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Funding strategies for small business sustainability in eThekweni Municipality

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Abstract

Like other developing countries, South Africa faces diverse socioeconomic challenges, such as high unemployment, skills shortages, and poverty. Various researchers have identified the creation and sustainability of small businesses as the most effective long-term solution to these issues and low economic growth. Despite their crucial role in the economy, data shows that 50% of small businesses in South Africa close within 24 months of starting, and between 70% and 80% of those that survive the initial period fail within their first five years. The situation is similar in KwaZulu-Natal, with a reported 71% failure rate for SMEs within the first 24 months as of 2020. This study aimed to identify financial strategies that new SMEs can adopt to achieve sustainability during their first five years. A qualitative multiple case study design was used, employing semi-structured interviews for data collection. The findings revealed that most SMEs heavily rely on internal financing, as it is the most cost-effective option available. Additionally, internal sources of capital are the only funding sources available to them in the first years since banks perceive new SMEs as highly risky clients and equity is not popular among the new SMEs community. For equity, SMEs must be willing to compromise a share of their business along with a certain level of control to an external entity; for most SME owners, this is too expensive even to consider. The study observed a knowledge gap in the SME community regarding other forms of funding, such as angel investors, venture capital, and strategic investors and mostly focused their attention to internal funding. Findings realised the need for substantial support from capital providers such as banks and the government to educate infant SMEs on good practices that might improve their probability of survival and sustainability. This study suggests further exploration into the high failure rate of SMEs beyond financial constraints, considering other contributing factors. The findings can benefit new small business owners, government and financial institutions supporting SMEs, and policymakers responsible for creating regulations that promote SME sustainability.

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List of Acronyms

CIPC	-	Companies and Intellectual Property Commission
COPGTA	-	Cooperative Governance and Traditional Affairs
IFC	-	International Finance Corporation
KZN	-	KwaZulu- Natal
LED	-	Local Economic Development
Pty Ltd.	-	Proprietary Limited
SBA	-	Small Business Administration
SBI	-	Small Business Institute
SEDA	-	Small Enterprise Development Agency
SEFA	-	Small Enterprise Finance Agency
SMEs	-	Small and Medium Enterprises
TEA	-	Total early-stage Entrepreneurial Activity

Chapter 1: Background and Introduction

1.1 Background and Introduction

Like other developing countries, the South African economy struggles with diverse socioeconomic challenges, including high unemployment, skills shortages, and poverty (Chimucheka, 2013). Different researchers have appointed the creation and sustainability of small businesses as the most effective long-term solution to these socioeconomic issues and low economic growth (International Finance Corporation, 2022). However, in the last decade, the small business sector has been relatively stationary, with a tiny percentage formalised, discouraging job creation and economic growth contribution potential (IFC, 2022).

The Small Business Amendment Act of South Africa highlights the difference between micro and small businesses. The Small Business Amendment Act of 2004 defines a micro business as one that employs 0-10 employees, while it describes a small business as an institution that employs 11- 50 employees. For this study, a small business will be defined as one with 0-50 employees. Moreover, the researcher will use the concepts of Small and Medium Enterprises (SMEs) and small businesses inter-changeably throughout the research. The study examined the small business landscape in the eThekweni Municipality regarding funding strategies that small businesses use for sustainability. The eThekweni Municipality is the homeland of some 3 442 361 people, sitting on an area of approximately 2297 square kilometres in the KwaZulu-Natal (KZN) province on the South African east coast (Moyo,2019). According to COPGTA (2020), eThekweni, formerly known as eThekweni Municipality, accounts for 34.7% of the KZN population, has an 18.7% unemployment rate, and 41% of the population lives below the poverty line.

1.2 Problem Statement

Despite their essentiality in any healthy operating economy, which different researchers have repeatedly pointed out, statistics reveal that 50% of South African small businesses fail within 24 months of their launch (Eva et al., 2019), and between 70% and 80% of those that make it past the 24 months mark, fail within the first five years of their operation (Brink et al., 2003). Supporting these findings, Burger (2023) reported that five out of seven new businesses started in South Africa

fail within their first year, indicating a high failure rate of 71%. According to Zhou (2021), the situation in KwaZulu-Natal (KZN) is similar to that of the rest of the country, with the small business failure rate reaching nearly 80% as of 2020. According to the Small Enterprise Development Agency (2021), the number of SMEs in South Africa decreased by approximately 290,000, or 11%, from 2.6 million to 2.36 million year-on-year in the third quarter of 2020. One of the main challenges faced by new small businesses is the need for more access to sufficient financing to fund business operations beyond the five-year mark. The specific issue, however, is the need for creative strategies by most entrepreneurs that would allow them access to sufficient capital to maintain a profitable business during the first five years of the business if implemented correctly (Small Enterprise Development Agency, 2021)

The study by Ngcobo (2017) reveals that, amongst others, factors such as the age of the business, availability of a detailed plan of business, owner's educational background, relevant experience of the business owner, and availability of collateral have a significant influence on whether the bank loan application for small businesses is either approved or declined. Ngcobo (2017) further argues that limited bank loan accessibility poses a difficult challenge to small business operations and high-paced growth since it is difficult for business owners to tick all the boxes of the mentioned factors required by banks.

Even though lack of access to capital is always pointed out by existing research as one of the principal causes of the high small business failure rate in different contexts, there is a research gap in the context of South Africa, specifically in the municipality of eThekweni, about different approaches, and strategies that new small business owners can employ to navigate through financial challenges for sustainability and profitability in their businesses (Nemaenzhe, 2010).

1.2.1 Research Problem

Based on the problem statement discussed above, it is the study's focus to answer the following question:

What are some of the funding strategies that small businesses can use to ensure the sustainability of operations beyond the initial five years in eThekweni Municipality?

1.2.2 Aim of the Study

The primary aim of this study was to investigate the funding strategies utilized by small business owners who have maintained profitable operations for over five years. While small business owners may use various strategies, this research specifically examines the impact of these funding strategies within the context of eThekweni Municipality in KwaZulu-Natal. A central focus of this study is to analyse the pecking order theory and trade-off theory in relation to the financing strategies of small businesses with the aid of the multiple case study design. Additionally, the study will briefly explore other related theories, including the theory of financial mediation and market timing theory.

1.2.3 Objectives of the Study

- To determine financing strategies that owners of small businesses in eThekweni use to access adequate capital to maintain profitable business operations beyond five years.
- To determine why owners of sustainable small businesses choose the identified financing strategies.
- To examine the impact of the identified financing strategies on the long-term sustainability and success of small businesses.

1.2.4 Research Questions

The study aimed to answer the following questions:

- What financing strategies do owners of small businesses in eThekweni Municipality use to access adequate capital to maintain sustainable business operations beyond five years?
- What factors influence the financing strategies of small business owners that have successfully operated for 5 years or more?
- How do the identified financing strategies impact the long-term sustainability and success of small businesses?
- What types of financing strategies have they implemented?

