnaire, and the participants who were willing to participate in the survey had to read, sign and return the consent forms together with the completed

questionnaires. Ethical clearance was obtained from the University of KwaZulu-Natal's Research Ethics Committee in May 2016, to conduct the study.

4.9 DATA ANALYSIS

Analysing data is the process of changing the data (research findings) into information that is used for explaining and making decisions on a determined situation (Tuli, 2010:100; Anderson, 2015:156). According to Garrard and Narayan (586:2013), many statistical techniques are available for analysing the data, and the researcher is often confronted with the dilemma of selecting the most appropriate techniques. The techniques selected depend, *among other things*, on the nature of the survey undertaken, the characteristics of the population, the level of measurement and the sample size.

4.9.1 Quantitative Data Analysis

The Statistical Package for the Social Sciences (SPSS) version 24 was used to analyse the coded responses to the various questions. Both descriptive and inferential statistical analyses were conducted, and the data and information were presented in the form of tables and figures where appropriate.

Descriptive statistics

Raich, Muller and Abfalter (2014:739) suggested that descriptive statistics are concerned with the description and/or summarisation of the data obtained from a group of individual units of analysis, which are the most efficient means of summarising the characteristics of large sets of data. In a statistical analysis, the analyst calculates one number or a few numbers that reveal something about the characteristics of large sets of data.

Rowley (2014:324) stated that most statistics of quantitative data are either measures of central tendency, where the data are centred, or measures of dispersion, where data are spread out. While the mean is more commonly used, the median can be a better summary of the data if there are extreme values.

According to Christensen, Johnson and Turner (2011:402), the variance is a measure of score dispersion about the mean. If all the scores are identical, the variance is 0. The greater the dispersion of scores, the greater will be the variance. Both the variance and the standard deviation are used with interval and ratio data. The standard deviation

summarises how far away from the average the data values typically are. It is an important concept for descriptive statistics because it reveals the amount of variability within the data set. Like the mean, the standard deviation is affected by extreme scores (Christensen, Johnson & Turner, 2011:402). Together, measures of central tendency and variability enable the researcher to describe and compare distributions more precisely and objectively than can be done by tables and figures alone.

Inferential statistics

While descriptive statistics facilitates initial data analysis, Dancey and Reidy (2011:170) stated that inferential statistics allows the researcher to draw extrapolations about the population, from the sample. The objective of inferential statistics is to enable the researcher to establish whether a difference between two treatment conditions occurred by 'chance' or is a 'true difference'. Inferential statistics include inter-alia, correlations, Chi-Square tests, ANOVA, regressions (Dancey & Reidy, 2011:170).

Correlation analysis is used to assess the relationship between the variables. The coefficient of correlation is a summarising type of number which varies in value from +1, which means a perfect positive correlation/relationship, to -1, which means a perfect negative correlation/relationship, and a coefficient close to zero indicates no relationship at all (Arthur *et al.*, 2012:348).

Stangor (2015:194) stated that, if a quantifiable variable is divided into three or more distinct groups using a descriptive variable, the researcher can assess whether these groups are significantly different, using one-way analysis of variance (ANOVA). ANOVA analyses the variations (differences) within and between groups of data by comparing their means; these differences are represented by the F ratio. If the means are significantly different between the groups, this difference will be represented by a large F ratio, with a probability of less than 0.05.

The t-test determines whether the observed difference in the means of two groups which is sufficiently large, is to be attributed to a change in some variable, or if it merely could have taken place according to chance (Dancey & Reidy, 2011:170).

Data analysis was also performed using the structural equation modelling (SEM), which is a popular statistical technique to test theory in several fields of knowledge (Hair *et al.*, 1998:5; Chinomona & Cheng, 2013). Qureshi and Kang (2014:3) describe SEM as “a multivariate, statistical technique largely employed for studying relationships between latent variables (or constructs) and observed variables that constitute a model”. According to Bollen (1989:48); Mitchell (1994:870) Hoyle (1995:1); Reckhow, Arhonditsis, Kenny, Hauser, Tribo, Wu, Elcock, Steinberg, Stow and Mcbrid (2005:2913) and Grace (2006:14) SEM is a statistical method with which a researcher can create theoretical concepts and validate proposed causal relationships through two or more structural equations. SEM is recognised as being similar to regression analysis but more predominant in that it assesses the causal relationships among constructs while concurrently accounting for measurement error (He, Gai, Wu & Wan 2012:853; Sarstedt, Ringle, Smith, Reams & Hair, 2014:105). SEM’s ability to address numerous modelling difficulties, the endogeneity among constructs and composite underlying data structures found in various phenomena (Washington, Karlaftis & Mannering 2003:42) can be assumed to be part of the reason for its popularity.

SEM is fundamentally a framework that involves concurrently solving systems of linear equations and includes procedures such as regression, factor analysis and path analysis (Beran & Violato 2010:267; Stein, Morris & Nock 2012:495). SEM with Smart PLS involve performing a procedure known as Confirmatory Factor Analysis (CFA) and path analysis (Chen, Zhang, Liu & Mo 2011:243) concurrently. The function of CFA is to evaluate how well the latent variables are measured by the observed variables (Chen *et al.* 2011:243) while that of path analysis is to investigate causal relationships among unobserved variables (Nusair *et al.* 2010:316). Scholars have advocated many advantages of SEM, which include the following:

SEM has the ability to ‘tackle’ research questions related to intricate causal relationships between unobserved variables (Nusair *et al.* 2010:314; Hair *et al.*, 2009:81) with empirical data (Sarstedt *et al.* 2014:106).

SEM can extend explanatory power and statistical efficiency for model examination with one complete model (Hair *et al.*, 1998:12).

SEM can include latent constructs in the analysis while accounting for measurement errors in the estimation process (Hair *et al.*, 1998:12).

SEM provides support for examining and validating hypotheses of causal relationships due not only to its ability to model measurement error, but also to its ability to do away with bias and distortion (Pugesek & Tomer 1995:449; Iriondo, Albert & Escudero 2003:367).

SEM minimises the differences between the observed covariances and the model predicted covariances using methods such as the Maximum Likelihood algorithm to estimate the free parameters (Malaeb *et al.*, 2000:93).

SEM has the ability to concurrently model and illustrate the direct and indirect interrelationships that exist among many dependent and independent constructs (Gefen, Straub & Boudreau, 2000:4).

SEM possesses a gradual characteristic that allows it to produce separate and individually different coefficients (Jenatabadi & Ismail 2014:26).

SEM technique allows for ensuring and evaluating a complete model generating goodness-of-fit statistics and assessing the overall fit (Ho, 2006:33).

SEM can permit the modelling of graphic interfaces (Garson 2007:39).

SEM permits researchers to model mediator constructs and to examine the entire system of indicators therefore enabling the establishment of rational models that need simultaneous assessment (Kline & Klammer 2001:213).

SEM is an efficient and most favourable method for evaluating and examining the relationships among mediator constructs (Dhanaraj, Lyles, Steensma & Tihanyi, 2004:442).

Structural equation modelling (SEM) is also referred to as covariance structure analysis, latent variable analysis or by the name of the respective statistical software packages used (Hair *et al.*, 2010). SEM is a statistical methodology (Byrne, 2010) or family of statistical models (Hair *et al.*, 2010:634) which allows the inclusion of unobservable or latent variables, which are measured indirectly by indicators or available data.

There are two types of SEM (Hair *et al.*, 2017):

Covariance-based SEM (CB-SEM) – this SEM method examines the extent to which a proposed theoretical model is able to estimate the covariance matrix for a sample data set. It is primarily used to either confirm or reject theories.

Partial least squares SEM (PLS-SEM) – this SEM method is concerned with explaining the variance in the dependent variables which are contained within the theoretical model. It is primarily used to develop theories.

Whereas there are statistical differences between the two methodologies, PLS-SEM estimates can be strongly representative of CB-SEM results particularly when assumptions associated with CB-SEM have been violated (Hair, Ringle & Sarstedt, 2011). As such, PLS-SEM should be considered, along with CB-SEM, when choosing a suitable SEM technique. In this regard, Hair *et al.* (2011), identified five ‘rules of thumb’ to aid in this decision process based on the following considerations, namely

The goals of the research goal

The specification of the measurement model

The nature of the structural model

The characteristics of the data

The evaluation of the model

In terms of this research study, PLS-SEM was chosen as the most appropriate statistical method based primarily on the following considerations as summarised below:

Structural model – the conceptual model depicted in chapter 3 is one which is complex – although it comprises 5 constructs it has 36 indicators. As such, PLS-SEM is an appropriate method of analysis (Hair *et al.*, 2011)

Data characteristics – one of the assumptions related to CB-SEM, as mentioned previously, is that of the normality of data distributions. When data is non-normal, the use of PLS-SEM is recommended (Hair *et al.*, 2011). In terms of this research study, the results of the Mardia Skewness test and Mardia Kurtosis test indicated that the data is not from a multivariate-normal population and is, therefore, not normal

Another assumption related to CB-SEM is that of minimum sample size, and when the minimum sample size has not been met, the use of PLS-SEM is recommended (Hair *et*

al., 2011:144). In calculating the minimum sample size required, the “A-priori Sample Size Calculator for Structural Equation Models” developed by Soper (2016), with its origins in the work undertaken by Westland (2010) and Cohen (1988), was used. In this regard, factors such as the ratio of indicator variables to latent variables, minimum effect size, statistical power and statistical significance were considered in the calculation. As such, the minimum sample size based on the following parameter values inputted into the calculator, namely anticipated effect size of 0.1, desired statistical power level of 0.8, number of latent variables 5, number of observed variables 36 and a probability level of 0.5, is 480. However, in the current study a sample size of 253 was obtained.

Given the decision to use PLS-SEM, the hypotheses in this study were all tested using the variance-based SEM program SmartPLS 3 v.3.2.4. In applying the PLS-SEM technique, the assessment of the results requires the completion of two evaluation stages, namely the evaluation of the measurement or outer model and the evaluation of the structural or inner model (Hair *et al.*, 2017:107; Sarstedt, Ringle, Smith, Reams & Hair, 2014).

4.10 SUMMARY

This chapter discussed the research design and provided a rationale for the use of methodology, given the aims of the research. The research process aimed at ensuring the trustworthiness of the research and the claims that it made in adding to the body of knowledge. The construction of the questionnaire which was used to collect the data was also explained. The next chapter will deal with the analysis of data, presentation and discussion of results extensively.

CHAPTER FIVE

RESEARCH FINDINGS

5.1 INTRODUCTION

In Chapter 4, the research methodology was explained and in this chapter, the results of the research are reported, presented, analysed and discussed. Furthermore, the results are linked to the objectives and research questions of the study.

The quantitative data was analysed and Descriptive statistics including means and standard deviations, where applicable, as well as frequencies are represented in tables or graphs. Several tests have been conducted, such as ANOVA, a statistical method used to test differences between two or more means. Such as One-way ANOVA between groups, used when testing two groups to see if there is a difference between them and Two-way ANOVA without replication, used when having one group and double-testing that same group. Binomial test was used in this study, it tests whether a significant proportion of respondents select one of a possible two responses. This can be extended when data with more than two response options is split into two distinct groups.

One sample t-test: Tests whether a mean score is significantly different from a scalar value. Independent samples t-test: compares the means of two independent groups in order to determine whether there is statistical evidence that the associated population means are significantly different. The Independent Samples *t* Test is a parametric test.

The Spearman correlation evaluates the monotonic relationship between two continuous or ordinal variables. In a monotonic relationship, the variables tend to change together, but not necessarily at a constant rate. The Spearman correlation coefficient is based on the ranked values for each variable rather than the raw data. Spearman correlation is often used to evaluate relationships involving ordinal variables.

Jargon, Fisher's Exact Test of Independence is a statistical test used when having two nominal variables and wanting to find out if proportions for one nominal variable are different among values of the other nominal variable. For experiments with small numbers of participants (under 1,000), Fisher's is more accurate than the chi-square test or G-test

Structural equation modelling, or SEM, is a very general statistical modelling technique, which is widely used in the behavioural sciences. It can be viewed as a combination of factor analysis and regression or path analysis. The interest in SEM is often on theoretical constructs, which are represented by the latent factors. The relationship between the theoretical constructs are represented by regression or path coefficients between the observed variables

The purpose of this study is to develop a framework to improve access to external finance by SME start-ups. External sources include finance from the Government (Government finance); banks, also referred to as corporate finance; and equity finance also referred to as personal/social finance.

5.2 DEMOGRAPHICS OF RESPONDENTS AND CHARACTERISTICS OF THE BUSINESS

Gender of respondents

The vast majority (64.8%) of respondents were male, implying that the level of female involvement in entrepreneurial activity seems to be significantly lower than men. However, the research conducted by Smorfitt (2008) stipulated that there is no difference between man and woman with regards to access to external finance.

Race of respondents

As reflected in Table 5.1, the majority of respondents were black, followed by Asian then Coloured and White. The present indication is proportionate to the South African population which is predominated black. Also, as explained in Chapter 2, the Blacks were given priority if they applied for finance from government departments.

Table 5.1: Race of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Asian	45	17.8	17.8	17.8
	Coloured	25	9.9	9.9	27.7
	Black	173	68.4	68.4	96.0
	White	10	4.0	4.0	100.0
	Total	253	100.0	100.0	

Fisher's exact test of independence results for Race and Government reflected in Table 5.2 and Table 5.3 shows that there is a significant relationship between the Race of the respondents and funding from the government. Significantly fewer than expected Asian and Coloured respondents accessed funds from Government assistance programmes to use a mentor (Fisher's exact = 6.942, $p=.036$).

Table 5.2: Race and Funding to use a business mentor

			Funding for the use of a business mentor		Total
			Yes	No	
Race	Asian	Count	0	4	4
		Expected Count	1.7	2.3	4.0
		% within 2 Race	.0%	100.0%	100.0%
		Std. Residual	-1.3	1.1	
	Coloured	Count	0	3	3
		Expected Count	1.3	1.7	3.0
		% within 2 Race	.0%	100.0%	100.0%
		Std. Residual	-1.1	1.0	
	Black	Count	15	12	27
		Expected Count	11.6	15.4	27.0
		% within 2 Race	55.6%	44.4%	100.0%
		Std. Residual	1.0	-.9	
	White	Count	0	1	1
		Expected Count	.4	.6	1.0
		% within 2 Race	.0%	100.0%	100.0%
		Std. Residual	-.7	.6	
Total	Count	15	20	35	
	Expected Count	15.0	20.0	35.0	
	% within 2 Race	42.9%	57.1%	100.0%	

Table 5.3: Chi-Square – Race and Funding for the use of a business mentor

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	7.778 ^a	3	.051	.036		
Likelihood Ratio	10.708	3	.013	.024		
Fisher's Exact Test	6.942			.036		
Linear-by-Linear Association	4.250 ^b	1	.039	.051	.030	.024
N of Valid Cases	35					

a. 6 cells (75.0%) have expected a count less than 5. The minimum expected count is .43.

b. The standardised statistic is -2.062.

Education Level

Figure 5.1 reflects that 34.8% of the respondents had a university level of education, which is in line with global trends (Zoltán, László & Ainsley, 2018).

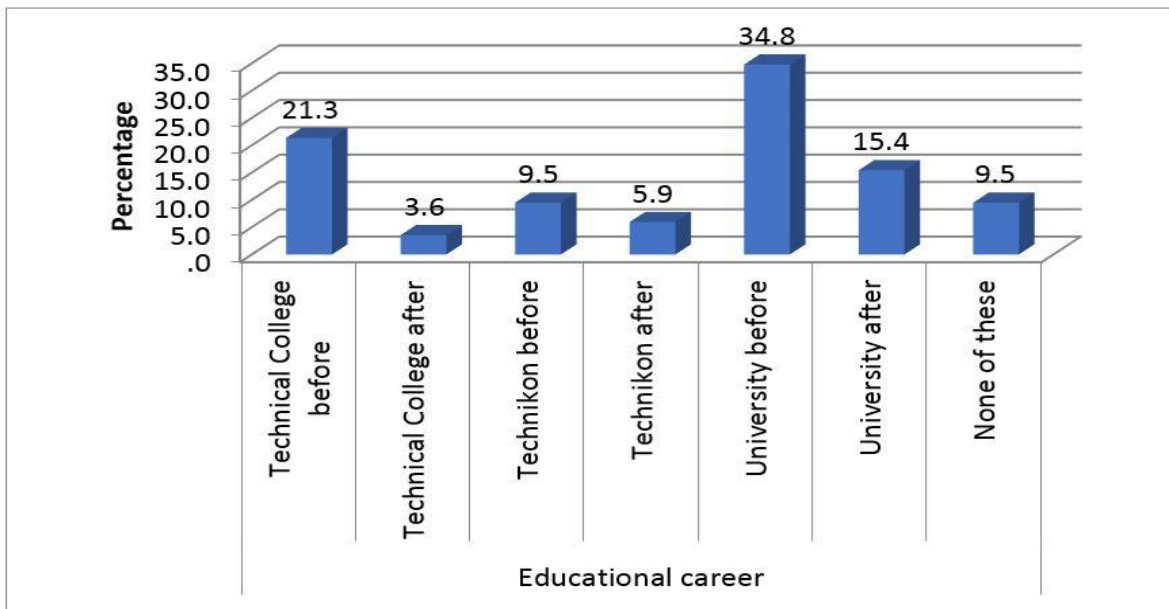


Figure 5. 1: Educational career

Highest qualifications

It is evident from Table 5.4 that 10.7% of respondents had a postgraduate degree, 28.9% Bachelor degree, 21.7% diploma, 22.5% certificate and 12.6% matric.

Table 5.4: Highest Education Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Some schooling	9	3.6	3.6	3.6
	Matric	32	12.6	12.6	16.2
	Certificate	57	22.5	22.5	38.7
	Diploma	55	21.7	21.7	60.5
	Bachelor degree	73	28.9	28.9	89.3
	Postgraduate degree	27	10.7	10.7	100.0
	Total	253	100.0	100.0	

Field of study

Figure 5.2 shows that the majority (64.8%) of the respondents had not studied business or human resource management. Therefore, it is suggested that entrepreneurship training should upgrade their skill levels bringing the business productivity-related efficiency gains.

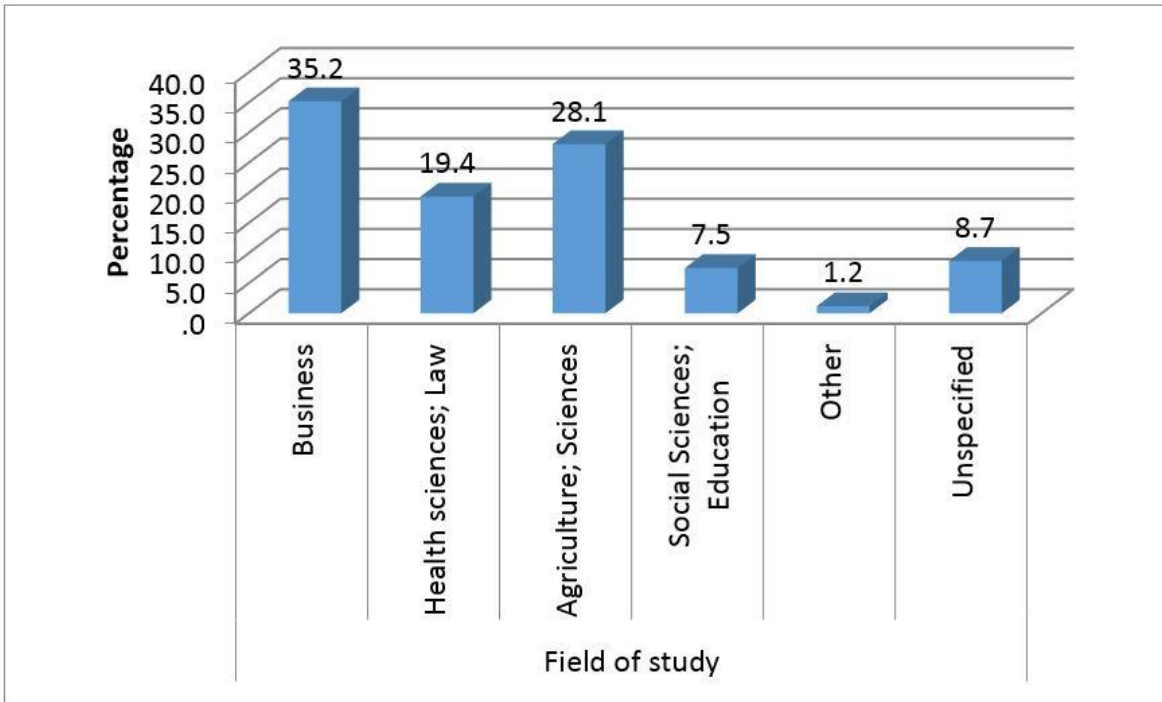


Figure 5. 2: Field of study

Prior experience

Figure 5.3 reveals that 56.1% of respondents had prior business experience before starting their own businesses. This information is important since prior management experience may impact the success of a business in obtaining external funding.