1.3 Research Design

The study employed a multiple case study design, complemented by semi-structured interview questions, to address the main research questions. This approach allowed for an in-depth exploration of various cases while the semi-structured interviews provided flexibility to probe deeper into specific issues, thereby enriching the data collected and enhancing the understanding of the factors contributing to the outcomes of the investigation. The interview questions, as shown in appendix 1, that the researcher asked, resemble those used in the study by Iyanda (2021), which examined funding strategies for small business sustainability in the midwestern and south-eastern regions of the United States of America.

1.4 Significance of the Study

The significance of this qualitative multiple-case study was to use the real-life experiences of successful small business owners and entrepreneurs to create a list of suggestions to improve small business success in the province of KwaZulu-Natal. The study also offered helpful insight to new small business owners and the small business industry on addressing various financial challenges in the early stages of their businesses. Moreover, the government stakeholders in the SME industry in KwaZulu-Natal saw these businesses' challenges. They learned how they could contribute to their success using programs put in place by the government. The sample for this study included 35 owners of registered small businesses that employ up to 50 employees and have been operational for at least five years. The population only included small businesses in KwaZulu-Natal, eThekweni Municipality, or eThekweni Municipality. Timmons and Spinelli (2007) point out the significance of creating financing strategies and knowing the available alternatives and funding procurement responsibilities are critical to the survival and success of new SMEs.

1.5 Nature of the Study

Qualitative research entails collecting information by observing participants' real-life experiences to obtain perspectives into the study subject matter (Fassinger & Morrow, 2013). This method uses an inductive approach to develop or test theories. Open-ended semi-structured interview questions were applied to gather extensive data and gain deeper insights into participants' experiences with strategies for securing financing for SMEs beyond five years (Hoffmann, 2007). Interviews were

employed by the researcher to explore participants' firsthand encounters with the research phenomenon. Qualitative analysis was prioritized, as indicated by Iyanda (2021), highlighting its suitability for conducting in-depth analyses compared to quantitative methods, which are less conducive to exploratory research.

The primary goal of this study was to identify and characterize the various business methods and financial strategies employed by different entrepreneurs to sustain their operations during the first five years. The study's goals did not include developing new theories but testing existing ones, the study follows the grounded theory design by exploring the significance of the lived experiences of the participants in a phenomenology perspective. The most suitable method that was chosen for this study was multiple case study approach because it enables researchers to explore and contrast similarities and differences across various cases using cross-case analysis (Ridder, 2017). This differs from single case study designs, which concentrate solely on individual cases. Heale and Twycross (2018) concluded that results derived from multiple-case studies are generally more reliable compared to those from single-case studies.

1.6 Assumptions, Limitations, and Delimitation

Bernard (2013) argues that to improve the study's credibility, the investigator should acknowledge the assumptions, limitations, and delimitations merged in the study.

1.6.1 Assumptions

An assumption is a researcher's unsupported opinion that cannot be independently verified (Marshall & Rossman, 2016). A truth that the researcher believes to be true but may or may not be accurate can be considered an assumption. In a qualitative study, any biases and presumptions must be acknowledged and recognized by the researcher (Yin, 2018). In this study, the researcher assumed that participants would respond honestly, accurately, and comprehensively to the interview questions. The second assumption was that 35 participants would be a sufficient sample size to acquire data saturation on the strategies of funding implemented by successful SMEs. The final presumption was that the answers to the semi-structured interview questions would be sufficient.

1.6.2 Limitations

A constraint, in the opinion of Theofanidis and Fountouki (2019), is a requirement that is outside the researcher's control. Finding these components is essential because the researcher cannot control the research's components. Study limitations must be studied and understood well before a study is conducted (Queirós et al., 2017). Two restrictions related to the study. The researcher was aware that the responses from the participants might have been biased, so an interview procedure was implemented to deal with the first drawback—researcher bias. Member checking was implemented to eradicate bias from findings. The time allotted for conducting a thorough inquiry was the second limitation. By highlighting the constraints that prevent the findings from being expanded upon or used generally, other researchers can judge the validity of the findings (Creswell & Clark, 2017).

1.6.3 Delimitations

According to Creswell & Creswell (2017), delimitations pertain to defining the research study's parameters. Theofanidis and Fountouki (2019) describe delimitations as the boundaries established by the researcher to narrow the study's focus and ensure that the research objectives are achieved. One delimitation of this study was that participants were restricted to small enterprises with fewer than 50 employees within the eThekweni Municipality. The study parameters included company size, defined by the size of staff employed, and geographic location. Small enterprises outside these criteria, as deemed by the researcher, were excluded from the study.

1.7 Structure of this Thesis

This thesis is made up of five chapters and they are structured as follows:

- **Chapter 1 - Background and Introduction**

This introductory chapter provides an overview of the research problem and establishes the need for the study within its specific context. It outlines the aims, objectives, and questions that the study seeks to address.

- **Chapter 2 - Academic and Professional Literature Review**

Chapter 2 offers a comprehensive review of existing literature on small business finance, considering both local and global contexts. It also discusses the theories relevant to the researched phenomenon.

- **Chapter 3 - Research Methodology**

In Chapter 3, the study's methodologies are detailed, including the procedures, approaches, and techniques employed. This chapter ensures that the aims and objectives are met and that the research questions are thoroughly addressed.

- **Chapter 4 - Presentation of Findings and Analysis**

Chapter 4 presents and analyses the findings collected during the interviews. The results are compared to the study's aims and objectives to provide a detailed analysis.

- **Chapter 5 - Recommendations and Conclusion**

Chapter 5 summarizes the study's findings and offers recommendations for future research. The chapter concludes the study by highlighting key insights and suggesting areas for further investigation.

1.8 Summary

This chapter provided a comprehensive overview of the study's background, problem statement, research questions, and objectives, setting the stage for a deeper investigation into the financing strategies of small businesses in eThekweni Municipality, KwaZulu-Natal. The chapter emphasized the critical role of small businesses in addressing socioeconomic challenges in South Africa, such as unemployment and low economic growth. It highlighted the high failure rate of small businesses, particularly within their first five years of operation, underscoring the need for effective funding strategies to enhance their sustainability and growth.

Furthermore, this chapter introduced the research problem, outlining the need for innovative financing strategies that enable small businesses to access sufficient capital and maintain operations beyond the initial five years. The study's aims, objectives, and research questions were

articulated to guide the investigation, focusing on identifying and analysing the funding strategies that successful small businesses employ. The significance of this research was discussed, emphasizing its potential contribution to the academic community, policymakers, government stakeholders, and small business owners. The chapter also provided insights into the assumptions, limitations, and delimitations that framed the study, ensuring a clear understanding of the scope and boundaries.

Lastly, the chapter outlined the structure of the thesis, detailing the content and focus of each subsequent chapter. This structured approach ensures a systematic exploration of the research topic, leading to well-founded conclusions and recommendations. Moving forward, the next chapter will review the relevant academic and professional literature, providing a theoretical foundation for the study and further contextualizing the research within existing knowledge on small business financing strategies.

Chapter 2: Academic and Professional Literature Review

2.1 Introduction

This qualitative, descriptive multi-case study aimed to uncover the diverse business and financial techniques implemented by various entrepreneurs to maintain their business activities throughout their initial five years. The literature review broadens the understanding of small businesses by highlighting existing knowledge about different financing options and the influence of financial strategies on the success of small businesses, through an examination of current literature on the subject. The focus of this review was on the various funding choices favoured by small business owners.

According to Garrard (2016), a literature review involves the researcher examining, evaluating, and synthesizing academic information on specific topics or areas of interest. Additionally, Fink (2019) defines a research literature review as a systematic, explicit, and repeatable method for identifying, assessing, and summarizing the work conducted and documented by researchers, scholars, and practitioners. Literature reviews offer a critical analysis and an organized summary of scholarly work and intellectual discussions pertinent to the main research problems. The Theory of Financial Intermediation and Market Timing Theory were proposed as potential theoretical foundations for this study, while the Pecking Order Theory and Trade-Off Theory were used to explain the findings.

2.2 Theories on Small Business Financing

This chapter reviews the theoretical frameworks and empirical studies related to small and medium-sized enterprise (SME) financing strategies. The literature review is essential for understanding the various financial theories and concepts that influence small business behaviour, particularly regarding financing decisions. By examining the Pecking Order Theory, Trade-Off Theory, Theory of Financial Intermediation, and Market Timing Theory, this chapter provides a comprehensive overview of the factors that affect the financial decisions of small businesses. These theories offer insights into how small businesses prioritize their funding sources, manage financial risks, and determine optimal capital structures to sustain long-term operations.

Additionally, the chapter defines key concepts, such as entrepreneurship, sustainability, business failure, and informational opacity, which are crucial for understanding the unique challenges faced by small businesses in accessing finance. This chapter also explores the relevance of these theories in the context of small businesses, particularly in developing economies like South Africa, where economic challenges, high failure rates, and limited access to formal financial markets significantly impact the sustainability and growth of small businesses. The literature review sets the foundation for analysing the study's findings and contributes to a deeper understanding of how different financing strategies can support small business sustainability beyond the initial years of operation.

2.2.1 Pecking Order Theory

Donaldson (1961) was the pioneer in proposing the pecking order theory, which was later refined by Mayer & Majluf (1984). According to the pecking order model, firms should prioritize using retained earnings to finance investments and only resort to issuing safe debt, risky debt, and equity as a last option (Fama & French, 2002; Senaratne, 1998). Furthermore, Zeidan et al. (2018) affirm Senaratne's (1998) assertion, noting that the pecking order theory places internal financing as the top priority, followed by external debt, and then equity. Consequently, this hierarchy is recommended for business owners seeking various funding sources. Myers (1984) highlights that the pecking order model predicts that firms with the most profitable investment opportunities will have higher long-term dividend payouts and lower leverage concerning investment prospects. Additionally, Myers (1984) states, given the profitability of the firm's assets, firms with more current and expected investment obligations have lower long-term dividend pay-out and higher leverage. In summary, there is a negative relationship between leverage and the dividend payout ratio.

The study by Coleman et al. (2016) provides that asymmetric information between potential lenders, investors, and the business is the foundation of the pecking order theory. Informational asymmetry is the information imbalance between potential debtors and lenders (Ang, 1991). Owners of small businesses have more information about the business' actual value and the risks related to it than the less informed potential lenders and investors (Blumberg & Letterie, 2008). Consequently, informational asymmetry is considered when determining the price of capital.

Ang (1992) acknowledges banks' serious information problems when processing credit applications for newly formed small businesses. As a result, the high fixed costs of gathering information from third-party lenders for relatively minor transactions make third-party financing either unreasonably expensive or inaccessible (Ang, 1992).

2.2.2 Trade-Off Theory

Fama and French (2002) define the trade-off model as when enterprises move to establish their optimal leverage by assessing the costs and benefits of an additional rand of debt, with tax deductibility of interest being the main benefit of debt and bankruptcy being the critical penalty. Similarly, the study by Abel (2018:14) applies that "according to the trade-off theory, the optimal amount of debt is equal to the marginal benefit of a rand of debt arising from the tax deductibility of interest payments with the marginal cost of a rand of debt arising from increased exposure to default." Fama and French (2002) found that the trade-off model predicts that more profitable businesses tend to have higher book leverage, while firms with more variable earnings tend to have less. Additionally, companies with more profitable assets generally have higher dividend payout ratios and greater book leverage. Coleman et al. (2016) suggested that the trade-off theory anticipates a positive correlation between the size of a venture and its leverage; larger firms are more appealing to lenders due to their higher profitability and diversification, in contrast to smaller firms.

2.2.3 Theory of Financial Intermediation

Scholars like Diamond (1984), Ramakrishnan & Thakor (1984), and Boyd & Prescott (1986) highlight the significance of the modern theory of financial intermediation, which promotes financial intermediaries as delegated monitors on behalf of investors. In his work "Financial Intermediation and Delegated Monitoring," Diamond (1996) employs a simplified version of his model to elucidate why investors prefer to lend to banks, who then lend to borrowers, instead of lending directly. His model achieves three objectives:

- It identifies the financial technology that allows banks to act as intermediaries.
- It clarifies the vital role of debt contracts in bank finance.
- It underscores the importance of diversification within financial intermediaries.

The financial intermediation theory is grounded in the informational asymmetry theory and agency theory. According to Andries (2009), the need for financial intermediaries in a typical economy is explained by the presence of factors such as high transaction costs, incomplete information at critical times, and regulatory methods.

The role of information producers played by financial intermediaries is critical in the private market since they can assess and determine small business quality and solve the issue of information apathy through screening, contracting, and monitoring (Berger & Udell, 1998). Financial intermediaries such as banks engage in screening their potential customers by conducting due diligence, which may include but is not limited to the information collection about the business, the market it operates in, collateral they may use to secure debt, and the entrepreneur with their counterparts.

2.2.4 Market Timing Theory

Market timing theory, another capital structure theory, posits that companies are more inclined to repurchase their equity when its value is low and issue equity to raise capital when its value is high (Baker & Wurgler, 2002). For small enterprises, information asymmetry creates opportunities for market timing. Raising external capital necessitates strategic timing, chosen by management based on prevailing market conditions, as small enterprises have limited access to the capital market (Iyer & Javadi, 2018).