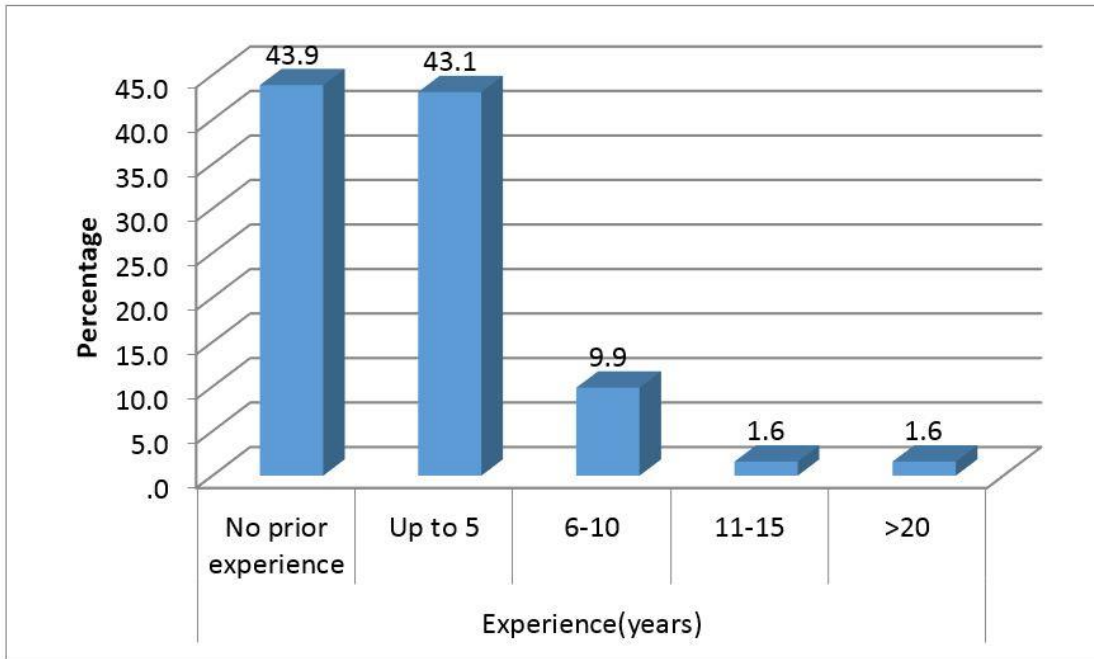


Figure 5. 3: Years of experience

Fisher's exact test of independence was used to test for any significant relationship between the years of prior experience of respondents and the source of finance to start the business. The results in Tables 5.5 and 5.6 below show that there is a significant relationship between 'prior experience' and finance from a government agency. A significant number of respondents with 0 to 5 years of experience were successful in accessing funds from the Government to start their businesses (Fisher's exact = 10.057, $p=.028$).

These results are supported by the research conducted by Poposka *et al.* (2014) who stated that the lack of prior business experience is one of the challenges faced by SME start-ups in obtaining funds.

Table 5.5 and Table 5.6 present respectively the cross-tabulation of 'prior experience' and 'finance from government'; and Chi-Square tests for 'prior experience' and 'finance from government'.

Table 5.5: Prior experience and finance from a government agency

			16.3. Finance from a government agency		Total
			Yes	No	
Experience	No experience	Count	4	107	111
		Expected Count	9.7	101.3	111.0
		% within Experience	3.6%	96.4%	100.0%
		Std. Residual	-1.8	.6	
	0-5	Count	17	92	109
		Expected Count	9.5	99.5	109.0
		% within Experience	15.6%	84.4%	100.0%
		Std. Residual	2.4	-.8	
	6-10	Count	1	24	25
		Expected Count	2.2	22.8	25.0
		% within Experience	4.0%	96.0%	100.0%
		Std. Residual	-.8	.2	
	11-15	Count	0	4	4
		Expected Count	.3	3.7	4.0
		% within Experience	.0%	100.0%	100.0%
		Std. Residual	-.6	.2	
	>20	Count	0	4	4
		Expected Count	.3	3.7	4.0
		% within Experience	.0%	100.0%	100.0%
		Std. Residual	-.6	.2	
Total	Count	22	231	253	
	Expected Count	22.0	231.0	253.0	
	% within Experience	8.7%	91.3%	100.0%	

Table 5.6: Chi-Square Tests – Prior experience and finance from a government agency

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	11.619 ^a	4	.020	.033		
Likelihood Ratio	12.280	4	.015	.010		
Fisher's Exact Test	10.057			.028		
Linear-by-Linear Association	.357 ^b	1	.550	.617	.301	.075
N of Valid Cases	253					

a. 5 cells (50.0%) have expected a count less than 5. The minimum expected count is .35.

b. The standardised statistic is -.598.

Age of the business

Figure 5.4 reveals that the vast majority (87.6%) of respondents owned their existing businesses for less than 10 years. This implies that most of the businesses in South Africa do not survive for more than 5 years. The results are consistent with the studies conducted by Fatoki and Garwe (2010); Bisseker (2014); and Wagner (2015) who stated that most South African small businesses do not grow and develop, and their failure rate of 75% is one of the highest in the world.

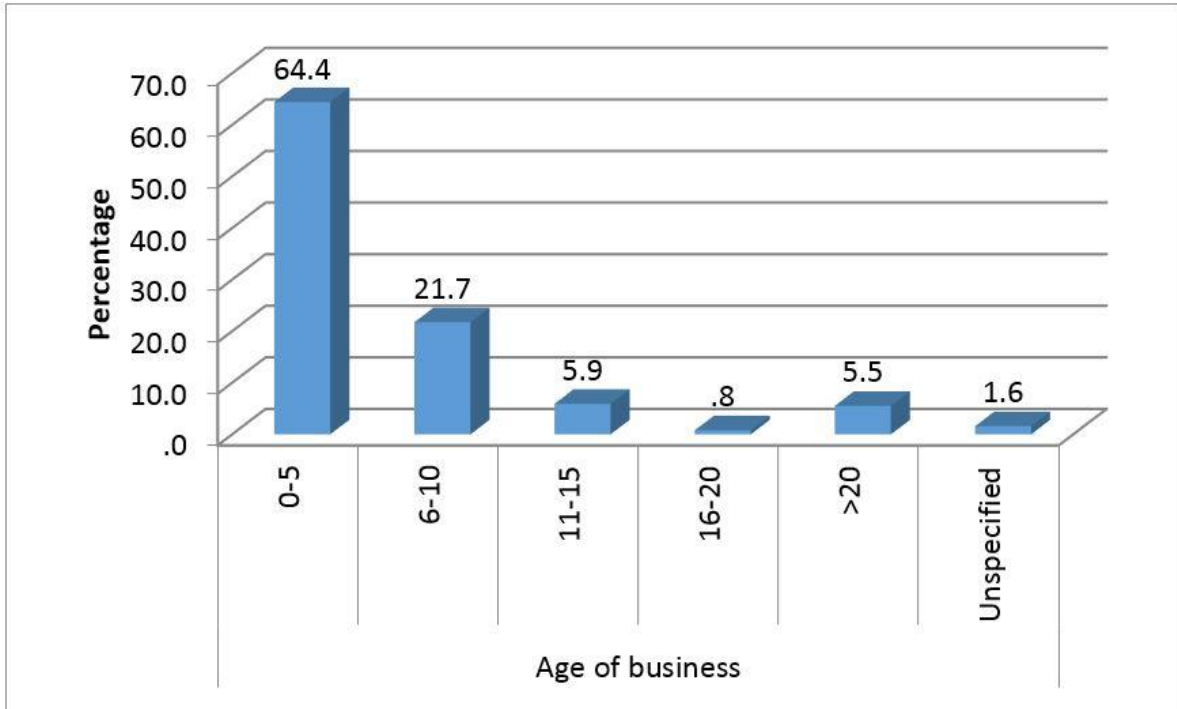


Figure 5. 4: Age of business

Tables 5.7 and 5.8 show that there is a significant relationship between age of business and success in having obtained a Loan from a bank in the entrepreneur's personal capacity. A significant number of respondents whose businesses were in existence between 11 to 15 years successfully accessed funds from the banks to develop their businesses (Fisher's exact = 9.557, $p=.037$).

Table 5.7: Age of business and loan from a bank

			16.5. Loan from a bank in my start-up company name		Total
			Yes	No	
Age of Business	0-5	Count	11	152	163
		Expected Count	13.7	149.3	163.0
		% within 8 Age of Business:	6.7%	93.3%	100.0%
		Std. Residual	-.7	.2	
	6-10	Count	3	52	55
		Expected Count	4.6	50.4	55.0
		% within 8 Age of Business:	5.5%	94.5%	100.0%
		Std. Residual	-.8	.2	
	11-15	Count	4	11	15
		Expected Count	1.3	13.7	15.0
		% within 8 Age of Business:	26.7%	73.3%	100.0%
		Std. Residual	2.4	-.7	
	16-20	Count	0	2	2
		Expected Count	.2	1.8	2.0
		% within 8 Age of Business:	.0%	100.0%	100.0%
		Std. Residual	-.4	.1	
	>20	Count	3	11	14
		Expected Count	1.2	12.8	14.0
		% within 8 Age of Business:	21.4%	78.6%	100.0%
		Std. Residual	1.7	-.5	
Total	Count	21	228	249	
	Expected Count	21.0	228.0	249.0	
	% within 8 Age of Business:	8.4%	91.6%	100.0%	

Table 5.8: Chi-square – Age of business versus Loan from a bank

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	10.934 ^a	4	.027	.032		
Likelihood Ratio	8.259	4	.083	.064		
Fisher's Exact Test	9.557			.037		
Linear-by-Linear Association	5.365 ^b	1	.021	.022	.022	.008
N of Valid Cases	249					

a. 5 cells (50.0%) have expected a count less than 5. The minimum expected count is .17.

b. The standardised statistic is -2.316.

Number of employees

Figure 5.5 indicates that 76.3% of all the SMEs surveyed were very small businesses, employing less than 6 people, and the remaining (21.7%) were small businesses employing 6 to 50 workers, and a minority (2%) were medium-sized businesses, employing 50 to 200 workers. The results show that 99.2% of respondents' businesses could be defined as SME start-ups.

The study conducted by Xiang and Worthington (2015) highlights the relationship between access to finance by enterprises and characteristics, such as age, size and propriety structure, and they found that young small firms face greater obstacles when they seek external finance.

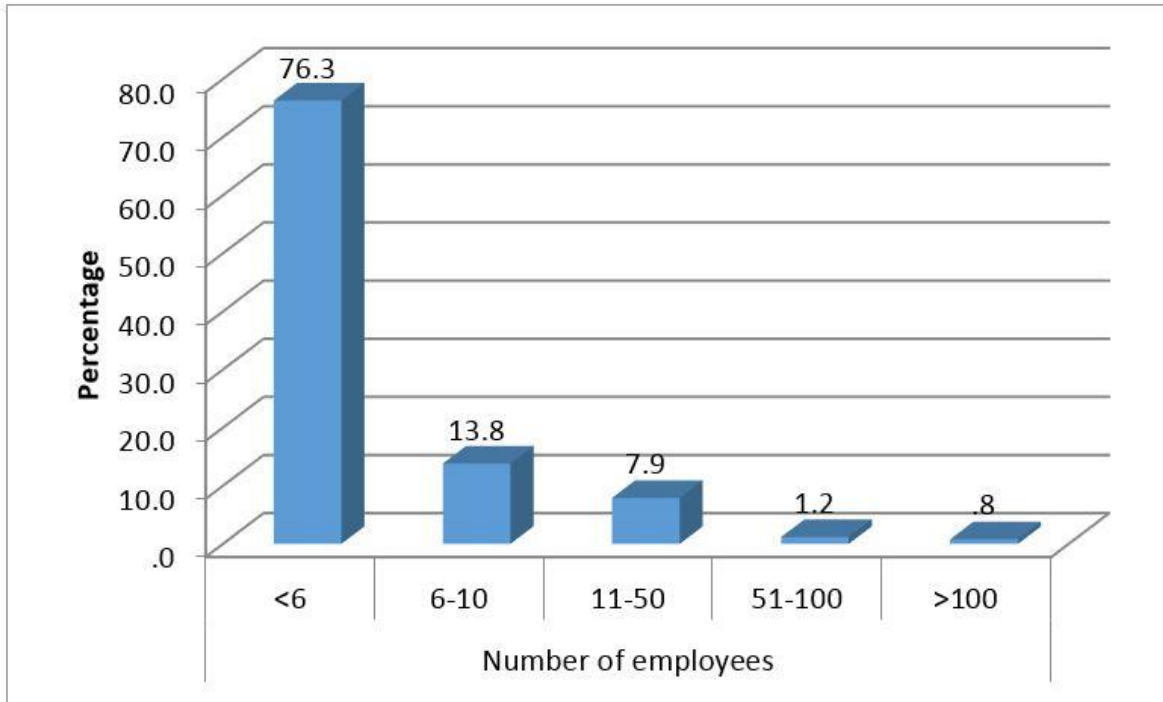


Figure 5. 5: Number of employees

Type of business

Figure 5.6 reflects the types of business ownership.

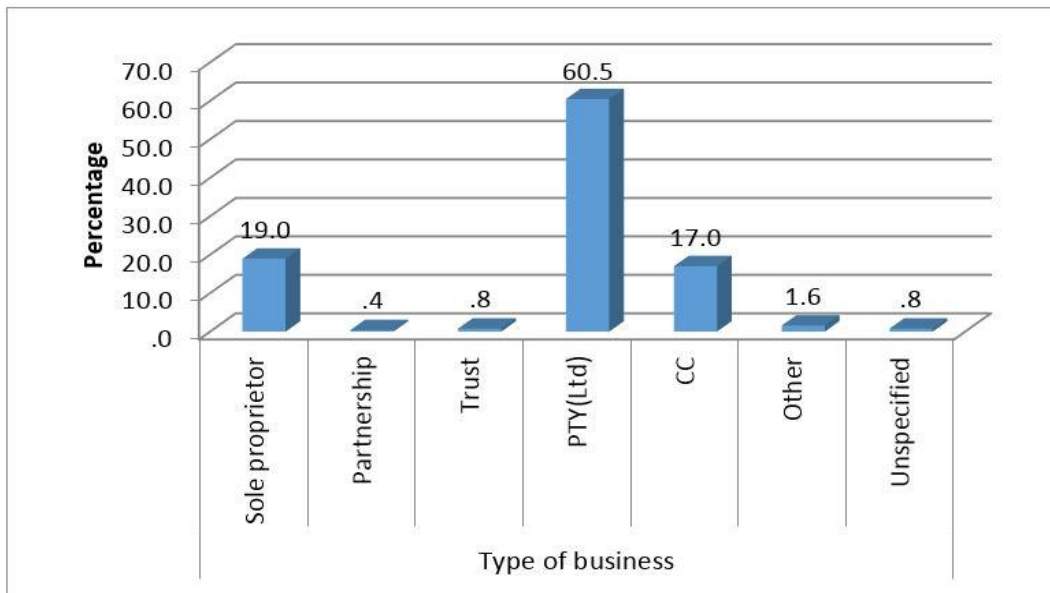


Figure 5. 6: Type of business

Business sector

Figure 5.7 reflects five of the most common categories into which the business sector is usually divided. The majority (60.3%) of the SMEs surveyed, belonged to the services sector, followed by the construction sector (9.8%), and the retail sector (12.3%). A few (12) of the participating SMEs were involved in manufacturing, and 2% belonged to the mining related sector.

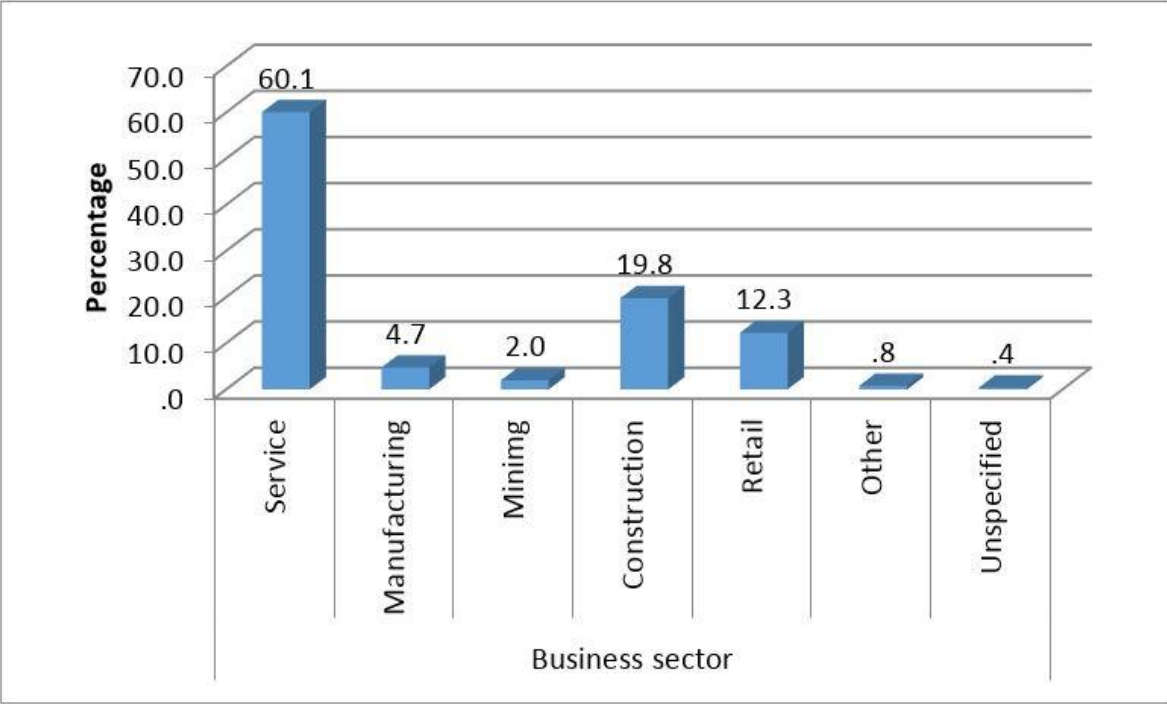


Figure 5. 7: Business sector

In summarising the data above about the economic sectors within which the respondents traded, the results showed that there is a predisposition towards the service sector, followed by the retail/wholesale sector and then the manufacturing sector. The service sector often attracts SMEs simply because the financial barriers to entry are low (Quarteya, Turksona, Aborb, Abdul & Iddrisu, 2017). Similarly, the retail/wholesale sector often requires lower levels of technical skills and, in certain cases, has relatively low financial barriers to entry. Manufacturing is often attractive to SMEs simply because entrepreneurs are acknowledged as innovators, which leads them to open small

manufacturing enterprises based upon their specialised knowledge and experience within the industry (Azeem & Chughtai, 2013).

Tables 5.9 and 5.10 reveal that there is a significant relationship between the business sector in which the participants traded and success in having obtained a loan from a bank. It is evident that a significant number of respondents in the manufacturing sector accessed funds from the banks to start their businesses (Fisher's exact = 22.227, $p=.000$).

Table 5.9: Business sector and Loan from a bank in my start-up company name

			Loan from a bank in my start-up company name		Total
			Yes	No	
Business sector	Service	Count	11	141	152
		Expected Count	12.8	139.2	152.0
		% within 11 Business sector	7.2%	92.8%	100.0%
		Std. Residual	-.5	.1	
	Manufacturing	Count	6	6	12
		Expected Count	1.0	11.0	12.0
		% within 11 Business sector	50.0%	50.0%	100.0%
		Std. Residual	5.0	-1.5	
	Mining	Count	0	5	5
		Expected Count	.4	4.6	5.0
		% within 11 Business sector	.0%	100.0%	100.0%
		Std. Residual	-.6	.2	
	Construction	Count	0	50	50
		Expected Count	4.2	45.8	50.0
		% within 11 Business sector	.0%	100.0%	100.0%
		Std. Residual	-2.0	.6	
	Retail	Count	4	27	31
		Expected Count	2.6	28.4	31.0
		% within 11 Business sector	12.9%	87.1%	100.0%
		Std. Residual	.9	-.3	
Total	Count	21	229	250	
	Expected Count	21.0	229.0	250.0	
	% within 11 Business sector	8.4%	91.6%	100.0%	

Table 5.10: Chi-Square Tests for Business sector and Loan from a bank

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	33.117 ^a	4	.000	.000		
Likelihood Ratio	24.783	4	.000	.000		
Fisher's Exact Test	22.227			.000		
Linear-by-Linear Association	.015 ^b	1	.903	.913	.482	.044
N of Valid Cases	250					

a. 5 cells (50.0%) have expected a count less than 5. The minimum expected count is .42.

b. The standardised statistic is .122.

Fisher's exact test of independence was also used to test for any significant relationship between the business sectors of respondents and whether they had received any government assistance to start their business. The results in Tables 5.11 and 5.12 show that there is a significant relationship between the business sector to which the respondents belonged and having obtained funding to use an external consultant. It is evident that a significant number of respondents in the construction sector accessed funds from a government source (Fisher's exact = 8.411, p=.026).

Table 5.11: Business sector and Funding to use an external consultant

			Funding to use an external consultant		Total
			Yes	No	
Business sector	Service	Count	2	12	14
		Expected Count	5.1	8.9	14.0
		% within 11 Business sector	14.3%	85.7%	100.0%
		Std. Residual	-1.4	1.0	
	Manufacturing	Count	1	4	5
		Expected Count	1.8	3.2	5.0
		% within 11 Business sector	20.0%	80.0%	100.0%
		Std. Residual	-.6	.5	
	Construction	Count	7	3	10
		Expected Count	3.6	6.4	10.0
		% within 11 Business sector	70.0%	30.0%	100.0%
		Std. Residual	1.8	-1.3	
	Retail	Count	2	2	4
		Expected Count	1.5	2.5	4.0
		% within 11 Business sector	50.0%	50.0%	100.0%
		Std. Residual	.5	-.3	
Total	Count	12	21	33	
	Expected Count	12.0	21.0	33.0	
	% within 11 Business sector	36.4%	63.6%	100.0%	

Table 5.12: Chi-Square Tests Business sector and Funding to use an external consultant

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	8.738 ^a	3	.033	.029		
Likelihood Ratio	9.012	3	.029	.050		
Fisher's Exact Test	8.411			.026		
Linear-by-Linear Association	6.741 ^b	1	.009	.009	.006	.002
N of Valid Cases	33					

a. 5 cells (62.5%) have expected a count less than 5. The minimum expected count is 1.45.

b. The standardised statistic is -2.596.

5.3 KEY DETERMINANTS OF THE SUCCESS OF SME START-UPS

This section analyses, interprets and discusses the responses to the questions designed to ascertain the SME start-up owners' awareness of the key determinants of the success of SME start-ups.

Reasons for starting own business

Opportunity awareness has been identified in the literature as a determinant of business success. As shown in Figure 5.10, the second most important reason for starting their own business was the 'opportunity awareness' with a count of 47.4%. Respondents claimed to have identified an opportunity, a factor which was identified in the literature (Short *et al.*, 2010:40; Chell, 2013:11) as a key determinant of SME start-up success ($p = .451$). This type of entrepreneurs benefits from multiple perspectives.

The binomial test results (see appendix 1) revealed that a significant proportion of respondents indicated that they started their own business because they wanted to generate a source of income for their families (62%, $p < .0005$). Significant proportions of the respondents did NOT start a business to invest savings in a productive venture (74%, $p < .0005$); because they wanted to enjoy the independence of entrepreneurship (64%,

p<.0005); they had been retrenched/resigned and thought with their package they could start their businesses (94%, p<.0005); they wanted to start a Family business (81%, p<.0005); they had enough work experience from previous job that made them capable of starting their own business (72%, p<.0005).

Figure 5.8 summarises the reasons for starting their own business.

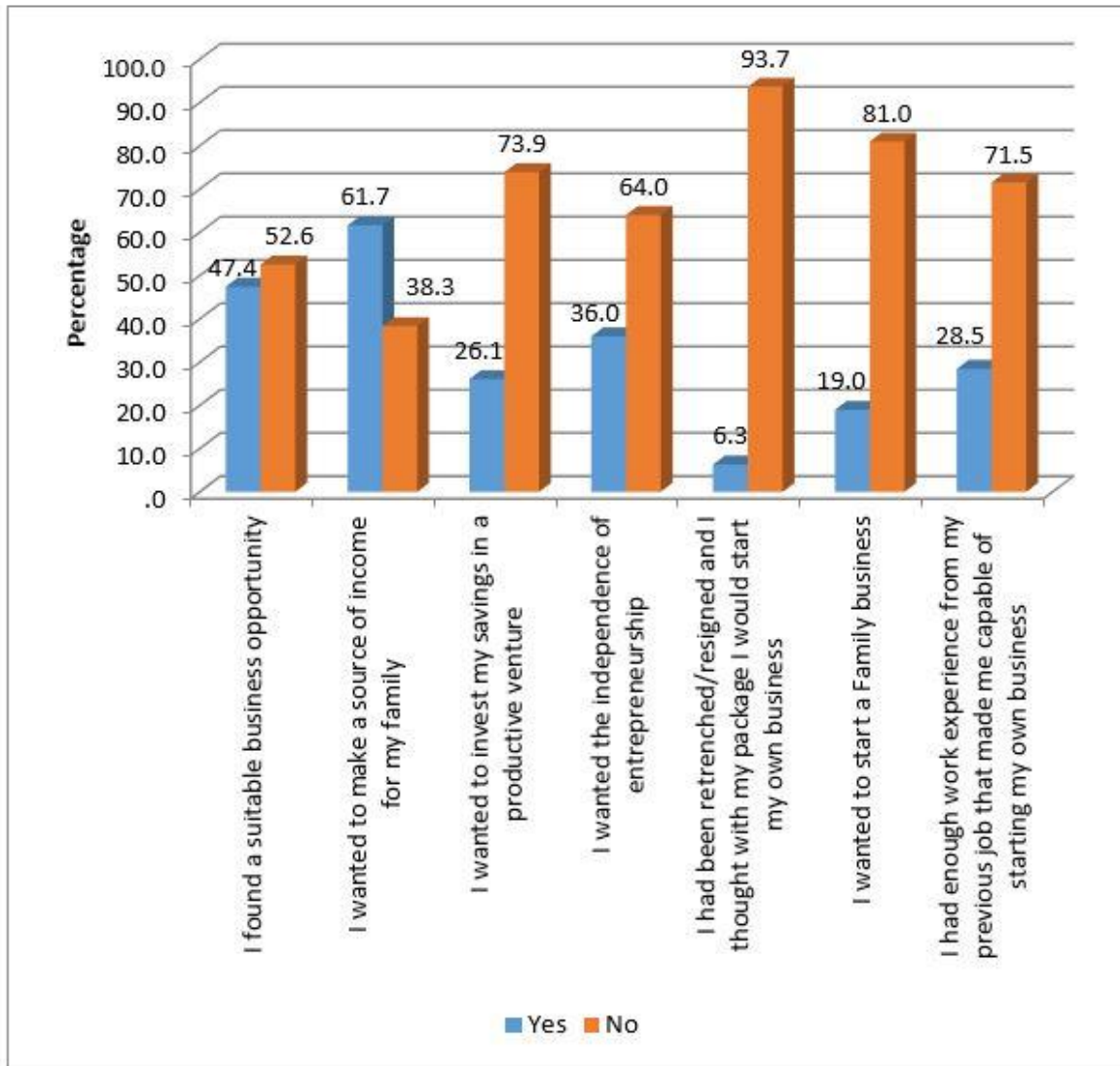


Figure 5. 8: Reason for starting own business

5.3.1 Start-up Awareness

Market research

It was ascertained that 14.3% of the respondents strongly disagreed; 14.7% disagreed; 35.3% agreed, and 17.5% strongly agreed to conducting market research before starting their own businesses.

Differentiating factor

The results revealed that 4.4% of the respondents strongly disagreed; 14.7% disagreed; 25.8% were neutral; 41.7% agreed, and 13.5% strongly agreed that their business filled a special niche in the market.

Business model

The results indicate that 12% of respondents strongly disagreed; 25.1% disagreed; 23.5% not sure; 29.1% agreed, and 10.4% strongly agreed to have developed an organisational and financial plan before starting their own businesses.

Business strategy

It was ascertained that 9.1% of the respondents strongly disagreed; 18.3% disagreed; 10.7% were neutral; 41.3% agreed, and 20.6% strongly agreed having developed a business strategy before starting their own businesses.

Feasibility study

The results showed that 10.8% of respondents strongly disagreed; 10.4% disagreed; 16.3% were neutral; 45.8% agreed, and 16.7% strongly agreed to conducting a feasibility study before starting their own businesses.

Business plan

The results showed that 15.9% of respondents strongly disagreed; 27.1% disagreed; 9.2% were neutral; 33.5% agreed, and 14.3% strongly agreed to having developed a business plan before starting their business.

Location

It was determined that 1.6% of respondents strongly disagreed; 2.0% disagreed; 11.1% were neutral; 66.7% agreed, and 18.7% strongly agreed to choosing an appropriate location for their businesses.

Decision making

The results show that 2.0% of respondents were neutral; 71.1% agreed, and 26.6% strongly agreed to having taken the right decision to start their own businesses.

Amount of seed capital

The results revealed that 1.2% of respondents strongly disagreed; 11.6% disagreed; 8.0% were neutral; 68.1% agreed, and 11.2% strongly agreed to knowing the required amount of seed capital before starting their own businesses.

Source of seed capital

The results ascertained that 3.6% of the respondents strongly disagreed; 4.8% disagreed; 17.5% were neutral; 62.2% agreed, and 12.0% strongly agreed to knowing where to get the capital needed to start their businesses.

Figure 5.9 summarises the respondents' feedback regarding the start-up awareness.

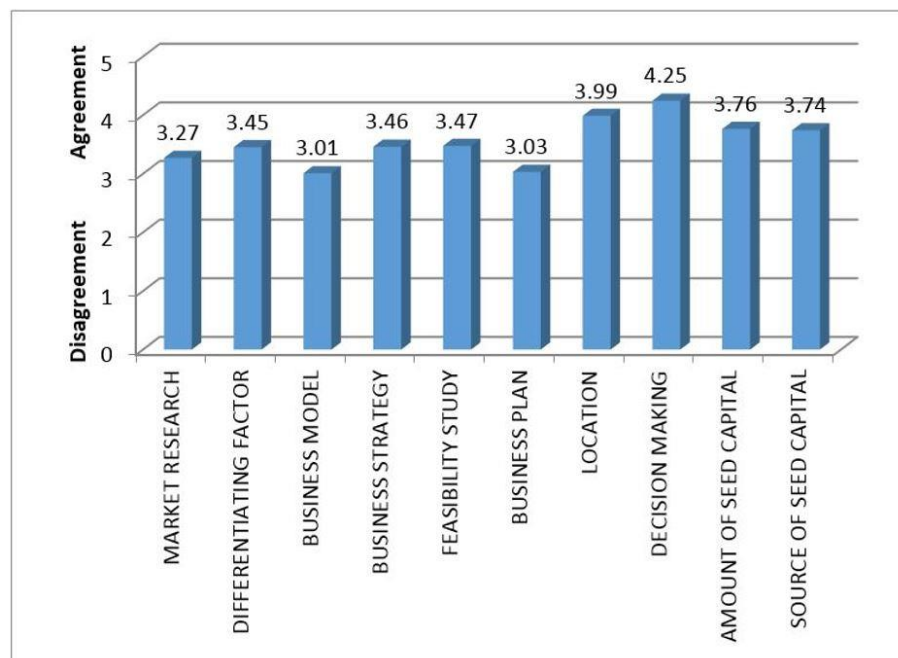


Figure 5. 9: Start-up awareness

The results of One-sample T-test as shown in Table 5.13 and Table 5.14 show that there is neither agreement nor disagreement among the respondents that a 'business plan' and a 'business model' were considered when starting their businesses. It is however evident from the abovementioned tables that there is significant agreement among the

respondents that the following determinants were considered when starting their businesses: market research; differentiating factors; business model; business strategy; feasibility study; business plan; location; decision making; amount of seed capital; source of seed capital.

Table 5.13: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Market research	252	3.27	1.305	.082
Differentiating factor	252	3.45	1.038	.065
Business model	251	3.01	1.200	.076
Business strategy	252	3.46	1.257	.079
Feasibility study	251	3.47	1.201	.076
Business plan	251	3.03	1.350	.085
Location	252	3.99	.722	.046
Decision making	252	4.25	.475	.030
Amount of seed capital	251	3.76	.842	.053
Source of seed capital	251	3.74	.863	.054

Table 5.14: One-Sample Test

	Test Value = 3					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
Lower					Upper	
Market research	3.282	251	.001	.270	.11	.43
Differentiating factor	6.919	251	.000	.452	.32	.58
Business model	.105	250	.916	.008	-.14	.16
Business strategy	5.813	251	.000	.460	.30	.62
Feasibility study	6.254	250	.000	.474	.32	.62
Business plan	.374	250	.709	.032	-.14	.20
Location	21.715	251	.000	.988	.90	1.08
Decision making	41.600	251	.000	1.246	1.19	1.31
Amount of seed capital	14.397	250	.000	.765	.66	.87
Source of seed capital	13.605	250	.000	.741	.63	.85

5.3.2 Management Skills

The respondents' awareness and application of different management skills as revealed in the literature review were explored, by requiring them to indicate their agreement to various statements on a scale ranging from strongly disagree to strongly agree. Figure 5.10 summarises the responses to the various management skills. It is evident that with respect to general management skills, the findings indicate that the majority (65.3%) agreed that they applied general management in their businesses. The majority (66%) agreed that they conducted strategic planning in their businesses, and 51.8% agreed to having acquired organisational management skills. With respect to technical skills, it was ascertained that 3.6% of respondents disagreed to not having knowledge of the technology related to their businesses. The vast majority (63.7%) of respondents agreed that they have the ability to understand and interpret the financial statements of their businesses; 69.8% agreed to possessing the skills necessary to effectively lead their businesses; 73.4% agreed to having developed good communication; 57.1% agreed and 13.5% strongly agreed to having inventory management skills; 55.2% agreed to using marketing skills; 46.4% agreed and 38.1% strongly agreed to planning for future expansion of their businesses.

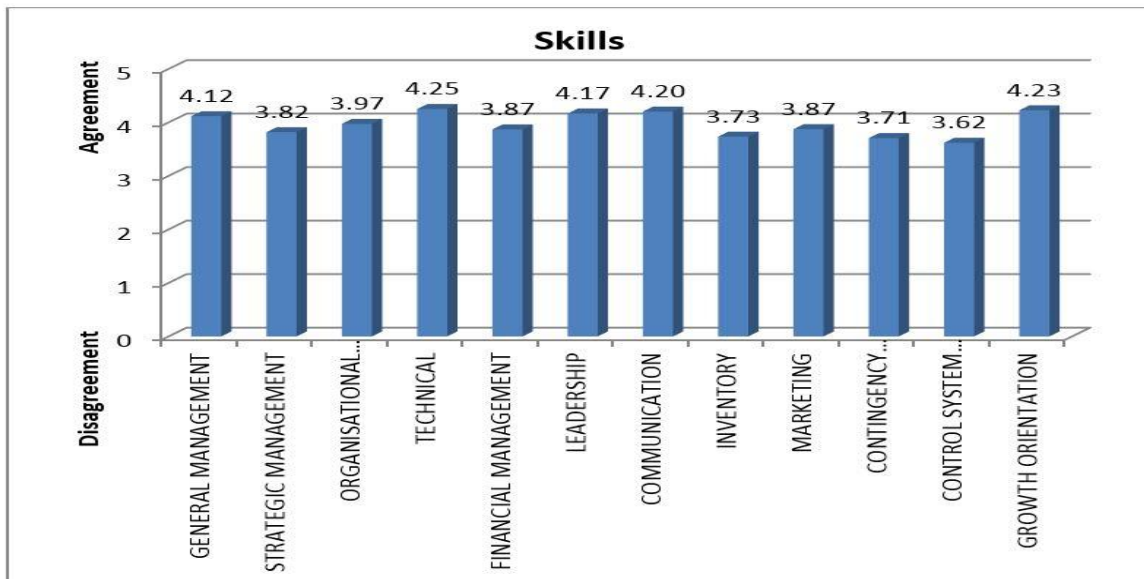


Figure 5. 10: Management skills

The One-Sample test results (Tables 5.15 and 5.16) confirm the findings reported above in that they reveal that there is significant agreement that the respondents possess the following skills which are the key determinants of the success of SME start-ups: General management skills; strategic management skills; organisational management skills; technical skills; financial management; leadership skills; communication skills; inventory skills; marketing skills; contingency management; control system management skills, and are growth oriented.

Table 5.15: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
General management skills	251	4.12	.656	.041
Strategic management skills	252	3.82	.892	.056
Organisational management skills	253	3.97	.804	.051
Technical skills	252	4.25	.781	.049
Financial management skills	251	3.87	.706	.045
Leadership skills	252	4.17	.547	.034
Communication skills	252	4.20	.475	.030
Inventory skills	252	3.73	.831	.052
Marketing skills	252	3.87	.813	.051
Contingency management	252	3.71	.774	.049
Control system management skills	252	3.62	.855	.054
Growth oriented skills	252	4.23	.697	.044

Table 5.16: One-Sample Test

	Test Value = 3					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
Lower					Upper	
General management skills	26.933	250	.000	1.116	1.03	1.20
Strategic management skills	14.552	251	.000	.817	.71	.93
Organisation management skills	19.242	252	.000	.972	.87	1.07
Technical skills	25.395	251	.000	1.250	1.15	1.35
Financial management skills	19.486	250	.000	.869	.78	.96
Leadership skills	33.881	251	.000	1.167	1.10	1.23
Communication skills	40.167	251	.000	1.202	1.14	1.26
Inventory skills	14.030	251	.000	.734	.63	.84
Marketing skills	17.045	251	.000	.873	.77	.97
Contingency management	14.492	251	.000	.706	.61	.80
Control system management skills	11.495	251	.000	.619	.51	.73
Growth oriented skills	27.908	251	.000	1.226	1.14	1.31

5.4 ACCESS TO FINANCE

5.4.1 Sources of finance to start a SME

Figure 5.11 reveals the sources of finance to start a small business proposed by the respondents, namely, finance from friends, family, government, banks, personal savings, business angel or finance equity. In summary, 14.6% of respondents received finance from their friends; 35.2% from their families; 8.7% from the government; 19.8% from bank in their personal capacity; 8.3% from bank in their business names; 25.7% from their personal savings; 9.5% from a business angel; and 0.8% from private equity firms to start their businesses.

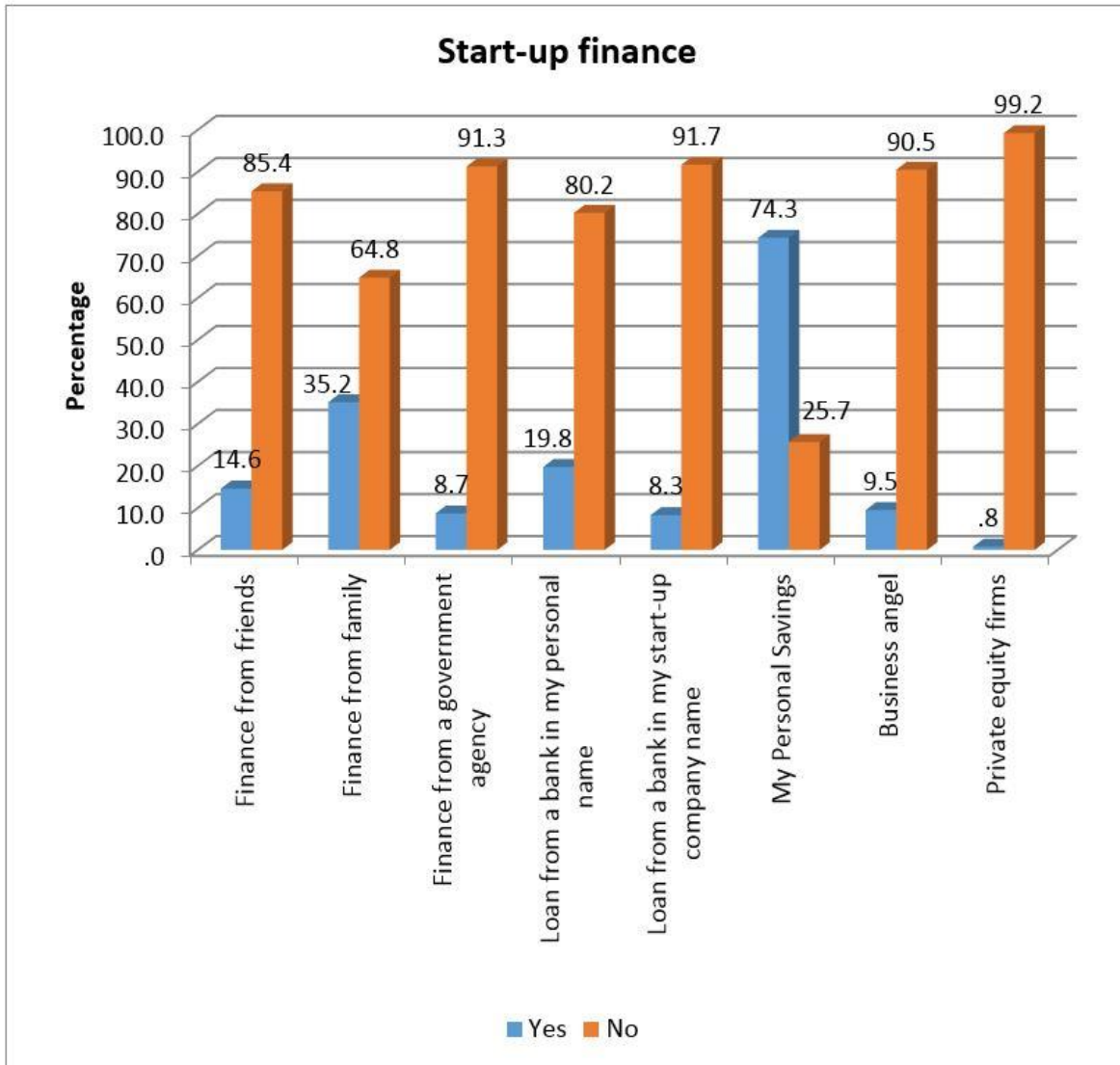


Figure 5. 11: Source of finance during start-up

This binomial test (see appendix 2) results, which assesses whether a significant number responded yes or no to each item, revealed that a significant proportion of respondents indicated that they started their businesses with finance from their personal savings (74%, $p < .0005$), whereas significant proportions of the respondents did NOT start their businesses with: finance from friends (15%, $p < .0005$); family (35%, $p < .0005$); government agency (9%, $p < .0005$); loan from a bank in their personal capacity (20%, $p < .0005$); loan from banks in their business's names (8%, $p < .0005$); business angels (9%, $p < .0005$); or private equity finance (1%, $p < .0005$).

5.4.2 Current Financing

Respondents have proposed five sources of finance for financing their businesses during the growth phase namely, retained profit, financing from the government, finance from a bank in the entrepreneur's capacity, finance from a bank in the name of the respondents' businesses; and finance from the respondents' savings. It became evident that a significant (82.2%) number of respondents used finance from their retained profits, 5.9% received finance from the government; 12.6% obtained funds from a bank in the entrepreneur's capacity; 9.1% received funds from a bank in the respondents' business name; and 37.9% from their personal savings. Figure 5.12 summarises the sources of SME start-up finance during growth phase of the business.