2.3 Concept Definitions

Entrepreneur: A person who organizes and takes on the risk for a business (Santandreu-Mascarell et al., 2013). Entrepreneurship consists of creating a new business, including risk mitigation, hunting opportunities, and growing an idea from a concept to reality (Zahra & Wright, 2011).

Sustainability: LandLearn NSW (2010) defines sustainability as the ability of something to sustain or maintain itself. In this study, sustainability means successfully creating, developing, and maintaining a business.

Business failure: Lussier and Halabi (2010) defined a business failure as one that has not generated a net profit for the past two years, potentially resulting in the business's closure.

Informationally opaque: A business is said to be informationally opaque when lenders generally have little or incomplete knowledge about its profitability (Stenzel & Wagner, 2022).

2.4 Small Business Overview

This chapter presents an overview of small businesses, with a focus on defining their unique characteristics, exploring their significance in the economy, and examining the challenges they face, particularly in accessing financing. Small and medium-sized enterprises (SMEs) are crucial to economic development, especially in developing economies like South Africa, where they play a vital role in job creation, poverty reduction, and fostering innovation and competition. However, despite their importance, small businesses often encounter significant barriers, such as high failure rates and limited access to funding, which impede their growth and sustainability.

The chapter begins by discussing various definitions of small businesses, noting the criteria used to categorize small businesses in different countries. It then highlights the importance of SMEs in economic development, emphasizing their contributions to employment generation, economic stability, and innovation. The chapter also identifies the major challenges facing SMEs, including financial constraints, informational opacity, and limited access to both debt and equity financing.

Furthermore, the chapter delves into the financial growth cycle of small businesses, illustrating how their financing needs evolve as they grow and accumulate experience. It examines different types of funding, such as internal sources, external debt, and external equity, and their relevance to small businesses. The discussion also includes an analysis of bootstrapping methods, collateral requirements, and the role of capital structure in shaping small business financing strategies.

Overall, this chapter provides a comprehensive understanding of the financial dynamics and challenges faced by small businesses. It lays the groundwork for understanding the strategies small businesses can employ to overcome these obstacles and achieve sustainable growth. The insights gained from this review will inform subsequent discussions on effective financing strategies that can enhance the longevity and success of small businesses in various economic environments.

2.4.1 What is a Small Business

Different countries use various criteria to define a small business, such as the number of employees, income, capital, and organizational structure (Charman et al., 2017). According to the American Small Business Association, a small business is defined as one having 500 or fewer employees and annual revenue of less than \$7 million (SBA, 2014a). The legal definition of a small business differs from one country to another (Iyanda, 2021).

2.4.2 Importance of SMEs in the Economy

According to Ackermann (2012), small businesses contribute significantly to the economy in two key ways. Firstly, they are essential for experimentation and innovation, which drive technological progress, productivity, and economic growth. Secondly, they serve as an entry point for millions of people into the economic and social mainstream. Additionally, the study by Akinwale & Ogundiran (2014) argues that small businesses have played a critical role in improving the standard of living in South African rural communities, and 68% of the area of eThekweni Municipality is classified as rural (COPGTA, 2021).

Davidsson (2015) supports that argument by pointing out that small businesses promote stability in local economies. Additionally, the study conducted by Ayandibu & Houghton (2017) explored the importance of SMEs in any given economy, in which findings pointed out the significant contribution of SMEs to the Local Economic Development (LED) of a country, such as eThekweni Municipality, especially in developing economies through the generation of employment because they: motivate entrepreneurship, cut threats such as crime, influence the development of solid economic systems through the creation of linkages between small and large companies. Most small businesses rely more on labour-intensive production processes than large enterprises that lean more towards unmanaged automated production processes.

The study by Vermeulen (2011) on the importance of the SME sector supported the argument of the World Bank that SMEs make the following contributions to the economy. Firstly, SMEs are the engines of growth; they enable an economy to create sustainable economic development. Secondly, SMEs are critical to maintaining competition and efficiency in the market. Lastly, SMEs play a crucial role in poverty reduction through employment creation.

According to the World Bank report from 2010 on the role of small businesses in job creation within the South African economy, SMEs employed over 76% of the total workforce in South Africa in 2010, and they accounted for 53% of the net new jobs created between 2004 and 2007. This underscores the importance of supporting a sector capable of generating a significant portion of new employment opportunities (World Bank, 2010). Supporting this perspective, Fatoki (2014) argues that the positive impact of SMEs on addressing developmental and economic challenges in South Africa hinges on fostering the creation and sustainability of new SMEs.

2.4.3 Challenges Facing SMEs

Regardless of their importance, the failure rate of small businesses in South Africa is one of the highest in the world, and access to funding is one of the major contributors (Fatoki, 2014 & Armanios et al., 2017). Turton and Herrington (2013) conducted a study focusing on entrepreneurial activity in South Africa and found that South African Total Early-Stage Entrepreneurial Activity (TEA) decreased from 9.1% in 2011 to 7.3% in 2012.

Additionally, the study by Bowmaker-Falconer and Herrington (2020) suggests that even though there was momentum in the South African TEA rate between the years 2016 and 2017, in 2019, the TEA rate was only 10.8%, it was still below the average of the African region, which was 12.1% in 2019.

In summary, this proves a backlog of research gaps in the SME industry, so we need to study further the challenges discouraging healthy entrepreneurial activity in South Africa and recommend relevant solutions. In support, it is mentioned by John Dlodlu of the Small Business Institute (SBI) that very little is known about SMEs in South Africa, including simple facts such as their exact number, the reasons for their failure, the factors contributing to their success, and the sectors in which they are most likely to succeed (Schirmer & Visser, 2021).

The study by Fatoki & Garwe (2010) distinguishes the challenges encountered by small businesses into two significant categories: external factors and internal factors. Amongst others, Fatoki & Garwe (2010) discovered the following difficulties that most SMEs have encountered at a certain point in their operations. Firstly, lack of access to finance. Secondly, there is limited collateral.

Thirdly, there is inadequate equity contribution by owners. Fourthly, there needs to be more government support, and lastly, preliminary market research and knowledge are needed.

Cant and Ligthelm (2002) studied problems encountered by small businesses in the Gauteng province. They discovered that limited access to finance, poor budgeting skills, inadequate bookkeeping knowledge, inflated investment in inventory, and poor cash flow management are the financial issues that most negatively influence the success of newly formed small businesses.

However, Chetty (2009) points out the irrelevance of the SMME training program offered by eThekweni Municipality, as it expects SMEs of different sizes from various sectors to undergo a "one size fits all" training program. Moreover, National Employers' Association's Chief Executive Officer, Gerhard Papenfus, points out how the South African labour regime prohibits the growth of formal small employers through the demand for a national minimum wage from start-ups and small businesses from the start (Schirmer & Visser, 2021).