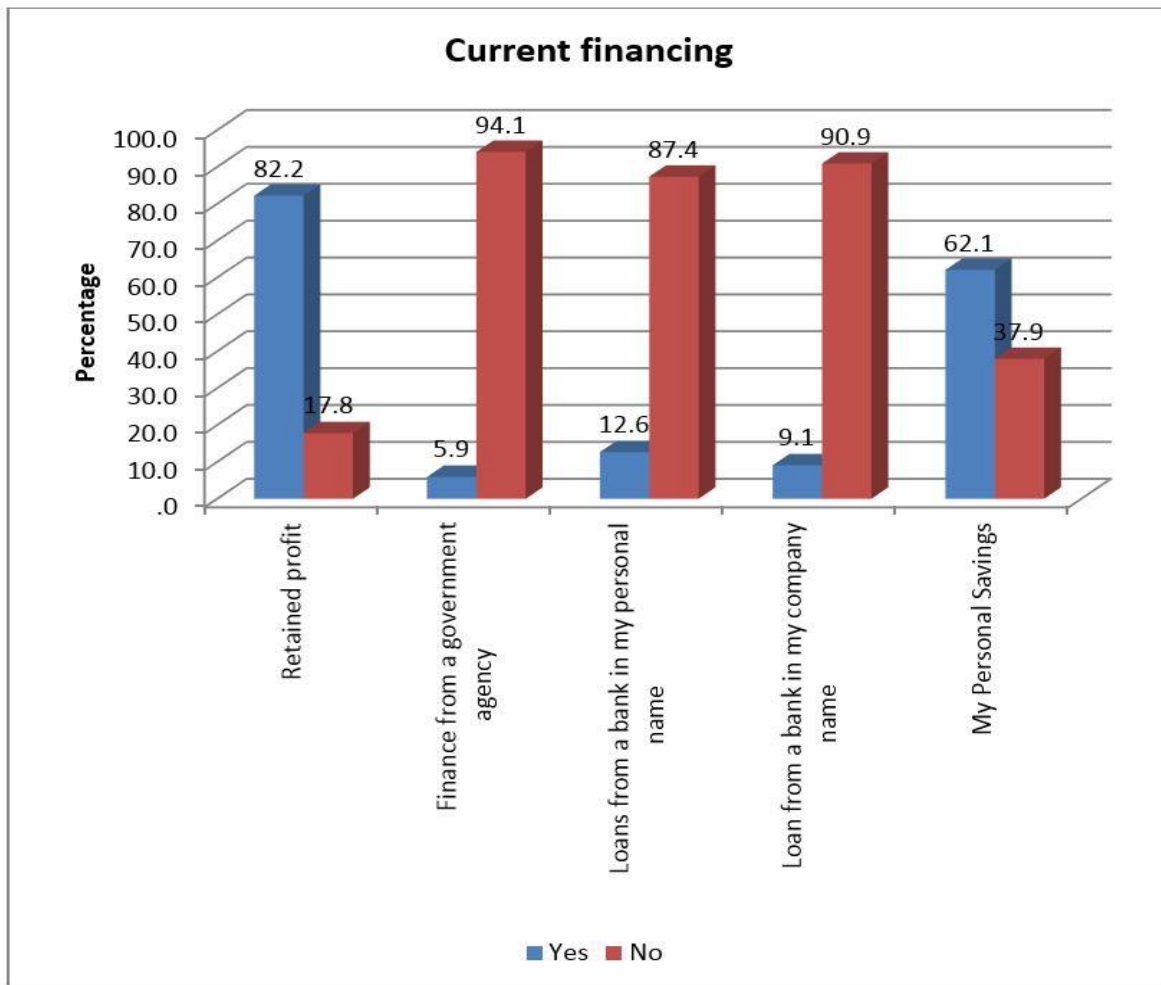


Figure 5. 12: Current financing

The results of the binomial test (see appendix 3) revealed that a significant proportion of respondents financed their businesses with funds from retained profits (82%, $p < .0005$) and from their savings (62%, $p < .0005$). Significant proportions of the respondents do NOT finance their businesses with: finance from a government agency (6%, $p < .0005$); loan from a bank in the entrepreneur's capacity (13%, $p < .0005$); loan from banks in their growing businesses' names (9%, $p < .0005$).

5.4.3 Reasons for applying for external finance

The results (Table 5.13) revealed that respondents applied for the external finance for the following reasons:

15.0% to launch a new product or new service

14.6% to increase business assets

7.5% to deal with challenges from competitor

7.5% to exploit or buy new technology for the businesses

7.1% to attend personal management training

6.3% to allow their staff to attend specific training, and 20.9% to expand their businesses

The most dominant reasons why SME start-ups seek external finance are to launch a new product or new service and to increase business assets and to expand their businesses. These results are supported by the study conducted by Tariq (2013); and Ayandibu and Houghton, (2017) who pointed out that SME start-ups are challenged to raise fund to expand their operating activities.

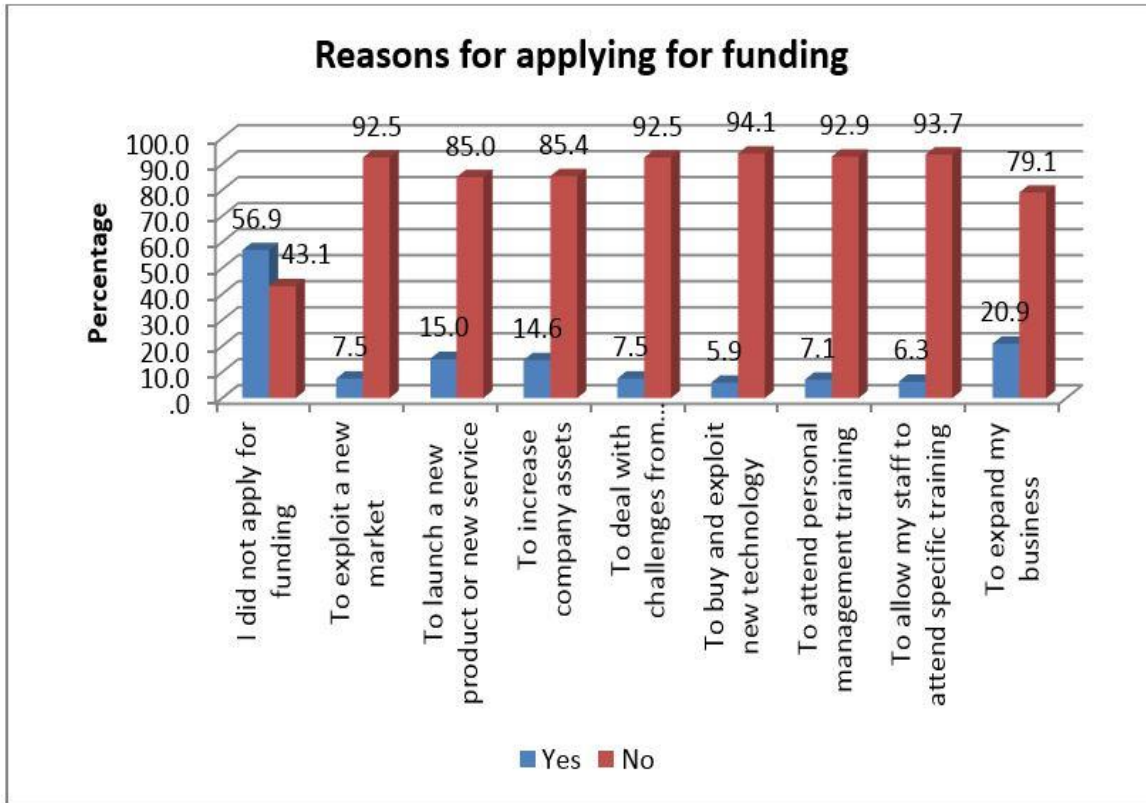


Figure 5. 13: Reasons for applying for funding

The binomial test (see appendix 4) results show that a significant proportion of respondents did NOT apply for funding from bank to finance their businesses (43%, $p < .032$). Significant proportions of the respondents did NOT apply for financing: to exploit new market (92%, $p < .0005$); to launch new product or new service (85%, $p < .0005$); to increase their business assets (15%, $p < .0005$); to deal with challenges from their competitors (92%, $p < .0005$); to buy and exploit new technology (92%, $p < .0005$); to attend personal management training (92%, $p < .0005$); to allow their staff to attend specific training (92%, $p < .0005$); or to expand their business (92%, $p < .0005$).

5.4.4 Aware of the availability of external finance for SMEs

Figure 5.14 reveals that the majority of respondents were aware of the availability of government and bank financing and, they were also aware of government and bank funding application procedure.

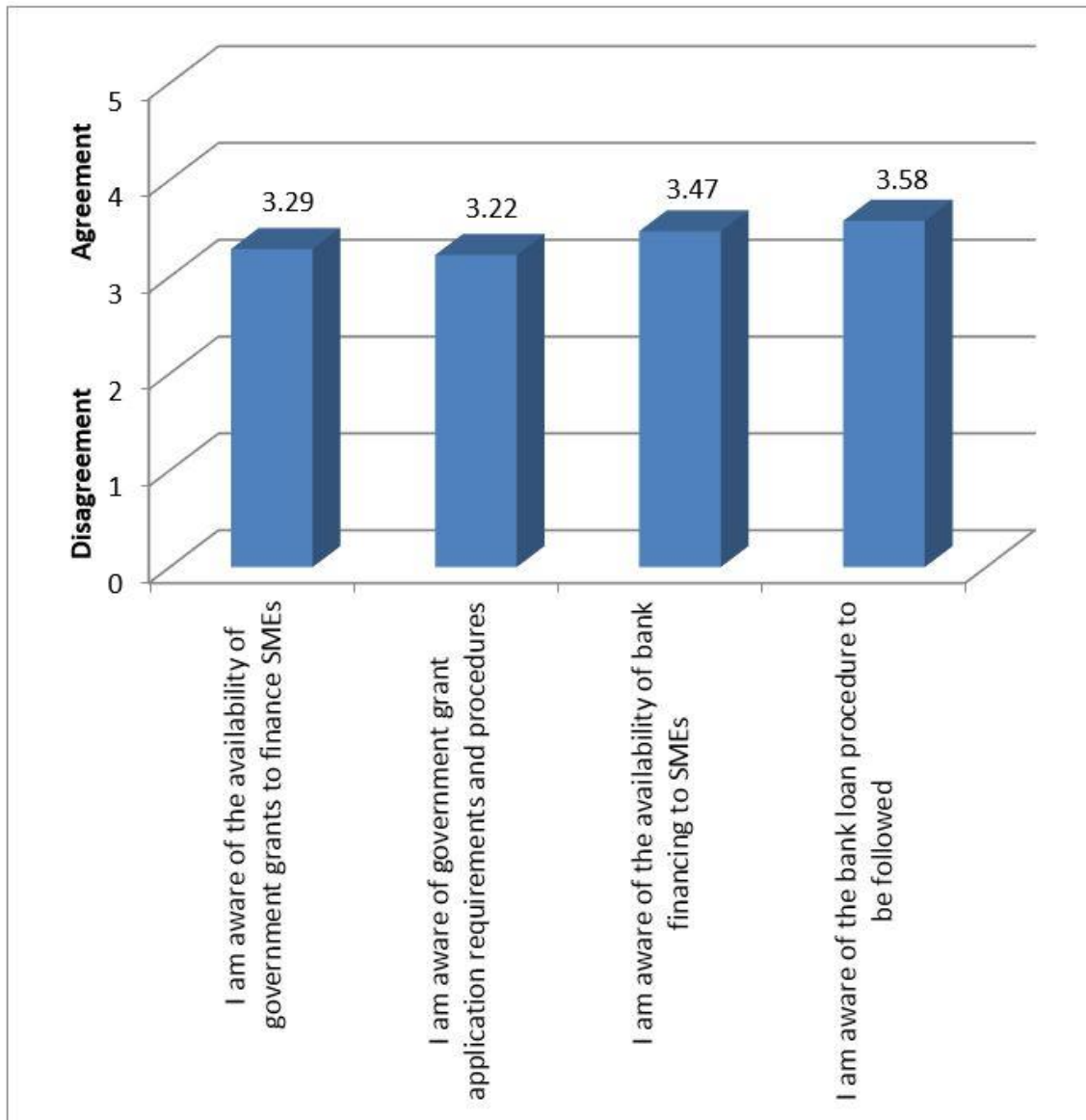


Figure 5. 14: Awareness of financing options

The results of the T-test in tables 5.21 and 5.22 reveal that there is significant agreement that the respondents are aware of government and banks financing opportunities and application procedures:

Aware of government finance: (M = 3.29, SD = 1.175, $t(240) = 3.783$, $p = 0.000$)

Aware of government grant application requirements and procedures (M = 3.22, SD = 1.183, $t(240) = 2.940$, $p = .004$)

Aware of the availability of bank financing to SMEs (M = 3.47, SD = 1.125, t(242) = 6.498, P = .000)

Aware of the bank loan procedure to be followed (M = 3.58, SD = 1.013, t(243) = 8.908, p = .000)

Table 5.17: One-Sample statistics

	N	Mean	Std. Deviation	Std. Error Mean
I am aware of the availability of government grants to finance SMEs	241	3.29	1.175	.076
I am aware of government grant application requirements and procedures	241	3.22	1.183	.076
I am aware of the availability of bank financing to SMEs	243	3.47	1.125	.072
I am aware of the bank loan procedure to be followed	244	3.58	1.013	.065

Table 5.18: One-Sample Test

	Test Value = 3					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
Lower					Upper	
I am aware of the availability of government grants to finance SMEs	3.783	240	.000	.286	.14	.44
I am aware of government grant application requirements and procedures	2.940	240	.004	.224	.07	.37
I am aware of the availability of bank financing to SMEs	6.498	242	.000	.469	.33	.61
I am aware of the bank loan procedure to be followed	8.908	243	.000	.578	.45	.71

5.4.5 Financing from Government

It was found that a significant majority (86%) of respondents did not receive financial assistance from any government department or agency (86%, $p < .000$); 51.4% of the respondents used the government grant for specific training; 42.9% used it to pay an external consultant; 40.0% to expand their businesses; 40.0% used it as seed capital for their businesses. Figure 5.15 summarises different types of government grants received.

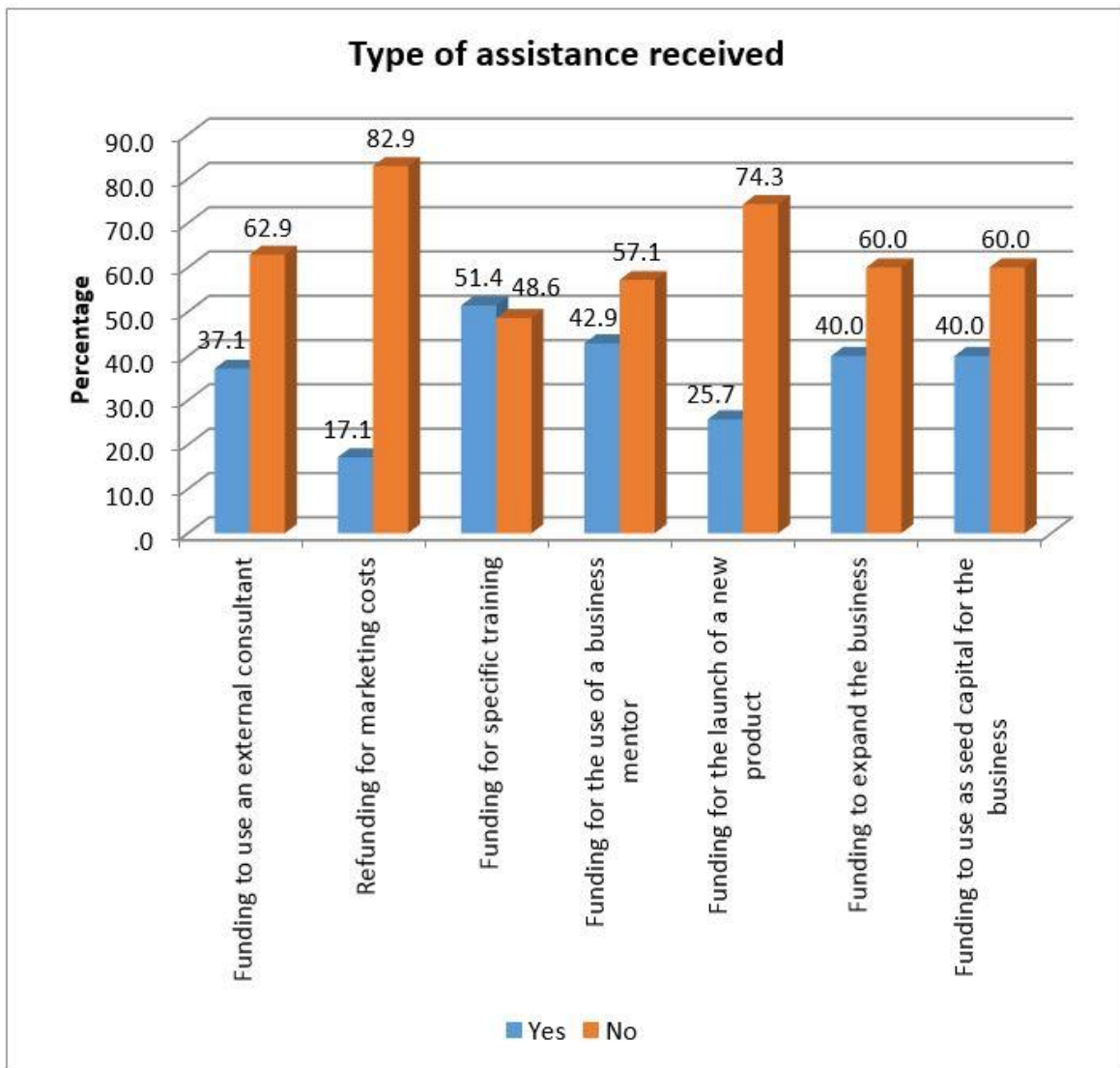


Figure 5. 15: Type of financial assistance received

A Binomial test (see appendix 5) reveals that a significant proportion indicated that respondents did not received the following type of financing from the government: refunding for marketing costs (83%, $p < .000$) and funding for the launch of a new product or service (74%, $p < .006$). The test also indicate that respondents received the following types of government grants: funding to use an external consultant (63%, $p < .175$); funding for specific training (49%, $p < 1.000$); funding for the use of a business mentor (57%, $p < .500$); funding to expand business (60%, $p < .311$); and funding to use as seed capital.

It was also found (appendix 6) that a significant 83% of those who received funding for marketing costs reported a high or exceptional impact on their businesses ($p = .039$). In the same way, a significant 88% of those who received funding for seed capital reported a high or exceptional impact on their businesses ($p = .004$).

5.4.6 Financing from Banks

Reasons for not applying for bank credit

As summarized in Figure 5.16, it is evident that a significant proportion (66%) of respondents did not apply for financing from bank/financial institutions for the following reasons: 20.7% indicated that there was no need for a loan; 58.5% indicated that the application procedures are too complicated; 22.0% did not know of the application procedures for bank loans; 22.0% did not know of the availability of bank loans, and 22.6% indicated that the interest rates are too high.

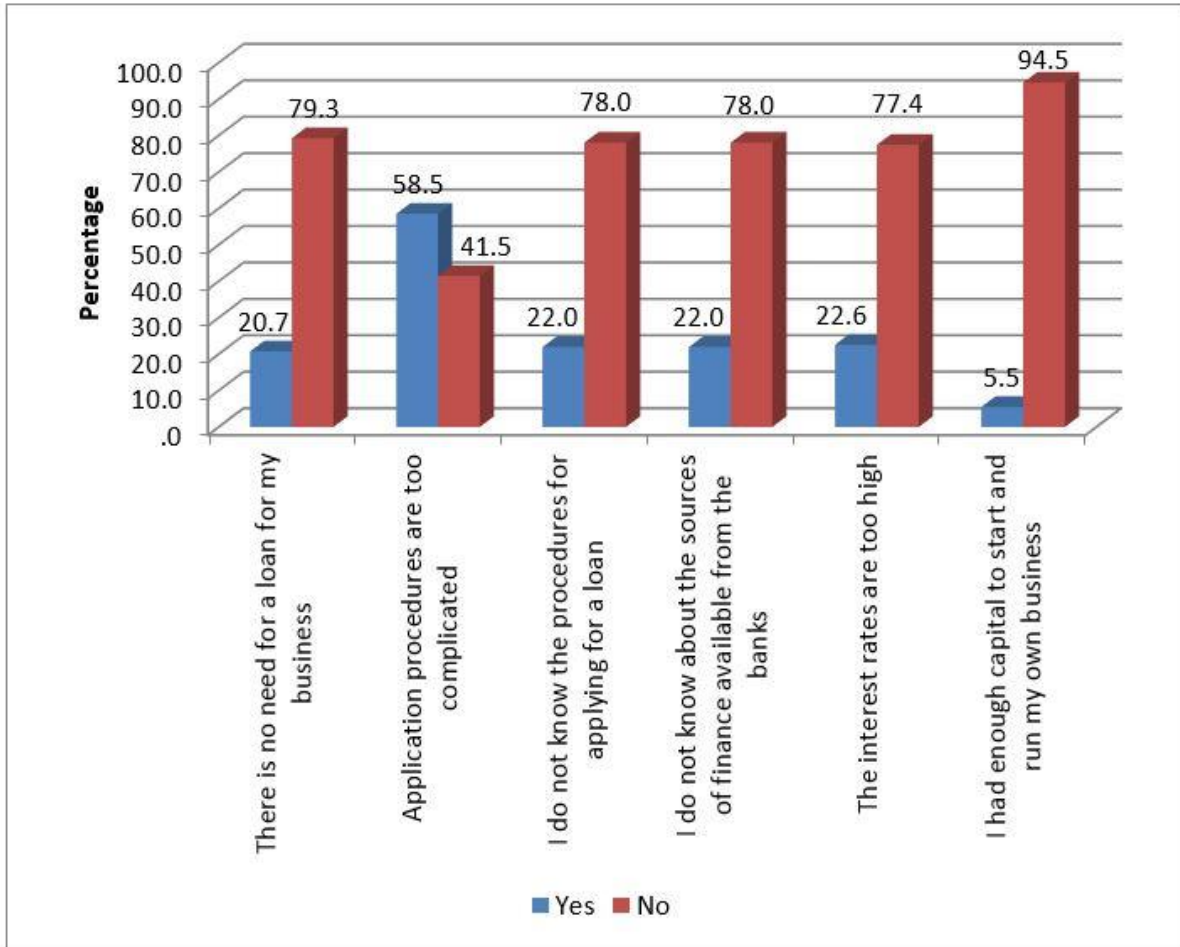


Figure 5. 16: Reasons for not applying for bank credit

Binomial tests (appendix 7) reveals that a significant proportion indicated that respondents did NOT apply for a loan from a bank/financial institution because bank application procedures are too complicated (59%, $p < .035$); because bank interest rates are too high (77%, $p < .000$); they do not know the procedures for applying for a loan (78%, $p < .000$); they do not know about the sources of finance available from the banks (78%, $p < .000$); there is no need for a loan for their businesses (79%, $p < .000$); and because they had enough capital to start and run their businesses (95%, $p < .000$).

Reasons for unsuccessful application for bank credit

Figure 5.17 summarises the reasons for unsuccessful applications for bank credit. The results show that ‘lack of collateral’ is the most dominant reason why a significant number

of 57.1% of the respondents' loan applications were declined, followed by 'non-viable business ideas'.

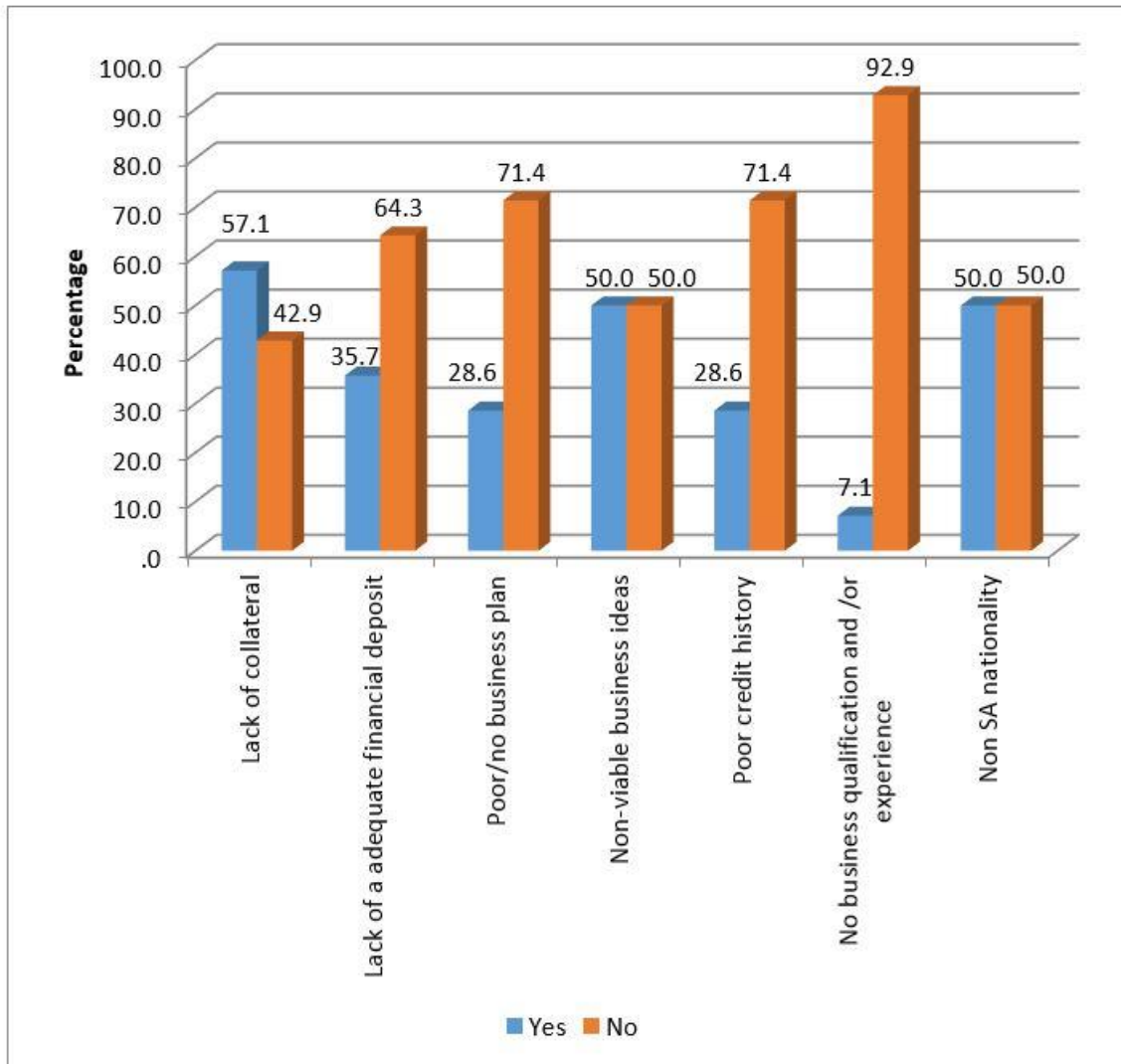


Figure 5. 17: Reasons for unsuccessful application for bank credit

A Binomial test (appendix 8) reveals that only one significant result shows that no qualification/experience is NOT a reason given by respondents for not receiving a loan from a bank/financial institution (93%, $p < .002$). A significant proportion of results indicated that respondents have been given reasons for their applications not been successful: Lack of collateral (57%, $p < .791$); Lack of an adequate financial deposit (64%, $p < .424$);

Poor/no business (29%, $p < .180$); Non-viable business ideas (50%, $p < 1.000$); Poor credit history (29%, $p < .180$); Non- South African (20%, $p < 1.000$).

5.5 THE INFLUENCE OF THE KEY DETERMINANTS OF THE SUCCESS OF SME START-UPS ON THEIR ACCESS TO EXTERNAL FINANCE

To measure the influence of start-up awareness and management skills on access to external finance by SME start-ups, T-tests, ANOVA and Robust Test of equality of means were conducted. This analysis has been done in such a way that it tested whether the "agreement" scores for start-up awareness and management skills are significantly different for those who did get government or bank funding. Independent samples t-test were conducted in the case of government funding, and ANOVA for bank funding.

5.5.1 T-test for Start-up Awareness and Government Funding

The results for the T-test (start-up awareness and government funding) are shown in Tables 5.19 and 5.20 respectively for the group statistics and independent samples test.

Table 5.19: Group statistics

Received Government funding		N	Mean	Std. Deviation	Std. Error Mean
Market research	Yes	35	3.94	1.259	.213
	No	217	3.16	1.283	.087
Differentiating factor	Yes	35	3.74	1.197	.202
	No	217	3.41	1.005	.068
Business model	Yes	34	3.62	1.371	.235
	No	217	2.91	1.145	.078
Business strategy	Yes	35	4.11	.867	.147
	No	217	3.35	1.280	.087
Feasibility study	Yes	34	3.76	.819	.140
	No	217	3.43	1.246	.085
Business plan	Yes	34	3.50	1.212	.208
	No	217	2.96	1.358	.092
Location	Yes	35	3.97	.857	.145
	No	217	3.99	.700	.048
Decision making	Yes	35	4.37	.490	.083
	No	217	4.23	.471	.032
Amount of seed capital	Yes	34	4.09	.514	.088
	No	217	3.71	.872	.059
Source of seed capital	Yes	34	4.09	.830	.142
	No	217	3.69	.857	.058

Table 5.20: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Market research										
Equal variances assumed		1.479	.225	3.354	250	.001	.782	.233	.323	1.241
Equal variances not assumed				3.399	46.134	.001	.782	.230	.319	1.244
Differentiating factor										
Equal variances assumed		.500	.480	1.792	250	.074	.337	.188	-.033	.708
Equal variances not assumed				.580	42.096	.122	.337	.213	-.093	.768
Business model										
Equal variances assumed		3.632	.058	3.246	249	.001	.705	.217	.277	1.133
Equal variances not assumed				2.848	40.537	.007	.705	.248	.205	1.206
Business strategy										
Equal variances assumed		20.644	.000	3.385	250	.001	.759	.224	.318	1.201
Equal variances not assumed				4.459	60.921	.000	.759	.170	.419	1.100

Feasibility study									
Equal variances assumed	10.196	.002	1.521	249	.129	.336	.221	-.099	.771
Equal variances not assumed			.051	60.074	.045	.336	.164	.008	.664
Business plan									
Equal variances assumed	3.680	.056	2.191	249	.029	.541	247	.055	1.028
Equal variances not assumed			2.381	46.985	.021	.541	.227	.084	.999
Location									
Equal variances assumed	3.116	.079	-.147	250	.883	-.019	.132	-.279	.240
Equal variances not assumed			-.127	41.646	.900	-.019	.152	-.327	.288
Decision making									
Equal variances assumed	3.088	.080	1.688	250	.093	.146	.086	-.024	.316
Equal variances not assumed			1.639	44.725	.108	.146	.089	-.033	.325
Amount of seed capital									
Equal variances assumed	13.421	.000	2.432	249	.016	.374	.154	.071	.677
Equal variances not assumed			3.519	67.317	.001	.374	.106	.162	.586
Source of seed of capital									
Equal variances assumed	152	.697	2.551	249	.011	.402	.157	.092	.712
Equal variances not assumed			2.611	44.758	.012	.402	.154	.092	.711

The results as shown in Tables 5.19 and 5.20, for the following determinants: Market research, Business model, Business strategy, Feasibility study, Business plan, Amount of seed capital and Source of seed capital, it was evident that the mean score for the YES response to “having received Government funding” is higher than the mean score for the NO responses, which implies that the average “agreement” score of the respondents is significantly greater for those who indicated having received government funding to those who indicated that they did not received government funding. So, it seems that some of these determinants make a difference to receiving Government funding.

Table 5.20 reflects that:

- the average agreement among the respondents that Market Research was done when starting the business is significantly higher for those who received Government funding than for those who did not
- the average agreement among the respondents that the Business model was developed when starting the business is significantly higher for those who received Government funding, than for those who did not
- the average agreement among the respondents that a Business strategy was developed when starting the business is significantly higher for those who received Government funding, than for those who did not
- the average agreement among the respondents that a Feasibility study was done when starting the business is significantly higher for those respondents who indicated that they received Government funding than for those who did not
- the average agreement among the respondents that Business planning was done when starting the business is significantly higher for those who received Government funding than for those who did not
- the average agreement among the respondents that the ‘Amount of seed capital’ was done when starting the business is significantly higher for those who received Government funding, than for those who did not
- the average agreement among the respondents that ‘seed capital’ was obtained when starting the business is significantly higher for those who received Government funding than for those who did not

T-test for Management skills and Government Funding

The results for T- test (management skills and government funding) are shown in Tables 5.21 and 5.22 respectively for the group statistics and independent samples test.

Table 5.21: Group Statistics

Received Government funding		N	Mean	Std. Deviation	Std. Error Mean
General management skills	Yes	34	4.29	.579	.099
	No	217	4.09	.664	.045
Strategic management skills	Yes	35	4.23	.646	.109
	No	217	3.75	.909	.062
Organisational management skills	Yes	35	4.23	.646	.109
	No	218	3.93	.820	.056
Technical skills	Yes	35	4.37	.690	.117
	No	217	4.23	.795	.054
Financial management skills	Yes	35	4.26	.611	.103
	No	216	3.81	.702	.048
Leadership skills	Yes	35	4.31	.471	.080
	No	217	4.14	.555	.038
Communication skills	Yes	35	4.34	.482	.081
	No	217	4.18	.471	.032
Inventory skills	Yes	35	4.09	.818	.138
	No	217	3.68	.821	.056
Marketing skills	Yes	35	4.20	.584	.099
	No	217	3.82	.833	.057
Contingency management	Yes	35	3.86	.733	.124
	No	217	3.68	.779	.053
Control system management	Yes	35	3.86	.772	.131
	No	217	3.58	.863	.059
Growth oriented skills	Yes	35	4.40	.651	.110
	No	217	4.20	.702	.048

Table 5.22: Independent Samples

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
General management										
Equal variances assumed		.743	.389	1.713	249	.088	.207	.121	-.031	.444
Equal variances not assumed				1.894	47.715	.064	.207	.109	-.013	.426
Strategic managements										
Equal variances assumed		5.634	.018	2.985	250	.003	.477	.160	.162	.792
Equal variances not assumed				3.808	58.293	.000	.477	.125	.226	.728
Organisational management skills										
Equal variances assumed		.167	.683	2.045	251	.042	.297	.145	.011	.584
Equal variances not assumed				2.429	53.341	.019	.297	.122	.052	.543
Technical skills										
Equal variances assumed		.113	.737	.991	250	.323	.141	.142	-.139	.421

Equal variances not assumed			1.098	49.771	.278	.141	.128	-.117	.399
Financial management skills									
Equal variances assumed	.001	.972	3.592	249	.000	.452	.126	.204	.699
Equal variances not assumed			3.970	49.731	.000	.452	.114	.223	.680
Leadership skills									
Equal variances assumed	.414	.520	1.728	250	.085	.171	.099	-.024	.367
Equal variances not assumed			1.946	50.544	.057	.171	.088	-.005	.348
Communication skills									
Equal variances assumed	3.201	.075	1.894	250	.059	.163	.086	-.006	.333
Equal variances not assumed			1.865	45.149	.069	.163	.087	-.013	.339
Inventory skills									
Equal variances assumed	2.151	.144	2.733	250	.007	.408	.149	.114	.703
Equal variances not assumed			2.739	45.745	.009	.408	.149	.108	.708
Marketing skills									
Equal variances assumed	3.238	.073	2.593	250	.010	.380	.146	.091	.668
Equal variances not assumed			3.337	58.986	.001	.380	.114	.152	.607

Contingency management skills									
Equal variances assumed	2.216	.138	1.244	250	.215	.175	.141	-.102	.452
Equal variances not assumed			1.299	47.253	.200	.175	.135	-.096	.446
Control system management									
Equal variances assumed	6.281	.013	1.783	250	.076	.276	.155	-.029	.582
Equal variances not assumed			1.932	48.755	.059	.276	.143	-.011	.564
Growth oriented skills									
Equal variances assumed	.000	.989	1.594	250	.112	.202	.127	-.048	.451
Equal variances not assumed			1.684	47.699	.099	.202	.120	-.039	.443

The results as shown in Tables 5.21 and 5.22 reflect that for the following determinants, 'Strategic management skills', 'Organisational management skills', 'Financial management skills', 'Inventory skills', and 'Marketing skills', the mean score for respondents who stated YES (they received Government funding), is higher than the mean score for those respondents who indicated NO. This implies that the skills above made a difference to those who received government funding.

5.5.2 ANOVA for bank funding

Descriptive and ANOVA results for the relationship between Start-up Awareness and Bank Funding

Table 5.23 reflects the results of ANOVA tests of the relationships between start-up awareness and bank funding.

Table 5.23: ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Market research	Between Groups	1.491	2	.746	.516	.599
	Within Groups	119.904	83	1.445		
	Total	121.395	85			
Differentiating factor	Between Groups	.453	2	.226	.174	.840
	Within Groups	107.885	83	1.300		
	Total	108.337	85			
Business model	Between Groups	13.623	2	6.812	4.188	.019
	Within Groups	133.365	82	1.626		
	Total	146.988	84			
Business strategy	Between Groups	24.134	2	12.067	7.870	.001
	Within Groups	127.262	83	1.533		
	Total	151.395	85			
Feasibility study	Between Groups	14.546	2	7.273	6.875	.002
	Within Groups	86.748	82	1.058		
	Total	101.294	84			
Business plan	Between Groups	11.213	2	5.606	2.940	.058
	Within Groups	156.364	82	1.907		
	Total	167.576	84			
Location	Between Groups	2.104	2	1.052	3.419	.037
	Within Groups	25.536	83	.308		
	Total	27.640	85			
Decision making	Between Groups	1.436	2	.718	4.458	.014
	Within Groups	13.366	83	.161		

	Total	14.802	85			
Amount of seed capital	Between Groups	2.179	2	1.089	4.103	.020
	Within Groups	21.774	82	.266		
	Total	23.953	84			
Source of seed capital	Between Groups	24.257	2	12.129	20.699	.000
	Within Groups	48.049	82	.586		
	Total	72.306	84			

In summary, Table 5.23 reflects that:

- there is a significant difference in the level of agreement among the respondents that a feasibility study was done for those who received full or partial funding or no funding from banks ($F(2, 82) = 6.875, p=.002$). Specifically, agreement was greater for those who received full funding compared to those who received no funding
- there is a significant difference in the level of agreement that a good choice of 'Location' was done for those who received full or partial funding or no funding from banks ($F(2, 83) = 3.419, p=.037$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that 'Decision making' was done for those who received full or partial funding or no funding from banks ($F(2, 83) = 4.458, p=.014$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that an 'Amount of seed capital' was done for those who received full or partial funding or no funding from banks ($F(2, 83) = 4.458, p=.014$). Specifically, agreement was greater for those

who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding

5.5.3 Robust Test of equality of means for bank funding

Table 5.24 summarises the results from the Robust tests of equality of Means for start-up awareness and bank funding. The results are presented using WELCH output.

Table 5.24: Robust Tests of Equality of Means

		Statistic ^a	df1	df2	Sig.
Market research	Welch	.687	2	26.722	.512
Differentiating factor	Welch	.260	2	27.082	.773
Business model	Welch	8.943	2	29.046	.001
Business strategy	Welch	15.516	2	30.303	.000
Feasibility study	Welch	12.378	2	29.303	.000
Business plan	Welch	4.957	2	27.614	.014
Location	Welch
Decision making	Welch
Amount of seed capital	Welch	4.740	2	26.144	.018
Source of seed capital	Welch	13.446	2	21.889	.000

a. Asymptotically F distributed.

b. Robust tests of equality of means cannot be performed for Location because at least one group has 0 variance.

c. Robust tests of equality of means cannot be performed for Decision because at least one group has 0 variance.

The results as shown in Table 5.24 reflect that:

- there is a significant difference in the level of agreement that a business model was done for those who received full or partial funding or no funding from banks (Welch (2, 29.046) = 8.943, $p=.001$). Specifically, agreement was greater for those who received full funding or partial funding compared to those who received no funding

- there is a significant difference in the level of agreement that a 'Business strategy' was done for those who received full or partial funding or no funding from banks (Welch (2, 30.303) = 15.516, p=.000). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Business plan' was done for those who received full or partial funding or no funding from banks (Welch (2, 27.614) = 4.957, p=.014). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Source of seed capital' was done for those who received full or partial funding or no funding from banks (Welch (2, 21.889) = 13.446, p=.000). Specifically, agreement was greater for those who received full funding compared to those who received no funding; also, those who received partial funding agreed more than those who received full or no funding

5.5.4 ANOVA Test Results for bank funding

The ANOVA results for management skills and bank funding are shown in the following Table 5.25.

Table 5.25: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
General management skills	Between Groups	2.599	2	1.299	3.231	.045
	Within Groups	32.978	82	.402		
	Total	35.576	84			
Strategic management skills	Between Groups	3.020	2	1.510	2.726	.071
	Within Groups	45.968	83	.554		
	Total	48.988	85			
Organisational management skills	Between Groups	3.908	2	1.954	3.533	.034
	Within Groups	45.906	83	.553		
	Total	49.814	85			
Technical skills	Between Groups	.515	2	.258	.367	.694
	Within Groups	58.333	83	.703		
	Total	58.849	85			
Financial management skills	Between Groups	4.911	2	2.455	4.514	.014
	Within Groups	45.147	83	.544		
	Total	50.058	85			
Leadership skills	Between Groups	1.963	2	.982	5.122	.008
	Within Groups	15.909	83	.192		
	Total	17.872	85			
Communication skills	Between Groups	2.660	2	1.330	7.255	.001
	Within Groups	15.213	83	.183		
	Total	17.872	85			
Inventory skills	Between Groups	6.190	2	3.095	4.049	.021
	Within Groups	63.450	83	.764		
	Total	69.640	85			
Marketing skills	Between Groups	12.096	2	6.048	9.361	.000
	Within Groups	53.625	83	.646		
	Total	65.721	85			
Contingency management	Between Groups	14.229	2	7.115	11.623	.000
	Within Groups	50.806	83	.612		
	Total	65.035	85			
Control system management	Between Groups	2.248	2	1.124	1.071	.347
	Within Groups	87.101	83	1.049		
	Total	89.349	85			
Growth oriented skills	Between Groups	.733	2	.366	.936	.396
	Within Groups	32.476	83	.391		
	Total	33.209	85			

In summary, Tables 5.25 reflects that:

- there is a significant difference in the level of agreement that a 'General management skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 82) = 3.231, p=.045$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Strategic management skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 3.533, p=.034$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Financial management skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 4.514, p=.014$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Leadership skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 5.122, p=.008$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Communication skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 7.255, p=.001$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding

- there is a significant difference in the level of agreement that a 'Marketing skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 9.361, p=.000$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- there is a significant difference in the level of agreement that a 'Contingency management skills' was applied for those who received full or partial funding or no funding from banks ($F(2, 83) = 11.623, p=.000$). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding

5.5.5 Summary of the influence of the key determinants of the success of SME start-ups on their access to external finance

Start-up Awareness

With reference to the following determinants: Market research, Business model, Business strategy, Feasibility study, Business plan, Amount and Source of seed capital; it was found that the average agreement scores are significantly greater for those who received government funding than those who did not. The results revealed that the aforementioned determinants, especially business plan, are significant in accessing government funding by SME start-ups. The results are consistent with Fatoki and Akinwumi (2010) who found that the key determinants of the success of SME start-ups positively impact on the accessibility of all types of financing for SME start-ups.

Management skills

With respect to the following determinants: Strategic management skills, Organisational management skills, Financial management skills, Inventory skills and Marketing skills; the results ascertained that the average agreement scores are significantly greater for those who received government funding than those who did not, implying that the aforementioned skills influence the success of receiving Government funding. The results

are consistent with that reported by Fatoki and Garwe (2012), who found that managerial skills significantly positively impact on the SME start-ups' access to government funding.

Access to bank funding

Start-up awareness

The results revealed that there is a significant difference in the level of agreement among the respondents, that start-up awareness influenced the ability of SMEs to secure full or partial funding from banks. More specifically, agreement was greater for those respondents who received full and partial funding compared to those who received no funding from the banks. The results revealed the following: feasibility study, good business location, right decision making, knowing the amount of seed capital needed for business, business strategy, business plan and source of seed capital - are significant determinants in accessing bank finance by SME start-ups.

The above results are supported by previous studies that were conducted by Fatoki and Garwe, (2010:733), who found that prior market research and related factors significantly positively impact on the accessibility to different types of bank funding by SME start-ups.