The findings of the study by Coleman, Cotei, & Farhat (2016) that explored factors that influenced financing decisions of new small businesses in the USA suggested that the high failure rates that exist in the SME industry, combined with exaggerated monitoring costs for capital suppliers such as banks, makes it much more difficult for small new ventures to raise debt financing from banks and other credit providers. As a result, the study conducted by Thwala & Mvubu (2008), which aimed to study different challenges faced by new contractors in the construction sector, discovered that banks deny small emerging contractors debt financing unless they agree to pay unreasonable interest rates and partake in compulsory business management services.

2.4.4 Financial Growth Cycle of Small Business

Berger and Udell (1998: 19) present what they term as "The Financial Growth Cycle of Small Business." This cycle illustrates that as a small business expands, accumulates extensive experience, and becomes less opaque in terms of information, its financial requirements and opportunities evolve continuously (Berger & Udell, 1998: 21). With the use of the cycle, Berger and Udell (1998) demonstrate how business age and size determine the sorting of capital structure with varying sources of finance for small businesses.

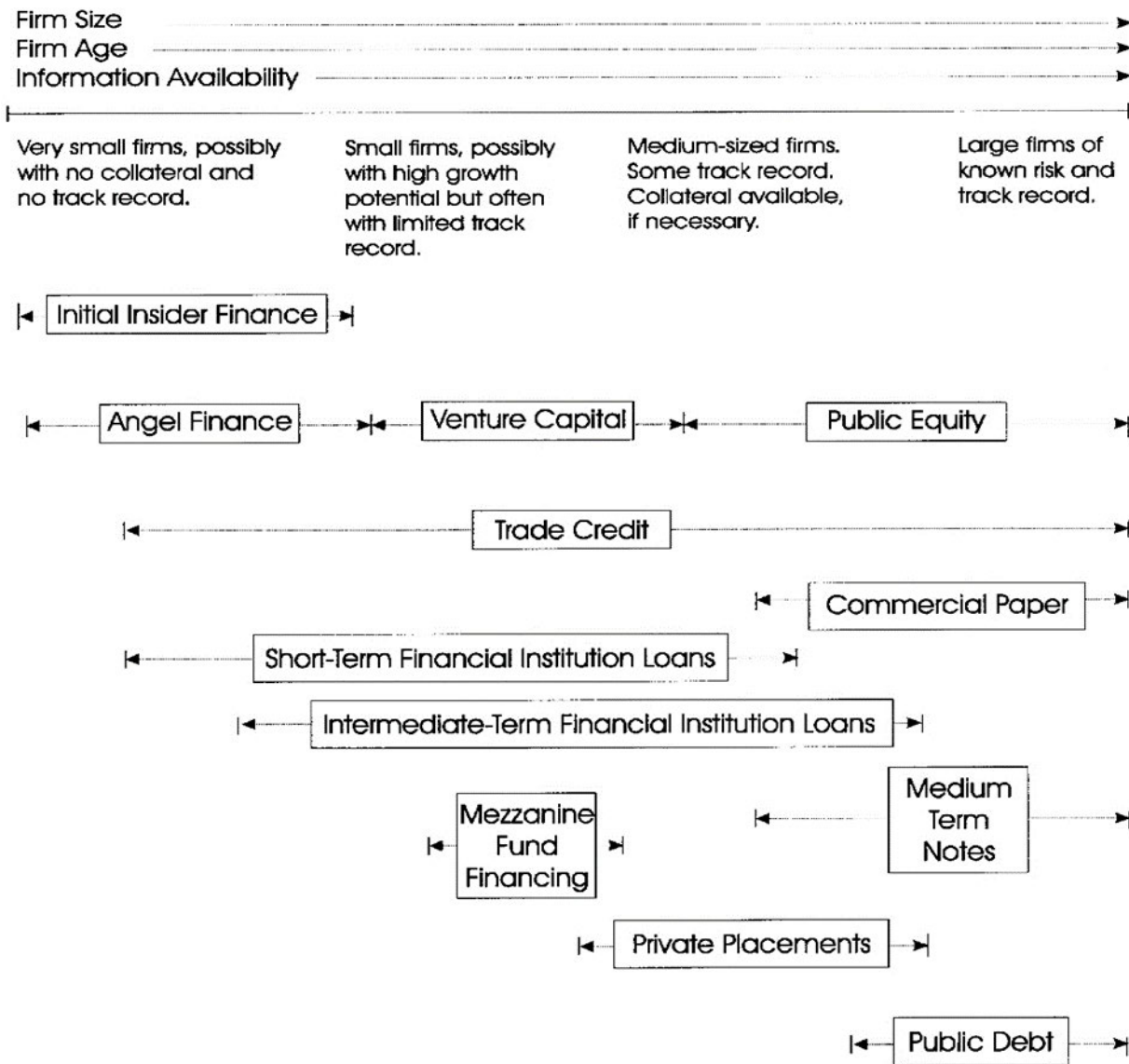


Figure 2.1: The Financial Growth Cycle of a Small Business

Source: Berger & Udell (1998)

The aim was to show in simplified form how firm size, age, and information continuum influence the capability of a firm to access financing. Summarily, the cycle in Figure 2.1 suggests:

- Newer, more informationally opaque SMEs lean to the left-hand of the paradigm, meaning they mainly depend on initial insider finance, angel investments, trade credit, and bootstrapping. According to Morrissette (2007), Angel investors are wealthy private individuals who offer initial financing to start-ups in exchange for a minority share in these fledgling enterprises, also known as private investors.
- Cook (2023) defines trade credit as a short-term arrangement between two businesses allowing one to purchase goods or services without immediate cash payment, with payment due within a specified period of 30, 60, or 90 days, after which it is recorded as an invoice.
- Cook (2023) emphasizes that a key advantage of trade credit is the absence of interest charges on delayed payments. According to Schwartz and Whitcomb (2020), suppliers benefit from the advantage of monitoring buyers before, during, and after the trade credit agreement. This allows suppliers to gather information about borrowers that other lenders, such as banks, typically acquire only at a cost during transactions.
- Funding provided by the primary owner (through debt and equity) is likely to increase significantly as the business matures into middle and later stages, often through accumulated retained earnings (Berger & Udell, 1998).
- As the firm grows and more information becomes available, accessing third-party financing, whether through equity or debt, becomes increasingly advantageous. The traditional belief is that bank or commercial financing becomes available to small businesses only after they reach a certain production level, demonstrating substantial tangible assets on their balance sheets, such as equipment and inventory. The funding sequence outlined by the small business growth cycle aligns with the principles of modern information-based security design and the financial pecking order theory.
- The arguments of costly state verification, including scholars like Townsend (1979) and Diamond (1984), and adverse selection, involving scholars such as Myers (1984), Myers & Majluf (1984), and Nachman & Noe (1994), suggest the use of debt contracts once internal financing sources are exhausted. Examples of such debt contracts include trade credit, bank loans, and finance company loans. However, the problem of moral hazard complicates the use of debt contracts for small businesses (Berger & Udell, 1998). Moral

hazard issues are particularly likely when the need for external financing is substantial compared to internal financing (including personal assets pledged as collateral), emphasizing the importance of external financing from angel investors and venture capital when moral hazard risks are high.