Management skills

It was found that there is a significant difference in the level of agreement among the respondents that management skills were applied by those who received full, partial funding or no funding from banks. More specifically, the agreement was greater among those who received full or partial funding, compared to those who received no funding from the banks. It became apparent that the following, namely, General management skills, Organisational skills, Financial management skills, Leadership skills, Communication skills, Marketing skills and Contingency skills, are significant determinants of access to bank financing by start-up businesses.

The above results are consistent with Gomezelj (2013:909), who found that managerial competencies significantly and positively impact the accessibility of all bank financing to SME start-ups.

5.6 MEASUREMENT MODEL ASSESSMENT

The measurement model assessment mainly focused on three issues, namely, the measurement instruments reliability, measurement instruments validity and the model fit.

5.6.1 Reliability Assessment

In the current study, the lowest Cronbach Alpha value was 0.688 while the highest value was 0.929 which means that all exceeded the recommended threshold of 0.6, hence, authenticating that the measures that were used in the study were all reliable as presented in Table 5.26. The current study's lowest composite reliability (CR) value was 0.701 while the highest value was 0.941. Table 5.26 provides the figures for the composite reliability values which were all greater than 0.7 implying that the instrument was reliable (Yang & Lai, 2010).

Table 5.26 to be included here

5.6.2 Validity Assessment

Table 5.27 presents the estimates of the factor loadings/ standardised regression weights that were all greater than 0.5, showing a greater convergent validity (Hair *et al.* 2006: 771). The lowest loading or regression weight was 0.522, representing corporate finance (CF05), while government finance (GF) had the highest among the loadings with 0.950. This result (Table 5.27) indicates that all the measurement instruments used in this study explained at least 52% of what they are supposed to measure.

Hair *et al.* (2006) also observed that an AVE threshold value of 0.30 qualifies to be used as a minimum threshold in social sciences while in marketing, an accepted threshold of 0.5 was comparatively acceptable. The current study has thresholds ranging from 0.500 to 0.615, which is consistent with that of Fraering and Minor (2006) and Hair *et al.* (2006) and they are presented in Table 5.27. The AVE values greater than 0.5 further confirmed convergent validity of the research constructs.

Kline (2011) defined discriminant validity as contrary to convergent validity in the extent that variables alleged to evaluate different variables shows discriminant validity. Discriminant validity describes how measures in the same study are distinct from other

measures. Inter-construct correlation matrices and Average variance extracted (AVE) compared to Shared variance (SV) were used to assess the discriminant validity in the current study.

The discriminant validity of the study was examined through an examination of the correlation values of the research constructs. The correlation values range from 0 – 1. A low correlation between research constructs indicates that the research constructs are unique and distinct from one another – while the reverse indicates the absence discriminant validity. Theoretically, a correlation value less than 0.6 is deemed an indicator of discriminant validity. However, practically, a correlation value that is less than 0.85 is still regarded marginally acceptable (Chinomona, 2011). In the current study, the highest correlation value is 0.407 as provided in Table 5.26 hence confirming the existence of discriminant validity of the research constructs used in the current study.

Table 5.26: Correlation between the constructs

Research Constructs	SUA	MS	PSF	GF	CF
SUA	1.000				
MS	0.173	1.000			
PSF	0.243	0.407	1.000		
GF	0.228	0.155	0.404	1.000	
CF	0.338	0.362	0.182	0.018	1.000

****.** Correlation is significant at the 0.01 level (2-tailed).

Note: SUA = Star-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

Discriminant validity was further verified by comparing the AVE and HSV by comparing either the AVE with the highest shared variance or through a comparison of the square root of the AVE for each construct and its relationship with other constructs (Fornell & Larcker, 1981:337). The highest shared variance (HSV) is found by squaring the highest shared correlation value among constructs. The highest shared variance values (HSV) are provided in Table 5.27 A construct that is unique and distinct from other research construct is expected to have the Highest Shared Value (HSV) less than its Average Variance Extracted (AVE) (Chinomona, 2011). As can be noted from the current study

results, the Highest Shared Variance (HSV) provided in Table 5.27, are all less than the AVE coefficients also provided in Table 5.27 – hence confirming the existence of discriminant validity. Alternatively, as suggested by Fornell and Larcker (1981:337), discriminant validity was also achieved when a square root of an AVE for each research construct was found to be greater than the correlation with the other construct – showing that discriminant validity has been achieved.

Summary of Measurement Model Accuracy Statistics

The Table 5.27, below provides a summary of the descriptive statistics and the measurement model assessment statistics. The mean values provided below indicate that the majority of the respondents agreed with the measures asked (>3 - <5). The standard deviations of all the constructs were less than 2, therefore, indicating that the mean values are correct reflection of the majority average perceptions. Detailed explanation of the measurement model statistics is provided under the reliability and validity assessment sections.

Table 5.27: Scale accuracy analysis

Research constructs		Scale item		Cronbach's test	CR	AVE	Highest Shared Variance	Factor loadings
		Mean	SD	α value				
PSF	PSF2	3.296	0.971	0.720	0.744	0.555	0.167	0.722
	PSF7	2.510	0.872					0.767
SUA	SUA1	3.122	1.365	0.880	0.907	0.553	0.114	0.847
	SUA2	3.449	0.991					0.581
	SUA3	2.980	1.205					0.812
	SUA4	3.306	1.265					0.825
	SUA5	3.418	1.221					0.717
	SUA6	2.908	1.220					0.857
	SUA8	4.184	0.460					0.648
	SUA9	3.643	0.872					0.600
MS	MS1	4.051	0.734	0.929	0.941	0.616	0.167	0.796
	MS2	3.735	0.964					0.902
	MS3	3.796	0.936					0.846
	MS5	3.745	0.863					0.765
	MS6	4.143	0.760					0.756
	MS7	4.153	0.553					0.593
	MS8	3.643	0.413					0.808
	MS9	3.755	0.884					0.783

	MS10	3.571	0.783					0.774
	MS11	3.480	0.782					0.792
GF	GF1	3.857	0.515	0.792	0.901	0.820	0.163	0.859
	GF2	3.857	0.440					0.950
CF	CF1	3.796	0.606	0.688	0.701	0.504	0.114	0.522
	CF5	3.857	0.201					0.722

* Scores: 1 – Strongly Disagree; 3 – Moderately Agree; 5 – Strongly Agree

Note: Note: SUA = Start-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance. SD= Standard Deviation, CR= Composite Reliability, AVE= Average Variance Extracted

The results from the Factor analyses revealed the determinants of Start-Up Awareness (SUA) include the following factors: feasibility study, good business location, right decision making, knowing the amount of seed capital needed for business, business strategy, business plan and source of seed capital. Factor analysis further revealed that the significant determinants of Management Skills (MS) include the following factors: General management skills, Organisational skills, financial management skills, Leadership skills, Communication skills, Marketing skills and Contingency skills. , are determinants by start-up businesses.

Model Fit Summary – Measurement Model

Unlike the Covariance Based Approached which provide the absolute fit indices, incremental fit indices as well as the parsimony fit indices (Hair *et al.* 2010:665), Smart PLS provides limited model fit indices. These are the Chi-square χ^2 /df), the Normed Fit Index (NFI), and the Goodness-of-Fit Index (GFI) which is manually calculated based on a formula provided by Tenenhaus, Vinzi, Chatelin & Lauro, (2005)

The Chi-square (CMIN/DF) was 2.332, falling below the recommended threshold of 3 by (Chinomona, 2011). The Normed Fit Index was 0857 exceeded the acceptable level of 0.800 suggested by (Hooper, Coughlan & Mullen, 2008).

Table 5.28: Model Fit Summary – Measurement Model

Model Fit Indices	Acceptable Threshold	Current Study Threshold	Decision: Acceptable/Unacceptable
SRMR		0.104	Acceptable
d_ULS		3.535	Acceptable
d_G		2.075	Acceptable
Chi-Square Value: $\chi^2/(df)$	< 3	2.332 (857.225/df)	Acceptable
Normed Fit Index (NFI)	0.800	0.857	Acceptable
Goodness of Fit Index (GFI)	> 0.36	0.421	Acceptable
RMSEA	< 0.08	0.05	Acceptable
CFI	$\geq .90$	0.98	Acceptable

Note: SUA = Star-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

The following formulae provided by Tenenhaus, Vinzi, Chatelin & Lauro, (2005), the global goodness-of-fit (GoF) statistic for the research model was calculated using the equation:

$$\text{GoF} = \sqrt{\text{AVE} * \bar{R}^2}$$

The calculated global goodness of fit (GoF) is 0.421, which exceed the threshold of GoF > 0.36 suggested by Wetzels, Odekerken-Schröder & van Oppen (2009). As well as the Root Mean Square Error of Approximation (RMSEA) is 0.05, which does not exceed the threshold of RMSEA < 0.08 and the Comparative Fit Index (CFI) is 0.98, which exceeds the threshold of CFI $\geq .90$. Thus, this study concludes that the research model has a good overall fit.

The results of the fit indices of the initial assessment of the measurement model of all the manifest variables and their indicators were all acceptable as presented in the Table 5.33.

The findings from the measurement model showed that the conceptual model was a depiction of the data that was collected for the study. Pungchompoo and Sopadang (2015) observed that, once a good fit is obtained for a hypothesised model, the path significance of each association in the research model and the variance ought to be estimated. Given that, the path modelling, and its hypotheses testing are interpreted in the next section.

Assessment of the coefficient of determination

The coefficient of determination (R^2 value) for each of the endogenous constructs in the structural model is presented in Table 5.29 explaining the amount of variance found in each construct, the result of all the exogenous constructs linked to them, the R^2 values range from 0.053 to 0.598. R^2 values of 0.75 are considered to be substantial with significant predictive power, 0.50 moderate with modest predictive power and 0.25 weak with poor predictive power.

It is evident from the results in Table 5.29 that the coefficients exogenous constructs linked to Start Up Awareness (SUA) – Management Skills (MS) account for 59.8% while GF (5.3%), CF (14%) and PSF (17.9%) respectively accounted for the variance in this construct. Therefore, the predictive power of these determinants in the current study is considered to be ranging from weak to moderate.

Table 5.29: Coefficient of determination (R^2)

Variables	R-Square (R^2)	R-Square (R^2) Adjusted
CF	0.140	0.122
GF	0.053	0.033
MS	0.598	0.594
PSF	0.179	0.162

Assessment of collinearity

In assessing collinearity, the following sets of exogenous and endogenous constructs were analysed, namely

SUA → CF

SUA → GF

SUA → MS

SUA → PSF

MS → CF

MS → GF

MS → PSF

Key: SUA = Star-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

Table 5.30: VIF results in the structural model

Research Constructs	CF	GF	MS	PSF	SUA
CF					
GF					
MS	2.488	2.488		2.488	
PSF					
SUA	2.488	2.488	1.000	2.488	

****.** Correlation is significant at the 0.01 level (2-tailed).

Note: SUA = Start-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

It is evident from the results contained in Table 5.30 that none of the variance inflation factor (VIF) values exceed the maximum threshold of 5 which would indicate critical levels of collinearity. Therefore, with VIF values only ranging between 1.000 and 2.488, collinearity among the exogenous constructs is not an issue to be considered when further evaluating the model.

Structural model Assessment and Hypotheses Testing

Figure 5.19 is an illustration of the structural model also known as the path model which depicts the results of the tested hypothesis of the study's research conceptual model. In the structural model, Start-Up Awareness is depicted to have direct effects on Management Skills (MS), Government Finance (GF), Corporate Finance (CF) and Personal/Social Network (PSF). Table 5.49 below provides the results of structural model path coefficients and the significant results.

Path Modelling: Hypothesis Testing and its Significance Levels

The results of the path coefficient, the interpretation of the stated hypotheses with their corresponding factor loadings, the probability value (P-Value) as well as the outcome of their respective relationships are presented in Table 5.31 provided below.

Table 5.31: Hypothesis testing results

Proposed Hypothesis Relationship	Hypothesis	Path Coefficients	T-Statistics	P-Values	Rejected/Supported	Decision
SUA → MS	H1	0.773	21.777	0.000	Supported and significant	Accepted
SUA → PSF	H2	0.180	0.961	0.339	Supported but insignificant	Rejected
SUA → GF	H3	0.269	2.669	0.009	Supported and significant	Accepted
SUA → CF	H4	0.145	1.167	0.246	Supported but insignificant	Rejected
MS → PSF	H5	0.547	3.600	0.000	Supported and significant	Accepted
MS → GF	H6	0.053	0.381	0.704	Supported but insignificant	Rejected
MS → CF	H7	0.250	2.047	0.043	Supported and significant	Accepted

Note: Note: SUA = Start-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

Levels of Significance: $p < 0.05$; $t > 1.96$

Table 5.36 reflects the decision on the seven hypotheses postulated for the study. The path analysis estimates or coefficients of the hypotheses were: $H1$, $H2$, $H3$, $H4$, $H5$, $H6$ and $H7$ were 0.773, 0.180, 0.269, 0.145, 0.547, 0.053 and 0.250 respectively. It is clear from Table 5.36 that, while all proposed hypotheses are supported four out of the seven hypotheses stated are significant. In assessing the probability value or the p -value, it was observed that six of the hypotheses were significant at level of 0.05 as shown in Table 5.31

Summary of the Research Findings

The summary of the hypothesised relationships was done according to the conceptual model presented in the path diagram analysis in Figure 5.18 as well as outcome from Table 5.31.

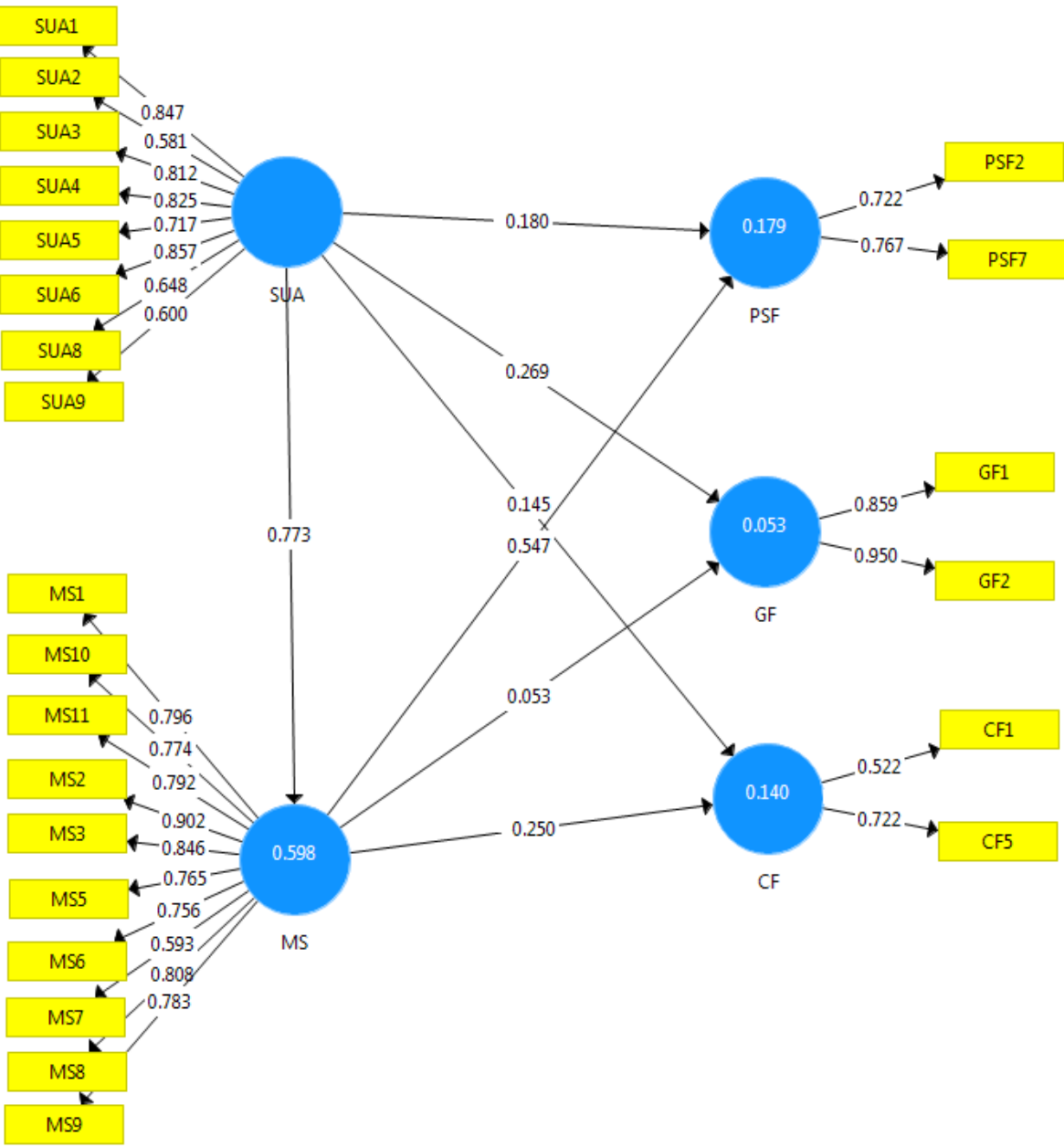


Figure 5. 18: Structural Model Results

Note: Note: SUA = Start-Up Awareness; MS = Management Skills; PSF = Personal/Social source of Finance; GF = Government source of Finance; CF = Corporate source of Finance.

The results from the Factor analyses revealed the eight determinants of Start-Up Awareness (SUA) include the following factors: feasibility study, good business location, right decision making, knowing the amount of seed capital needed for business, business strategy, business plan, business model and source of seed capital. Factor analysis further revealed that the seven significant determinants of Management Skills (MS) include the following factors: General management skills, Organisational skills, Financial management skills, Leadership skills, Communication skills, Marketing skills and Contingency skills. , are determinants by start-up businesses.

Start-Up Awareness (SUA) and Management Skills (MS)

The results indicate that start-up awareness has a strong positive and significant effect on management skills ($\beta= 0.773$; $t=21.77$; $p\text{-value} = 0.00$). This finding means that start-up awareness in South Africa can explain about 77.3% of the entrepreneur's desire to acquire management skills that are necessary for their small enterprises to succeed.

The results are consistent with the study done by Kwatalo (2010), who stated that the relationship between managerial competency and critical success factor development is an avenue for achieving sustainable micro and small enterprises in Africa. Doom *et al*, (2009); Fatoki and Odeyemi (2010); and Smorfitt (2008) also pointed out that the key determinants of the success of SME start-ups include the determinants of start-up awareness such as opportunity awareness, differentiation factors, business model, strategy, feasibility study, business plan, location, amount and source of seed capital, and decision-making ability are related to access to different sources of external finance available to SME start-ups.

Start-up awareness (SUA) and personal/social network source of finance (PSF)

It was ascertained that start-up awareness has a weak positive but insignificant effect on personal or social network source of finance ($\beta= 0.180$; $t=0.961$; $p\text{-value} = 0.339$). This finding means that start-up awareness in South Africa can explain about 18% of the entrepreneur's desires to utilise personal or social sources of finance.

These results are supported by the study conducted by Smit and Watkins (2012:6326) who pointed out that a lack of credit is also a major constraint experienced by emerging African SMEs, who depend on personal savings or loans from relatives and friends, as their main source start-up capital.

Start-up awareness (SUA) and government source of finance (GF)

The result indicate that start-up awareness has a relatively strong positive and significant effect on the choice of government as a source of enterprise finance by entrepreneurs ($\beta= 0.269$; $t=2.669$; $p\text{-value} = 0.009$). This finding implies that start-up awareness in South Africa can possibly explain about 26.9% of the entrepreneurs' desires to choose government as their first considered source of enterprise finance – when compared to personal/social finance ($\beta= 0.180$; $t=0.961$; $p\text{-value} = 0.339$) and corporate finance ($\beta= 0.145$; $t=1.167$; $p\text{-value} = 0.246$) respectively.

The results are consistent with that reported by Fatoki and Garwe (2012), who found that managerial skills significantly positively impact on the SME start-ups' access to government funding.

Start-up awareness (SUA) and corporate source of finance (CF)

It became evident that start-up awareness has a relatively weak positive and insignificant effect on the entrepreneurs' desires to choose the corporate e.g. banks as a source of finance ($\beta= 0.145$; $t=1.167$; $p\text{-value} = 0.246$) – when compared to government finance ($\beta= 0.269$; $t=2.669$; $p\text{-value} = 0.009$) and personal/social source of funding ($\beta= 0.180$; $t=0.961$; $p\text{-value} = 0.339$). This finding means that start-up awareness in South Africa can explain about 14.5% of the entrepreneurs' considered choice of the corporate as a source of finance.

The results are supported by previous studies that were conducted by Olawale and Garwe, (2010), who found that prior market research and related factors significantly positively impact on the accessibility to different types of bank funding by SME start-ups.

Management skills (MS) and Personal/social source of finance (PSF)

It was ascertained that management skills (MS) has a stronger positive and significant effect on entrepreneurs' decision to choose their personal or social networks as a possible

source of finance ($\beta= 0.547$; $t=3.600$; $p\text{-value} = 0.00$), when compared to corporate finance ($\beta= 0.250$; $t=2.047$; $p\text{-value} = 0.043$) and government finance ($\beta= 0.053$; $t=0.381$; $p\text{-value} = 7.04$) respectively. This finding implies that management skills in South Africa can explain about 25% of the entrepreneurs' choice of personal/social networks as a first source of finance of their enterprises.

The results are consistent with the study done by Mariotti and Glackin, (2012) who pointed out that priority when borrowing money from the inner circles of the family should be in a business-like manner, honesty and openness about the potential risks the business bears.

Management skills (MS) and government finance (GF)

The result indicate that management skills has the weakest positive and insignificant effect on the choice of government as a source of finance ($\beta= 0.053$; $t=0.381$; $p\text{-value} = 7.04$) – when compared to personal/social finance ($\beta= 0.547$; $t=3.600$; $p\text{-value} = 0.00$) and corporate finance ($\beta= 0.250$; $t=2.047$; $p\text{-value} = 0.043$). This finding means that social influence in South Africa can explain only about 5.3% of the entrepreneurs' desire to choose government as a source of finance.

The results are consistent with Fatoki and Akinwumi's (2010:2768) who found that the key determinants of the success of SME start-ups relatively impact on the accessibility of all types of financing for SME start-ups.

Management skills (MS) and Corporate Finance (CF)

The result indicate that management skills has a relatively strong positive and significant effect on corporate finance ($\beta= 0.250$; $t=2.047$; $p\text{-value} = 0.043$). Thus, entrepreneurs with management skills are likely to choose corporate finance as a second choice from personal/social network finance. This finding also implies that management skills in South Africa can explain about 25% of the entrepreneurs' likely desires to choose the corporates such as banks as the alternative source of business finance.

The results are consistent with Gomezelj's (2013), who found that managerial competencies significantly and positively impact the accessibility of all bank financing to SME start-ups.

5.7 SUMMARY

The chapter reported the research findings resulting from both descriptive and inferential analyses. The hypothesised relationships were tested using structural equation modelling after the measurement model was assessed after the instrument was validated using reliability and validity. The results from the Factor analyses revealed the eight determinants of Start-Up Awareness (SUA) include the following factors: feasibility study, good business location, right decision making, knowing the amount of seed capital needed for business, business strategy, business plan, business model and source of seed capital. Factor analysis further revealed that the seven significant determinants of Management Skills (MS) include the following factors: General management skills, Organisational skills, Financial management skills, Leadership skills, Communication skills, Marketing skills and Contingency skills. , are determinants by start-up businesses. Specifically, four hypotheses were supported and three were rejected. The next chapter will discuss the findings, conclude and make recommendations.

CHAPTER SIX

KEY FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The aim of this study was to assess the influence of key determinants of SME start-up success on their ability to access external financing in Pietermaritzburg. In this chapter an attempt has been made to establish the extent to which the key research questions and objectives presented in Chapter One were reached. Based on the findings of the study, some conclusions are attained, and recommendations pertaining to the business owners' management competencies and awareness are presented. The chapter concludes by outlining the limitations of the study, and by offering suggestions for future research.

The discussion hereunder commences with a summary of the major findings of the study, which are aligned to the key research objectives presented in Chapter One. The objectives of this study were required to be achieved through a detailed analysis of secondary data, together with an analysis of the primary research executed as part of this study. In order to do this, the research questions and objectives have been listed below and thereby to the analysis of the findings in Chapter 5.

6.2 KEY FINDINGS

6.2.1 To determine the challenges SME start-ups experience in accessing external financing

In summary, the majority of the SME owner-managers are aware of external funding sources. However, they did not have access to these external (government/bank) financial sources to start their business. The greatest challenge to accessing external finance is the complicated application procedure for both government grants and bank financing, followed by the bank interest rates that are generally perceived as high despite the bank or the sector of the business. Those who applied for bank finance and were unsuccessful reported it was due to lack of collateral, lack of adequate financial deposit, poor/no business plan, non-viable business ideas and poor credit history. It has also

ascertained that start-up SMEs who received funding from banks reported a positive impact of this funding on their businesses.

6.2.2 To analyse the key requirements of external finance providers to SME start-ups

It became evident that the SME owner-managers in Pietermaritzburg have to comply with strict government criteria, complete much paperwork, and use the grants for specific purposes. Furthermore, the risks associated with bank business loans is too high, and banks require guarantees and collateral assets, personal goods, and receivables, as well as a business plan reflecting cash flow forecast. At the start-up stage of the business, it is difficult for young entrepreneurs to separate their personal and business finances. In this regard, mentors are equipped to help with this problem and grants are also awarded for the lack of expertise.

6.2.3 To determine the access to alternative external financing by SMEs in the start-up phase

Beside the government and banks, private equity finance also constitutes a good source of finance for start-up SMEs. The results revealed that a significant number of respondents did not obtain finance from alternative sources such as Stokvel, finance from another larger business, financing from a private investor, corporate investment finance, or loans from micro financing institutions and business angels.

Although many SME owners-managers do not consider it as a source of start-up financing, business relationships and Stokvel are to be promoted as alternative source of external finance for SME start-ups. As found by Akwasi (2012), most of the SMEs who do not receive finance from the government and banks, in most of the cases, do not explore alternative external finance sources like Stokvel for their businesses.

6.2.4 To examine the relationship between the key determinants of the success of SME start-ups and their access to different sources of external finance

The results revealed that some determinants of start-up awareness and management skills positively influence access to South Africa government grants by SME start-ups. Seven hypotheses were formulated, and the results are reflected in Table 6.1.

Table 6.1: Decisions on the hypotheses

Hypothesis			
<i>H1:</i>	Start-up awareness and its impact on management skills in South Africa was assessed.	The result indicating that start-up awareness has a strong positive and significant effect on management skills.	Accepted.
<i>H2:</i>	The relationship between start-up awareness and personal or social sources of finance in South Africa was also assessed.	The result indicating that start-up awareness has a weak positive but insignificant effect on personal or social network sources of finance.	Rejected.
<i>H3:</i>	Start-up awareness and the entrepreneur's desire to solicit for government finance in South Africa was assessed in this study.	The result indicating that start-up awareness has a relatively strong positive and significant effect on the choice of government as a source of enterprise finance by entrepreneurs.	Accepted
<i>H4:</i>	This study also assessed the relationship between start-up awareness and corporate source of finance in South Africa.	The result indicating that start-up awareness has a relatively weak positive and insignificant effect on the entrepreneurs' desires to choose the corporate, e.g. banks as a source of finance.	Rejected.
<i>H5:</i>	Management skills and personal or social network as a source of finance relationship in South Africa was assessed in this study.	The result indicates that management skills has a stronger positive and significant effect on the entrepreneurs' decision to choose their personal or social networks as a possible source of finance.	Accepted.
<i>H6:</i>	The relationship between management skills and government finance in South Africa was assessed.	The result indicating that management skills has the weakest positive and insignificant effect on the choice of government as a source of finance.	Rejected.
<i>H7:</i>	Management skills and corporate finance relationship in South Africa was also assessed in the current study.	The result indicating that management skills has a relatively strong positive and significant effect on corporate finance.	Accepted.

6.2.5 To develop a framework to improve access to external finance by SME start-ups

The analysis shows that all the key determinants of the success of SME start-ups do not impact on start-up SMEs' access to external finance. It emerged from the findings that Entrepreneurial awareness, a component of start-up awareness, management skills and Financing options (sources of finance) are related to access to external financing of SME start-ups.

Entrepreneurial awareness

Entrepreneurial awareness is a component of start-up awareness and management skills. Start-up awareness emanate from determinants such as market research, business strategy, business plan, amount and source of seed capital, and location and Management skills, and is made of determinants such as general management skills, strategic management skills, financial management skills, communication skills, and marketing skills. It was ascertained in this study that the determinants above which were clustered as Start-up awareness and Management skills affect access to different sources of business financing.

At the Start-up stage, the business owner-manager should understand and apply the different key determinants of the success of SME start-ups, by equipping him/herself with the necessary knowledge of the industry in which he/she wants to start the business, as well as the necessary management skills that will enable him to operate and function effectively. Therefore, the achievement of the key determinant of a successful start seems critically important at the start-up stage.

Key requirements

The key requirements component of the Financing Framework shows the requirements for accessing government grants, commercial bank financing or private equity finance. The key requirements for accessing finance from the SME finance providers are summarised as follow:

- To access government grants, the SME owner-manager must be a black South African, and the business must comply with CIPC and SARS. The grant depends

on the nature and sector of business since grants are not given to all and every small business. The SME owner-manager must be able to present the financial statements of the business, business plan and the credit history. To apply for government grant, the SME owner-manager must be prepared for a lot of paperwork, strict selection criteria, and a very long waiting period such as one to three years; however, these government loans tend to offer comparably lower interest rates compared to those of traditional financial institutions and have longer or more flexible repayment terms

To access bank business loans, the SME owner-manager must be a Black South African (only when applying from ABSA), possess the requisite management skills, present financial information and a business plan, have a credit history and submit collateral information

To access private equity finance, there is not much requirements compared to the two previous financing options. However, the financing of SMEs will depend more on the relationship and pre-set arrangements between the SME and the private equity finance provider. Mostly, the financial information is required, and the finance provider would participate in business decision-making and financial control.

Financing options

Three types of external finance sources, namely, Government grants referred to as government financing; bank finance, referred to as corporate finance; and private equity finance, referred to as personal/social source of finance, were considered in this study since they broadly define the sources. It was ascertained in this study that there is a relationship between the Start-up awareness and Management skills of the owner-manager and access to various sources of finance. The corporate source of finance includes credit cards, bank loans, asset finance, overdraft, and factoring; government source of finance includes different government grants to SME start-ups; and personal/social source of finance includes finance from private equity finance such as finance from friends, finance from family, Stokvel, business angels and venture-capital.

Some issues have arisen out of this research, which need to be addressed by relevant role-players to contribute to addressing the research problem at large. This study was an

empirical investigation and analysis of the contribution that Start-up Awareness and Management skills could have on access to external finance by SMEs in general and in Pietermaritzburg, KwaZulu-Natal in particular. The findings indicate the impact that entrepreneurial awareness and management skills could have on access to external finance by SMEs in the Start-up stage of business. This research identified some determinants which are associated with the key requirements and linked to the type of external finance and together form the Financing Framework for access to finance by SME start-ups. Based on a consolidation of the key findings of this study, the framework to improve access to external finance by SME start-ups is depicted in Figure 6.1.

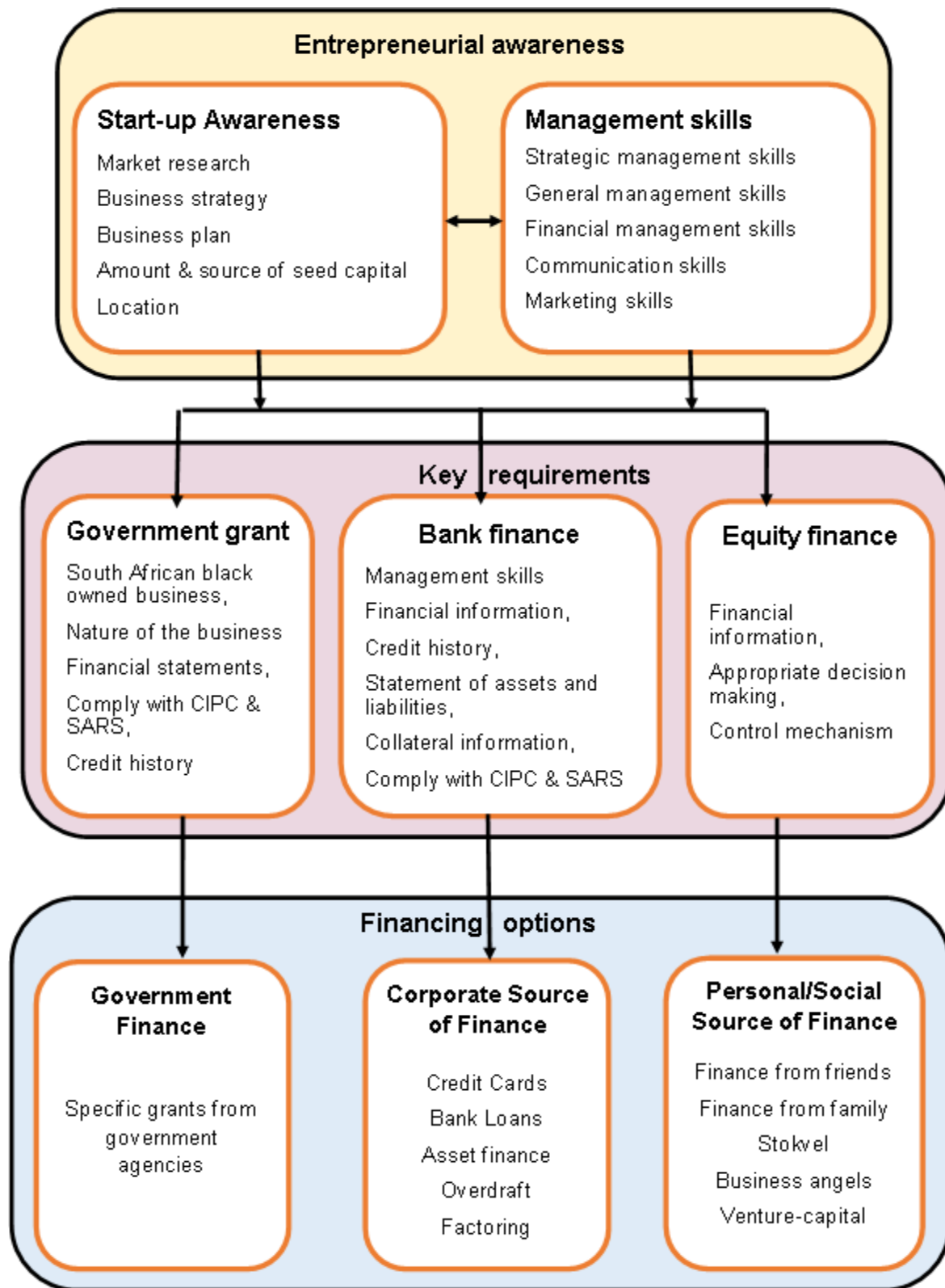


Figure 6. 1: Framework for access to external finance by SME start-ups

6.3 RECOMMENDATIONS

A number of issues have arisen out of this research, which need to be addressed by relevant role players in order to contribute to addressing the research problem at large. This research was an empirical investigation and analysis of the contribution that the determinants of the Financing Framework could have on access to external finance by SMEs in general and in Pietermaritzburg in particular. The findings indicated the appropriateness and positive impact that personal entrepreneurial awareness and management skills could have on access to external finance by SMEs. This research identified a number of determinants which are associated with funding requirements and linked to the type of external finance, and together form the Financing Framework for access to finance by SME start-ups.

6.3.1 Recommendations to SME owner-managers

The research findings provide SME owner-managers with a basic understanding of the key determinants of the success of SME start-ups, as well as information on how their entrepreneurial awareness and management skills could improve their ability to access different sources of external finance. By understanding and utilising the Financing Framework, SME owner-managers would be able to plan their financing needs and choose from among three main sources of external finance.

It is strongly recommended that business owner-managers understand the determinants of business awareness and management skills to improve their ability to access external finance. During the start-up process of the business, the entrepreneur must be aware of the business opportunity, as without an opportunity there is no sustainable business potential. To gain a competitive advantage, differentiation of this business must be highlighted, the business model formulated and the strategy clearly defined. A business plan which weaves all the determinants together must be developed to understand, among other things, the amount of seed capital required and the source from which this capital could be obtained.

To sustain and grow a business and increase the chances of obtaining external finance, the entrepreneur should realise that general management experience is of vital

importance, as well strategic management skills. A lack of technical skills may also contribute to the failure of a start-up business, although this can be resolved through the employment of suitably qualified staff. However, the entrepreneur could still be at a disadvantage if he is dependent on staff, more specifically during the early stages of the business. A lack of understanding of financial management and poor financial management can also contribute to the demise of the business. Similarly, uncontrolled growth, together with poor inventory control, are also major contributors to business failure. Marketing skills are critical to the success of every business, as are contingency management skills, which allow the owner-manager to adapt to ever changing circumstances. Most of all, the entrepreneur must be desirous of growth.

6.3.2 Recommendations to South African government and policy-makers

Although the South African government agencies providing funding to SMEs require financial statements from the loan and grant applicants, which indicates that they understand that financial statements are an important determinant of a start-up business success, not much is being done to develop programmes to increase the broader understanding and knowledge associated with preparing of financial statements. The South African government agencies actively encourage the use of consultants to complete business plans, which further contributes to a lack of understanding of the business by the owner-manager. Thus, it is recommended that more programmes be offered to assist the SME owner-managers to understand the importance of planning and be able to develop their plans.

The South African government (agencies) should also promote SME start-up entrepreneurship training programmes such as business coaching. These programmes should be flexible and offered such to accommodate the owner-managers' own schedule and pace of learning. This entails working with an experienced coach who has a high level of understanding of small business.

It is also recommended that to get the required funding from finance providers; business owners must ensure that they have the requisite and or fundamental education, training and related experience (business incubation), which can improve start-up business awareness and managerial competency and skills. Public (and private) education

institutions should strengthen entrepreneurial education, and orientate the population to entrepreneurship from an early age when it is easier to inculcate certain skills. To improve the experience of new SME owners, “learning from peers” or government agencies can institute mentorship approach.

The government of South Africa in collaboration with finance providers should consider instituting interest subsidies to SME start-ups based on their potential to succeed, which may make it less burdensome for such businesses, particularly younger ones, to access external finance.

6.3.3 Recommendations to the SME finance providers

The findings have confirmed the relationships between finance providers and the requisite skills of entrepreneurs. Banks should be able to develop mature relationships with start-up SMEs and increase the availability of finance to them. Banks should be able to assess SME finance applications based on the determinants of the Financing Framework. Like commercial banks, private equity finance providers should also emphasize the determinants of the Financing Framework when evaluating SME start-up financing applications.

Also, financial institutions and other fund providers should design special schemes for SME start-ups to cater for their specific financial needs. This is because most SME start-ups will not meet the requirements of the finance providers if they use the conventional system of accessing requests for financial assistance. Developing such schemes will make it attractive for SME start-ups who previously did not meet the requirements of funding providers. Such a system could be designed through dialogue with all the stakeholders such as the Government, fund providers and SME start-ups.

6.4 LIMITATIONS OF THE STUDY

The sample that was used in this study was limited to SME start-ups located in Pietermaritzburg, KwaZulu-Natal. This population is not representative of all SMEs in, KwaZulu-Natal or South Africa. Thus, the primary research findings cannot be accurately extrapolated for the general SME population of South Africa. Furthermore, limitations inherent in the sample size also needs to be considered within the context of the broader

aim of the study, which is that it is a PhD/academic output, which in itself is limited by time and finance constraints.

6.5 RECOMMENDATIONS FOR FURTHER RESEARCH

Future researchers should increase the sample size to evaluate the contribution of the Financing Framework on access to finance by SMEs in South Africa in general

Further research should adopt a combined research design where both quantitative and qualitative methods could be used to collect data. The process will help the researcher to do follow-ups and provide clarity where it is needed

The framework as suggested is not tested but proposed as an outcome of testing the preceding relationships and could be a future research avenue to test in a longitudinal study.

6.6 CONCLUSION

The SME sector is well known for the fact that it contributes to a healthy national economy and offers potential for employment creation. The effective management of a SME is an important component in growth rate and success of businesses in the sector. SME financing accessibility is a priority consideration in order to fulfil the organisational objectives.

The study has intended to provide an empirical evaluation of the role played by start-up awareness (SUA) and management (MS) in SME access to financing. The research study has analysed different determinants of business success during start-up phase of the enterprise, their understanding and applicability in SME start-up management among SME start-ups located in Pietermaritzburg. Quantitative approach has been used to collect and analyse data. The data was used to conduct descriptive and inferential statistical analyses and structural equation modelling, using the Smart PLS statistical software. Seven hypothesised relationships were tested, and it was found that start-up awareness and management skills positively influence access by SME start-ups to government, corporate and personal/social sources of finance. Questionnaires were used to collect demographic data, evaluate the use of start-up awareness and management

skills and the contribution that these determinants can have on Pietermaritzburg SMEs access to financing.

The findings of this research have shown the appropriateness and the positive impact that SUA and MS could have in SME access to financing. In addition, the present study has proposed a Financing Framework that maps the start-up entrepreneur's business awareness and the requisite management skills with the finance providers' requirements for granting finance and provides the entrepreneur with a clear idea of the type of finance to apply for and the optimal financing options for their businesses. Thus, a Financing Framework may greatly improve the chances of accessing funding by SME Start-ups, and this may contribute to their growth and development which eventually impacts the greater economy of the country.

This study has suggested necessary recommendations to SME owners, to guide the improvement and effectiveness of personal managerial competencies and skills. Research findings and recommendations will firstly inspire SME owners to understand their entrepreneurial role in the contextual business situation to enrich internal and external success determinants, as these often interact in business accessibility to financing. Secondly, these findings will contribute to the SME sector and provide essential tools to South African small and medium business owners to improve their entrepreneurial skills and productivity.

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APPENDICES

APPENDIX 1: BINOMIAL TEST TABLE FOR REASON/S FOR STARTING OWN BUSINESS

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
13.1 I found a suitable business opportunity	Group 1	No	133	.53	.50	.451 ^a
	Group 2	Yes	120	.47		
	Total		253	1.00		
13.2 I wanted to make a source of income for my family	Group 1	No	97	.38	.50	.000 ^a
	Group 2	Yes	156	.62		
	Total		253	1.00		
13.3 I wanted to invest my savings in a productive venture	Group 1	Yes	66	.26	.50	.000 ^a
	Group 2	No	187	.74		
	Total		253	1.00		
13.4 I wanted the independence of entrepreneurship	Group 1	No	162	.64	.50	.000 ^a
	Group 2	Yes	91	.36		
	Total		253	1.00		
13.5 I had been retrenched/resigned and I thought with my package I would start my own business	Group 1	No	237	.94	.50	.000 ^a
	Group 2	Yes	16	.06		
	Total		253	1.00		
13.6 I wanted to start a Family business	Group 1	Yes	48	.19	.50	.000 ^a
	Group 2	No	205	.81		
	Total		253	1.00		
13.7 I had enough work experience from my previous job that made me capable of starting my own business	Group 1	No	181	.72	.50	.000 ^a
	Group 2	Yes	72	.28		
	Total		253	1.00		

a. Based on Z Approximation.