- Eventually, successful firms may gain access to public equity and debt markets as shown in figure 2.1.

2.4.5 Risk Profile and Growth Potential

The empirical evidence shows that small firms with high growth and high-risk potential often rely on angel finance or venture capital before they move to secure significant amounts of external debt funding. This may indicate that these small businesses often have a serious moral hazard problem. High-risk businesses with high-growth potential and the most intangible assets are mainly likely to obtain external equity. In contrast, low-risk businesses with low-growth potential and the most tangible assets will likely obtain external debt (Berger & Udell, 1998).

2.4.6 Small Business Financing

According to Iyanda (2021), starting a business, expanding the business, purchasing inventory, and boosting the strength of an organization are the four primary reasons SME owners require funding. Funding is a lifeline to small businesses and big corporations; the only difference is that big corporations have more funding options available, with fewer barriers to funding limiting their access, as illustrated in Figure 2.1. Moreover, limited access to funding is a significant challenge prohibiting the sustainable growth of small businesses (Dasgupta, 2016). Additionally, Osano & Languitane (2016) point out that for small businesses to maintain sustainable growth, they require adequate access to finance.

2.4.7 The Importance of Obtaining Appropriate Financing

Securing appropriate funding is crucial for businesses as it fosters stability and supports growth (Kuschel et al., 2017). Therefore, accurately assessing a business's financial requirements and selecting suitable funding options require business owners to possess adequate financial literacy. Thus, financial literacy serves as a critical asset in mitigating information disparities and

addressing collateral deficiencies (Hussain et al., 2018). Similarly, in developing nations like South Africa, access to finance and financial literacy significantly enhances the survival and success prospects of small businesses (Bongomin et al., 2017).

It is not surprising, based on existing literature, that insufficient funding sources are a primary cause of small business failure in both developed and developing economies (Wang et al., 2017). Furthermore, according to the literature, three fundamental types of funding sources are essential for meeting businesses' capital requirements, maintaining financial strength, and ensuring their ability to meet financial obligations (Iyanga, 2021). These include internal funding, external debt funding, and equity.

2.4.7.1 Internal Sources of Funding

A business internally funds its capital needs by using funding acquired internally, which may involve utilizing income generated from normal business operations or retained income to finance the growth and expansion of the business. Ye (2018) defines bootstrapping as the method by which entrepreneurs ingeniously minimize capital needs and diminish the necessity for external debt or equity.

One benefit of bootstrapping is the ability for a business to grow without relying on external capital, thereby shielding it from external influences, particularly during its vulnerable early years of operation (Fatoki, 2014a). Additionally, Fatoki (2014a) further argues that bootstrapping reduces the risks businesses would have been exposed to by using external funding.

2.4.7.1.1 Bootstrapping

Ebben & Johnson (2006). Winborg & Landstrom (2001) and Harrison & Mason (1997) describe bootstrapping as a combination of techniques implemented to minimize outside debt and equity funding required from banks and investors to fund business operations. It is challenging for SMEs to acquire debt financing from commercial banks, especially long-term loans, for a list of different reasons, including the absence of collateral, failure to prove creditworthiness, inadequate cashflows, insufficient credit history, inflated risk premiums, and high transaction costs (Fatoki, 2014a). As a result, Fatoki (2014a:21) recommends using "innovative financing methods," such as

financial bootstrapping methods, to solve the issue of limited access to formal credit and equity markets by small businesses in South Africa.

Winborg & Landstrom (2001) distinguished the bootstrapping methods into customer-related, delayed payments, owner-related and joint-utilization techniques. In summary, bootstrapping financing encourages using personal income, savings, and personal credit for business-related purposes and sweat equity as much as possible. This means less spending on hiring additional help (Harvey, 2021). Myers (1984) argues that businesses should look for internal finance methods before seeking outside credit and equity, and bootstrapping methods align with this pecking order theory.

2.4.7.2 External Debt Funding

Debt is the second most crucial source of financing for small enterprises. Damodaran (2001) defines debt as any financial instrument that involves tax-deductible interest payments, has a specified term, and holds priority claims on cash flows both during regular operations and in bankruptcy when liabilities exceed assets. Commercial banks and trade creditors are the main private sector lenders to new small businesses. Feakins (2005) identifies commercial banks as the primary external source of debt financing for small businesses. According to Obuya's (2017) research, debt funding refers to capital borrowed from a lender that must be repaid with interest over a predetermined period.

The two most common forms of debt financing are traditional bank loans and loans from private investors, both of which require interest payments. The pecking order theory suggests that internal funding, which has lower costs, is preferable to external funding, such as issuing debt (Myers, 1984). Successful small businesses with access to various financing options are more inclined to use debt capital.

According to Rostamkalaei and Freel (2015), higher interest rates might pose a greater challenge to growth than capital access issues, which have traditionally received more academic focus. Due to banks' risk aversion, traditional bank loans are not the primary funding source for small enterprises during their initial five years of operation (Rostamkalaei & Freel, 2015). This funding

gap hinders the development of small business, underscoring the importance of government support in enhancing traditional lending programs (Industrial et al., 2018).

Trade credit is another common financing method for small firms. Both small and large businesses use trade credit, with larger companies often employing it to finance working capital and inventory (Aktas et al., 2015). For small businesses, trade credit serves as a significant source of capital due to financial constraints and limited access to other formal funding sources, involving debt owed to a supplier for goods received (Barrot, 2016). Suppliers use trade credit strategically as a competitive tool in the marketplace, leveraging their bargaining power (Fabbri & Klapper, 2016). However, despite its benefits, trade credit imposes costs similar to other debt instruments due to its standardized terms and conditions.

2.4.7.2.1 Vitality of Collateral

Short-term loans and overdrafts from commercial banks are commonly relied upon by startups as primary sources of capital, often requiring collateral (Buchanan, 2017). Collateral is frequently optional for securing loans for projects with high success probabilities, which can lead to lower interest rates. In some cases, small businesses may use the entrepreneur's personal assets as collateral when business assets are not eligible. Collateral serves as a loan security measure, indicating potential risk or likelihood of default. According to Berger et al. (2016), collateral is associated with reduced financing costs but higher anticipated default rates. Duarte et al. (2017) argue that the provision of collateral is positively correlated with loan default rates among small enterprises.

2.4.7.2.2 Capital Structure and Collateral

Many researchers define capital structure as the combination of debt and equity businesses use to finance their operations. The study by Coleman et al. (2016) suggests that in the first year of any venture, several different firm's features, such as firm size, firm assets, growth prospects, and products sold, as well as characteristics of the entrepreneur such as wealth, previous experience, ethnicity, and educational background have a significant influence in the debt-equity decision. Furthermore, smaller, home-based, and growing firms typically rely more on personal sources of debt, while larger firms favour business-related debt. Schwienbacher & Larralde (2010) classify

traditional financing options available to new firms into two main categories: equity sources (such as funds from entrepreneurs and team members, friends and family, angel investors, venture capitalists, other firms/strategic investors, and stock markets) and debt sources (including banks/micro-credit institutions, leasing companies, government agencies, trade credit, and bootstrapping).

Informational asymmetries are most severe in start-ups, aggravating the challenge of acquiring debt financing (Ang, 1992). The paper by Coleman et al. (2016) shows that businesses use collateral to lessen informational asymmetry that might lead to credit denial or rationing. SBA (2015a) defines collateral as the extra layer of security that a borrower uses to assure the lender of a secured loan. In the event of default, collateral serves as secondary loan repayment. Collateral reduces the uncertainty of a loan. Collateral reduces the uncertainty of a loan.

Private equity and debt markets often offer complex contracts to small businesses on an acutely opaque informational basis meaning they lack transparency and clarity. Consequently, entrepreneurs are charged inflated interests to compensate for this informational imbalance (Berger & Udell, 1998). Moreover, this is opposite to the public stock and bond markets that require an informationally transparent relationship between businesses and funders; these options are often available to large businesses (Berger & Udell, 1998).

Businesses can use inside collateral as their loan assurance, assets that the firm owns, or outside collateral, assets owned outside the firm, for instance, the owner's assets (Coleman et al., 2016). An empirical study by Stiglitz & Weiss (1981) reveals that inside collateral gains the first preference as the safest collateral. As a result, firms with vast amounts of tangible assets are most likely to rely more on inside collateral than outside collateral since it is relatively safe and easy to use their tangible assets as inside collateral.

Most existing research believes inside collateral helps to reduce hostile selection and credit rationing (Stiglitz & Weiss, 1981). Therefore, firms with significant tangible assets are expected to rely heavily on debt financing. Outside collateral becomes a great advantage to wealthy small business owners since they might use personal wealth to guarantee loans (Ang et al., 1995).

The study by Blumberg & Letterie (2008) argued that the banks' decision on whether to decline or approve the application of credit submitted by small businesses is highly dependent on the business

owner's capabilities to provide the bank with signals and commitments, proving that the venture is highly likely to succeed and the probability of them honouring their repayment obligation is very high. Consequently, the study's results specified that personal wealth, previous experience, and education status all significantly influence the application decision, whether against or in favour of the small business owner (Blumberg & Letterie, 2008)

In support of Black et al. (1996), Blumberg & Letterie (2008) found that home ownership by the business owner is essential when obtaining access to external financing. The study further argued that aspects like earning capacity, use of own capital to fund business operations, and hiring an accountant while writing a business plan convince the banks to favour the entrepreneur when judging whether to grant credit.

Other factors also influence an entrepreneur's choice between external debt and equity. For instance, the principal owner might choose external debt to maintain control and ownership of their business or external equity to share risk with less risk-reluctant investors (Berger & Udell, 1998).

2.4.7.2.3 Informational Opacity/ Asymmetries

Informational asymmetries are more acute in start-ups, making obtaining loan financing more difficult (Ang, 1992). When defining small business financing, the most crucial factor is informational opacity. The result is that, unlike large corporations, these entities do not engage in contracts with their suppliers, labour force, and consumers that are widely publicized or receive extensive news attention; instead, this information is mainly kept private (Berger & Udell, 1998). Moreover, Small businesses do not trade on stock exchanges such as the JSE, so these businesses are not publicly priced daily on these exchanges. Additionally, many of the newest and smallest enterprises cannot generate audited financial statements, which external funding sources may require (Berger & Udell, 1998).

As a result, small enterprises may need help demonstrating their creditworthiness to external lenders. For instance, small businesses may need help establishing a reputation that signifies good quality or an appropriate trail to overcome information opacity.

2.4.7.3 External Equity Funding

According to Bhaird and Lucy (2008:21), “equity refers to any form of financing that entails a residual claim on the company, does not offer tax advantages for its payments, has an indefinite lifespan, does not receive priority in bankruptcy proceedings, and provides ownership with managerial control”. Empirical studies often describe equity holders as residual owners because they receive payment from what remains after other stakeholders, such as preference share dividends and debenture interest holders, have received their share of the company's income and assets.

Damodaran (2001) classifies equity into two types: internal equity and external equity. The Pecking order hypothesis lists equity as the third and final type of finance. Because of the trust involved, small business owners must rely on goodwill when deciding to raise capital through external equity (Dowling et al., 2019).

2.4.7.3.1 Equity Gap

Despite the existence of different external equity options small businesses can employ, access to external equity for young small businesses continues to be an obstacle, and this is called the equity gap. Cowlings (2006) and Baldock & North (2012) described the equity gap as the lack of external equity investments in the early stages of an SME's life cycle.

2.4.7.4 Business Longevity and Sustainability

According to Williams (2014), businesses with greater resources are more likely to achieve success. The primary reasons for business failure, as highlighted by Williams (2014), are inefficiency and lack of resources. This assertion suggests that long-term survival for businesses hinges on their ability to acquire sufficient resources to achieve and sustain profitability. Williams (2014) underscores the importance of having substantial initial capital assets or resources to enable business growth and profitability. Adequate financial resources are essential for any business venture, with small firms particularly reliant on securing appropriate capital inflows to ensure their viability and success (Hyder & Lussier, 2016)

Several factors influence the longevity and sustainability of businesses. The absence of a deliberate company strategy and a lack of capital contribute to start-up failure (Cantamessa et al., 2018). Strategic innovation is a third aspect that affects how long a company will last. According to Taneja et al. (2016), it serves as a critical catalyst for the long-term competitive edge of small enterprises. They contend that small enterprises possess the agility to swiftly adjust to changes. Employing effective funding strategies and mastering the art of financing business operations are essential for the success and endurance of small businesses.

2.5 Summary

In this chapter, the exploration of various financing theories and their applicability to small businesses has been thorough and enlightening. The chapter began by emphasizing the importance of understanding the financial strategies employed by entrepreneurs to ensure the sustainability of their businesses within the first five years of operation. The literature review provided a critical examination of existing knowledge on small business financing options, highlighting the influence of financial strategies on business success.