APPENDIX 2: BINOMIAL TEST TABLE FOR SOURCES OF FINANCE TO START A SME

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
16.1 Finance from friends	Group 1	No	216	.85	.50	.000 ^a
	Group 2	Yes	37	.15		
	Total		253	1.00		
16.2 Finance from family	Group 1	No	164	.65	.50	.000 ^a
	Group 2	Yes	89	.35		
	Total		253	1.00		
16.3 Finance from a government agency	Group 1	No	231	.91	.50	.000 ^a
	Group 2	Yes	22	.09		
	Total		253	1.00		
16.4 Loan from a bank in my personal name	Group 1	Yes	50	.20	.50	.000 ^a
	Group 2	No	203	.80		
	Total		253	1.00		
16.5 Loan from a bank in my start-up company name	Group 1	No	232	.92	.50	.000 ^a
	Group 2	Yes	21	.08		
	Total		253	1.00		
16.6 My Personal Savings	Group 1	Yes	188	.74	.50	.000 ^a
	Group 2	No	65	.26		
	Total		253	1.00		
16.7 Business angel	Group 1	No	229	.91	.50	.000 ^a
	Group 2	Yes	24	.09		
	Total		253	1.00		
16.8 Private equity firms	Group 1	No	251	.99	.50	.000 ^a
	Group 2	Yes	2	.01		
	Total		253	1.00		

a. Based on Z Approximation

APPENDIX 3: BINOMIAL TEST TABLE FOR SME CURRENT FINANCING

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
17.1 Retained profit	Group 1	Yes	208	.82	.50	.000 ^a
	Group 2	No	45	.18		
	Total		253	1.00		
17.2 Finance from a government agency	Group 1	No	238	.94	.50	.000 ^a
	Group 2	Yes	15	.06		
	Total		253	1.00		
17.3 Loans from a bank in my personal name	Group 1	Yes	32	.13	.50	.000 ^a
	Group 2	No	221	.87		
	Total		253	1.00		
17.4 Loan from a bank in my company name	Group 1	No	230	.91	.50	.000 ^a
	Group 2	Yes	23	.09		
	Total		253	1.00		
17.5 My Personal Savings	Group 1	No	96	.38	.50	.000 ^a
	Group 2	Yes	157	.62		
	Total		253	1.00		

a. Based on Z Approximation.

APPENDIX 4: BINOMIAL TEST TABLE FOR REASONS FOR APPLYING FOR FUNDING

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
18.1 I did not apply for funding	Group 1	No	109	.43	.50	.032 ^a
	Group 2	Yes	144	.57		
	Total		253	1.00		
18.2 To exploit a new market	Group 1	No	234	.92	.50	.000 ^a
	Group 2	Yes	19	.08		
	Total		253	1.00		
18.3 To launch a new product or new service	Group 1	No	215	.85	.50	.000 ^a
	Group 2	Yes	38	.15		
	Total		253	1.00		
18.4 To increase company assets	Group 1	Yes	37	.15	.50	.000 ^a
	Group 2	No	216	.85		
	Total		253	1.00		
18.5 To deal with challenges from competitors	Group 1	No	234	.92	.50	.000 ^a
	Group 2	Yes	19	.08		
	Total		253	1.00		
18.6 To buy and exploit new technology	Group 1	No	238	.94	.50	.000 ^a
	Group 2	Yes	15	.06		
	Total		253	1.00		
18.7 To attend personal management training	Group 1	No	235	.93	.50	.000 ^a
	Group 2	Yes	18	.07		
	Total		253	1.00		
18.8 To allow my staff to attend specific training	Group 1	No	237	.94	.50	.000 ^a
	Group 2	Yes	16	.06		
	Total		253	1.00		
18.9 To expand my business	Group 1	Yes	53	.21	.50	.000 ^a
	Group 2	No	200	.79		
	Total		253	1.00		

a. Based on Z Approximation.

APPENDIX 5: BINOMIAL TEST TABLE FOR TYPE OF FINANCIAL ASSISTANCE RECEIVED

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
20.1.2 Funding to use an external consultant	Group 1	No	22	.63	.50	.175 ^a
	Group 2	Yes	13	.37		
	Total		35	1.00		
20.1.3 Refunding for marketing costs	Group 1	No	29	.83	.50	.000 ^a
	Group 2	Yes	6	.17		
	Total		35	1.00		
20.1.4 Funding for specific training	Group 1	Yes	18	.51	.50	1.000 ^a
	Group 2	No	17	.49		
	Total		35	1.00		
20.1.5 Funding for the use of a business mentor	Group 1	No	20	.57	.50	.500 ^a
	Group 2	Yes	15	.43		
	Total		35	1.00		
20.1.6 Funding for the launch of a new product	Group 1	No	26	.74	.50	.006 ^a
	Group 2	Yes	9	.26		
	Total		35	1.00		
20.1.7 Funding to expand the business	Group 1	No	21	.60	.50	.311 ^a
	Group 2	Yes	14	.40		
	Total		35	1.00		
20.1.8 Funding to use as seed capital for the business	Group 1	No	21	.60	.50	.311 ^a
	Group 2	Yes	14	.40		
	Total		35	1.00		

a. Based on Z Approximation.

APPENDIX 6: BINOMIAL TEST TABLE FOR IMPACT OF THE FINANCIAL ASSISTANCE RECEIVED

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
20.2.1 Funding to use an external consultant	Group 1	<= 3	8	.40	.50	.503
	Group 2	> 3	12	.60		
	Total		20	1.00		
20.2.2 Refunding for marketing costs	Group 1	<= 3	2	.17	.50	.039
	Group 2	> 3	10	.83		
	Total		12	1.00		
20.2.3 Funding for specific training	Group 1	<= 3	5	.26	.50	.064
	Group 2	> 3	14	.74		
	Total		19	1.00		
20.2.4 Funding for the use of a business mentor	Group 1	<= 3	13	.59	.50	.523
	Group 2	> 3	9	.41		
	Total		22	1.00		
20.2.5 Funding for the launch of a new product	Group 1	<= 3	9	.60	.50	.607
	Group 2	> 3	6	.40		
	Total		15	1.00		
20.2.6 Funding to expand the business	Group 1	<= 3	7	.35	.50	.263
	Group 2	> 3	13	.65		
	Total		20	1.00		
20.2.7 Funding to use as seed capital for the business	Group 1	<= 3	2	.13	.50	.004
	Group 2	> 3	14	.88		
	Total		16	1.00		

APPENDIX 7: BINOMIAL TEST TABLE FOR REASONS FOR NOT APPLYING FOR BANK CREDIT

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
21.1.1 There is no need for a loan for my business	Group 1	No	130	.79	.50	.000 ^a
	Group 2	Yes	34	.21		
	Total		164	1.00		
21.1.2 Application procedures are too complicated	Group 1	Yes	96	.59	.50	.035 ^a
	Group 2	No	68	.41		
	Total		164	1.00		
21.1.3 I do not know the procedures for applying for a loan	Group 1	No	128	.78	.50	.000 ^a
	Group 2	Yes	36	.22		
	Total		164	1.00		
21.1.4 I do not know about the sources of finance available from the banks	Group 1	No	128	.78	.50	.000 ^a
	Group 2	Yes	36	.22		
	Total		164	1.00		
21.1.5 The interest rates are too high	Group 1	No	127	.77	.50	.000 ^a
	Group 2	Yes	37	.23		
	Total		164	1.00		
21.1.6 I had enough capital to start and run my own business	Group 1	No	155	.95	.50	.000 ^a
	Group 2	Yes	9	.05		
	Total		164	1.00		

APPENDIX 8: BINOMIAL TEST TABLE FOR REASONS FOR UNSUCCESSFUL APPLICATION FOR BANK CREDIT

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
22.1 Lack of collateral	Group 1	Yes	8	.57	.50	.791
	Group 2	No	6	.43		
	Total		14	1.00		
22.2 Lack of a adequate financial deposit	Group 1	No	9	.64	.50	.424
	Group 2	Yes	5	.36		
	Total		14	1.00		
22.3 Poor/no business plan	Group 1	Yes	4	.29	.50	.180
	Group 2	No	10	.71		
	Total		14	1.00		
22.4 Non-viable business ideas	Group 1	Yes	7	.50	.50	1.000
	Group 2	No	7	.50		
	Total		14	1.00		
22.5 Poor credit history	Group 1	Yes	4	.29	.50	.180
	Group 2	No	10	.71		
	Total		14	1.00		
22.6 No business qualification and /or experience	Group 1	No	13	.93	.50	.002
	Group 2	Yes	1	.07		
	Total		14	1.00		
22.7 Non SA	Group 1	No	7	.50	.50	1.000
	Group 2	Yes	7	.50		
	Total		14	1.00		

APPENDIX 9: QUESTIONNAIRE

VOLUNTARY QUESTIONNAIRE FOR BUSINESS OWNERS

The purpose of this research is to determine what the business critical success factors for South African SMEs are, and to determine if SMEs that achieve these business critical success factors at the start-up and growth levels have greater success in raising finance. Information gathered in this study will include data retrieved from the questionnaire that I would request you to answer.

How to return the questionnaire

- You can print out the questionnaire, fill it out and fax it to **086 663 1943**; alternatively,
 - You can fill out the questionnaire in MS Word, save it under a new name and email it to hermanbamata@yahoo.fr
-

Please select ONE option per question

1. Gender:

Male

Female

2. Race:

Asian

Coloured

Black

White

3. What position do you occupy in the organisation?

Owner

Manager

Other (Specify):

4. Please insert a tick or cross in **ALL** the blocks that apply to your educational career

	Before buying or starting your business	After buying or starting your business	Never
4.1 Technical college			
4.2 Technikon			
4.3 University			

5. Highest level of qualification completed:

Some schooling	Matric	Certificate	Diploma	Bachelor degree	Postgraduate degree	Other (please specify):

6. Please indicate the field of your study:

Business, Management, Administration, Accounting, Economics or Finances	Health sciences, Law	Agriculture, Computer Sciences, Engineering Technologies, Mathematical Sciences	Psychology, Education or Social Sciences	Other (Please specify):

7. Did you have any practical experience in business management prior to owning your business?

Yes

No

7.1 If **yes** to question 7, please indicate your past experience in the business management field (Select ONE option only)

0 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	More than 20 years

8. Age of Business:

0 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 20 years

9. How many people (including yourself) are employed in your business?

Fewer than 6	6 to 10	11 to 50	51 to 100	More than 100

10. Which ONE of the following is applicable to your company:

Sole proprietor Partnership Trust

Pty (Ltd) company Closed Corporation

Other (Please write the type name):

11. In which ONE sector does your business mainly operate?

Service Agriculture Manufacturing

Mining Construction Retail or wholesale

Other (Please specify):

12. Location of Business:

Central town	Midlands	Residential Area	Township	Other (Specify):

13. Please indicate the reason(s) why you bought or started your own business (Tick **ALL** that apply)

13.1 I found a suitable business opportunity	
13.2 I wanted to make a source of income for my family	
13.3 I wanted to invest my savings in a productive venture	
13.4 I wanted the independence of entrepreneurship	
13.5 I had been retrenched/resigned and I thought with my package I would start my own business	
13.6 I wanted to start a Family business	
13.7 I had enough work experience from my previous job that made me capable of starting my own business	
13.8 Other (please specify):	

14. Indicate your agreement that the following processes applied to you / your business when starting your business

ITEMS	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
<u>MARKET RESEARCH:</u> I gathered information about customers' needs and preferences before I offered them my product / service					
<u>DIFFERENTIATING FACTOR:</u> My business filled a special niche in the market					
<u>BUSINESS MODEL:</u> I prepared an organisational and financial plan of my business					

<p><u>BUSINESS STRATEGY:</u> I considered in advance how my company would build a sustainable competitive advantage and make a good profit</p>					
<p><u>FEASIBILITY STUDY:</u> Before starting my business I completed a feasibility study to see if my intended project was achievable.</p>					
<p><u>BUSINESS PLAN:</u> I prepared a formal statement of business goals, reasons they are attainable, and plans for reaching them</p>					
<p><u>LOCATION:</u> I found an advantageous location for my business</p>					
<p><u>DECISION MAKING:</u> I have the ability to make rational decisions</p>					
<p><u>AMOUNT OF SEED CAPITAL:</u> I knew how much capital I needed to start my business</p>					
<p><u>SOURCE OF SEED CAPITAL:</u> I knew where I could get the capital needed to start my business</p>					

15. Indicate your agreement that you have the following skills which are key factors to the success of your firm activities

Factors	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
GENERAL MANAGEMENT SKILLS (managing people and situations)					
STRATEGIC MANAGEMENT SKILLS (strategic planning to preserve the success of a business)					
ORGANISATIONAL MANAGEMENT SKILLS (managing the structure and operations of the business)					
TECHNICAL SKILLS (knowledge of the technology needed for/ related to the business)					
FINANCIAL MANAGEMENT SKILLS (ability to understand and interpret the financial statement of a business)					
LEADERSHIP SKILLS (effective leading of employees)					
COMMUNICATION SKILLS (good communication with other people – customers and staff)					
INVENTORY SKILLS (taking stock of the business)					
MARKETING SKILLS (advertising a company product/ service)					
CONTINGENCY MANAGEMENT (adapting the business when there is change in the environment (e.g. Rand depreciation, etc))					
CONTROL SYSTEM MANAGEMENT SKILLS (evaluating the performance of)					

company resources: human, financial, organisational...)					
GROWTH ORIENTED SKILLS (planning future expansion of the business)					

16. How did you get the finance to start your business? (Tick ALL that apply)

Finance from friends	
Finance from family	
Finance from a government agency	
Loan from a bank in my personal name	
Loan from a bank in my start-up company name	
My Personal Savings	
Business angel	
Private equity firms	
Other (Please specify):	

17. How is your business financed at present? (Tick ALL that apply)

Retained profit	
Finance from a government agency	
Loans from a bank in my personal name	
Loan from a bank in my company name	
My Personal Savings	
Other (Please specify):	

18. What are the reasons for applying for credit from a bank or any other financial institution? (Tick **ALL** that apply)

I did not apply for funding	
To exploit a new market	
To launch a new product or new service	
To increase company assets	
To deal with challenges from competitors	
To buy and exploit new technology	
To attend personal management training	
To allow my staff to attend specific training	
To expand my business	
Other (Please specify):	

19. Indicate your agreement with the following statements:

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	I do not use bank services
I am aware of the availability of government grants to finance SMEs						
I am aware of government grant application requirements and procedures						
I am aware of the availability of bank financing to SMEs						

I am aware of the bank loan procedure to be followed						
--	--	--	--	--	--	--

20. Has your business received any financial assistance from any **government department or government funded organisation** (agency)?

Yes

No

20.1 If you were the beneficiary of some form of **government assistance**, please tick the type of assistance received: (Tick **ALL** that apply)

20.1.1 I did not receive any form of government assistance	
20.1.2 Funding to use an external consultant	
20.1.3 Refunding for marketing costs	
20.1.4 Funding for specific training	
20.1.5 Funding for the use of a business mentor	
20.1.6 Funding for the launch of a new product	
20.1.7 Funding to expand the business	
20.1.8 Funding to use as seed capital for the business	
20.1.9 Other (Please specify):	

20.2 From the list of different types of assistance received from **government**, rate the impact of each of them on your business on a scale ranging from 1 = No impact to 5 = Exceptional impact (Select **ONE** option only)

Type of Government assistance	No impact	Small impact	Moderate impact	High impact	Exceptional impact	Did not receive this assistance
20.2.1 Funding to use an external consultant						
20.2.2 Refunding for marketing costs						
20.2.3 Funding for specific training						
Type of Government assistance	No impact	Small impact	Moderate impact	High impact	Exceptional impact	Did not receive this assistance
20.2.4 Funding for the use of a business						
20.2.5 Funding for the launch of a new						
20.2.6 Funding to expand the business						
20.2.7 Funding to use as seed capital for the						
20.2.8 Other (please specify):						

21. Have you ever applied for a loan for your business from a **bank** or any other **financial institution**?

Yes

No

21.1 If no to question 21, indicate if any of the following are reasons why you have never applied for **bank** credit for your business (Tick **ALL** that apply).

21.1.1 There is no need for a loan for my business	
--	--

21.1.2 Application procedures are too complicated	
21.1.3 I do not know the procedures for applying for a loan	
21.1.4 I do not know about the sources of finance available from the banks	
21.1.5 The interest rates are too high	
21.1.6 I had enough capital to start and run my own business	
21.1.7 Other (Please specify):	

21.2 If **yes** to question 21, was your credit application to the **bank/financial institution** successful? (Select **ONE** option only)

Yes – I was granted the assistance I applied for	
Partially – I was granted a portion of the assistance I applied for	
No – I was not granted any of the assistance I applied for	

22 If you applied for **bank /financial institution** loan and were **NOT** successful, what was the reason(s) given for your credit application being declined? (Tick **ALL** that apply)

22.1 Lack of collateral	
22.2 Lack of an adequate financial deposit	
22.3 Poor/no business plan	
22.4 Non-viable business ideas	
22.5 Poor credit history	
22.6 No business qualification and /or experience	
22.7 Other (Please specify):	

- 23 If you were the beneficiary of credits from a **bank/ financial institution**, please rate the impact of each form of credit received on a scale ranging from 1 = No impact to 5 = Exceptional impact (Select **ONE** option only)

Type of credits	No impact	Small impact	Moderate impact	High impact	Exceptional impact	Did not receive this kind of credit
23.1 Credit Cards						
23.2 Bank Loans						
23.3 Vehicle and Asset finance						
23.4 Overdraft						
23.5 Factoring and invoice discounting						
23.6 Equity finance						
23.7 Other (Please specify):						

- 24 What alternative possible source(s) of financing would your business consider if you do not get assistance from the government or credit from banks: (Tick **ALL** that apply)

24.1 Stokvel	
24.2 Financing from another larger company	
24.3 Financing from a private investor	

24.4 Corporate investment financing	
24.5 Loan from a small financial institution	
24.6 Other (please specify):	

25 From the list of different possible alternative financings received for your business, please rate, where applicable, the impact of each of them on a scale ranging from 1 = No impact to 5 Exceptional impact: (Select **ONE** option only)

Types of finance	No impact	Small impact	Moderate impact	High impact	Exceptional impact	Did not receive this type of finance
25.1 Microfinance institution						
25.2 Business angels						
25.3 Venture-capital						
25.4 Corporate investment						
25.5 Private equity investment						
25.6 Asset-backed finance						
25.7 Other (please specify):						

Thank you so much for your participation to the present research, your input and time spent in responding to this questionnaire are much appreciated.

Herman Bamata

APPENDIX 10: INFORMED CONSENT DOCUMENT

University of KwaZulu-Natal
School of Management, It & Governance
Informed Consent Document

I, Herman N. Bamata, am currently registered for studies leading to the PhD Degree. One of the requirements to be met for the awarding of the degree is that I should undertake an approved research project leading to the submission of a thesis. The approved topic which I have chosen is: **“Assessing the contribution of business critical success factors on Pietermaritzburg SMEs access to finance”**

Please note that this investigation is being conducted in my personal capacity. Should you need to contact me regarding any aspect of this research, you can do so either by e-mail on hermanbamata@yahoo.fr or telephonically on 072 942 1363.

My academic supervisor is Dr Given Mutinta and my co-supervisors are Prof Brian McArthur and Dr Ziska Fields, all based in the School of Management, It & Governance of the University of KwaZulu-Natal. They can be contacted thru the following details:

Dr Given Mutinta: mutinta@ukzn.ac.za; Tel: 031 260 8854

Prof. Brian McArthur: mcarthurb@ukzn.ac.za; Tel: 033 260 5605

Dr. Ziska Fiels: e-mail: fields@ukzn.ac.za; Tel: +27 31 260 8103.

Information gathered in this study will include data retrieved from the questionnaire that I request you to complete. Please note that only summary data will be included in the report and that your name will not be included. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study.

Your participation in completing the questionnaire is completely voluntary. You also have the right to withdraw at any time during the study. I appreciate the time and effort it will take you to participate in this study. I would highly appreciate your participation, as it would help me to complete this research project.

Please complete the section below:

I of

(Full names of participant and business name) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Signature of Participant: Date:

APPENDIX 11: ETHICAL CLEARANCE APPROVAL LETTER



30 May 2018

Mr Nkombe Herman Bamata (210523167)
School of Management, IT & Governance
Pietermaritzburg Campus

Dear Mr Bamata,

Protocol reference number: H55/0348/0140

New project title: A framework to improve access to external finance by Small and Medium Enterprise start-ups

Approval Notification – Amendment / Recertification Application

This letter serves to notify you that your application and request for an amendment and Recertification was received on 11 May 2018 and has now been approved as follows:

- Recertification (for 1 year)
- Change in Title
- Change in Supervisors

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 period of 3 years from the date of original issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully

ff

Professor Shonuka Singh (Chair)

/ms

cc Supervisor: Professor Ziska Fields and Professor Krishna Govender

cc Academic leader Research: Professor Isabel Martins

cc School administrator: Ms Debbie Cunynghame

Humanities & Social Sciences Research Ethics Committee

Dr Shonuka Singh (Chair)

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APPENDIX 12: TEXT EDITOR APPROVAL



Dynamic Language &
Translation Specialists

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language@dlts.co.za
CC No: 1995/017794/23

Monday, 18 June 2018

To whom it may concern,

Re: Letter of confirmation of language editing

The PhD **A Framework to Improve Access to External Finance by Small and Medium Enterprise Start-ups** by **Nkombe Herman Bamata (210523167)** was language edited. The referencing and sources adhere to UKZN guidelines. Final corrections remain the responsibility of the author.

Antoinette Bisschoff

Officially approved language editor of the NWU (since 1998) and UKZN (2018)
Member of SA Translators Institute (no. 100181)

Precision ... to the last letter

APPENDIX 13: STATISTICAL ANALYSIS CONFIRMATION LETTER



RESEARCH EXCELLENCE CONSULTING

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www.research-excellence.com

Date: 10/12/2018

STATISTICAL ANALYSIS CONFIRMATION LETTER

To whom it may concern

This is to confirm that I, the undersigned, have done the statistical analysis for the PhD's thesis done by Herman Bamata. The interpretation of the statistical results rests with the author of the dissertation.

Kind regards,

Professor Richard Chinomona
Managing Director
Research Excellence Consulting
Email: richard@research-excellence.com
Telephone: 011 760 1331
Cell phone: 071 024 7488

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