Theories such as the Pecking Order Theory, Trade-Off Theory, Theory of Financial Intermediation, and Market Timing Theory were scrutinized to understand better how small businesses navigate their financial landscapes. The Pecking Order Theory, with its emphasis on prioritizing internal financing before resorting to external debt and equity, revealed the inherent preference for minimizing financial risk and costs associated with external financing. In contrast, the Trade-Off Theory presents an alternative view, illustrating how businesses seek to strike a balance between the advantages of debt, such as tax benefits, and the risks of bankruptcy.

The Theory of Financial Intermediation underscored the pivotal role of financial intermediaries, such as banks, in bridging the information gap between small businesses and potential lenders. This theory highlighted the critical function of banks in assessing and mitigating risks through diligent screening and monitoring. The Market Timing Theory introduced the strategic element of timing in capital raising, illustrating how small businesses could optimize their financing strategies based on market conditions. The chapter also delineated key concepts essential for understanding the small business landscape, such as the definitions of entrepreneur, sustainability, business

failure, and informational opacity. Furthermore, it delved into the significance of small businesses in the economy, particularly their contributions to employment, economic stability, and innovation.

Challenges facing SMEs, particularly in South Africa, were addressed, emphasizing the high failure rate due to factors like limited access to funding. The Financial Growth Cycle of Small Business provided a dynamic view of how financing needs and options evolve as businesses grow and become more established. Internal sources of funding, such as bootstrapping, were discussed alongside external debt and equity funding options, shedding light on the diverse strategies small businesses employ to secure necessary capital.

In summary, this chapter has provided a comprehensive overview of small business financing theories and their practical implications. The insights gained underscore the complexity of financing decisions and the strategic considerations entrepreneurs must navigate to achieve business sustainability. Understanding these financial dynamics is crucial for fostering the growth and success of small businesses, particularly in environments with high failure rates and significant economic challenges.

Chapter 3: Research Methodology

3.1 Introduction

Wits (2023:01) defines research methodology as "the specific procedures or techniques used to identify, select, process, and analyse information about the researched topic," the section enables the reader to assess the overall validity and reliability of a study. Furthermore, the research methodology answers two significant questions: How was the information gathered or generated? How was it examined?

This study seeks to explore the financing strategies employed by small business owners in the eThekweni Municipality to secure adequate capital and sustain profitable operations beyond five years. Specifically, the research aims to understand the reasoning behind the choice of these financing strategies and their impact on the long-term sustainability and success of small businesses. To address these aims, the study is guided by the following research questions:

- What financing strategies do owners of small businesses in eThekweni Municipality use to access adequate capital to maintain sustainable business operations beyond five years?
- What factors influence the financing strategies of small business owners that have successfully operated for five years or more?
- How do the identified financing strategies impact the long-term sustainability and success of small businesses?
- What types of financing strategies have they implemented?

A qualitative research approach, specifically a multiple case study design, was employed to answer these questions. This approach allowed for an in-depth exploration of the unique financing strategies used by small businesses and the reasons behind their choices. Semi-structured interviews were conducted with small business owners in eThekweni Municipality to collect rich, detailed data on their experiences and strategies in securing and managing capital. By understanding these strategies and their effectiveness, this study aims to contribute valuable insights into the financial practices that support the longevity and success of small businesses in the region.

3.2 Methodology

This chapter will discuss the data used in the ongoing study and present the analytical framework to address the research objectives established in the first chapter. Selecting the relevant method before conducting a study is significant (Iyanda, 2021). According to Flick (2015) qualitative research focuses on non-numerical data such as words, images, or objects as it aims to understand concepts, experiences, or social contexts through detailed, in-depth analysis whereas quantitative focuses on numerical data and statistical analysis and it aims to quantify variables and generalize findings across larger populations through measurable data. The study will use the qualitative research method in the form of interviews. Fassinger and Morrow (2013) suggest that researchers use the qualitative research method to gather information from observations of participants' real-life experiences to understand the research topic.

Flick (2015) states that qualitative research can generate an in-depth and precise analysis of numerous cases. It also allows participants to select the most relevant and express themselves comfortably. Given that the research focused on exploring strategies entrepreneurs employ to ensure the sustainability of new small businesses beyond five years, rather than assessing their financial performance, the qualitative research method was deemed most suitable. The study thus adopted a positivist qualitative paradigm stance. According to Iyanda (2021), qualitative methods enable thorough and in-depth analyses of research questions, whereas quantitative approaches may not be ideal for exploratory research. Akyildiz & Ahmed (2021) argue that qualitative research is particularly well-suited for exploratory investigations.

According to Tenny et al. (2017), qualitative research is a research approach that investigates and delivers more profound insights into real-world problems. Additionally, qualitative research collects information about participants' experiences, perceptions, and behaviour. The ability to deeply explain processes and patterns in human behaviour is one of the significant advantages of qualitative research since these concepts are difficult to quantify. In summary, it addresses the how and why instead of how many or how much (Tenny et al., 2017). Moreover, Bengtsson (2016) reveals that the implementation of the qualitative approach affords the researcher a choice to choose whether the analysis of findings should be a broad surface structure (manifest analysis) or a deep structure (latent analysis).

3.3 Research Design

Yin (2018) explains that researchers selected the case study design as the most appropriate approach to explore the experiences of participants related to the research problem. Case study research involves examining a problem using one or more cases within a specific system, such as a particular context or setting. Stake (2005) argues that case study research focuses more on what is being explored rather than a specific methodology. In contrast, other scholars describe it as an inquiry approach, a research tool, or a comprehensive research plan (Denzin and Lincoln, 2005; Merriam, 1998; Yin, 2003). Due to the unique nature of each case, qualitative researchers typically refrain from generalizing from one instance to another; however, effective generalisation requires selecting representative cases for inclusion in qualitative studies (Creswell & Poth, 2016).

According to Yin (2018), researchers favour the case study design when a study necessitates a detailed and comprehensive description of a social phenomenon and seeks deeper insights into real-world issues (Turner & Danks, 2014). Additionally, Harrison et al. (2017) demonstrate that the case study design is more cost-effective and less time-consuming compared to alternative designs. Another advantage of the case study method is its ability to generate detailed qualitative narratives that not only facilitate exploration and description of data in real-life settings but also elucidate the complexities of real-world situations that experimental or survey research may overlook (Giezen, 2012).

3.3.1 Multiple Case Study Design and Business Financing Theories

In the context of SME financing strategies, the use of a multiple case study design was well-suited for exploring how the pecking order and trade-off theories apply in practice. These theories provided frameworks for understanding small business behaviour in financial decision-making, particularly under conditions of information asymmetry and varying preferences for financing options.

Pecking Order Theory posits that firms prioritize their sources of financing (from internal financing to debt to equity) based on the principle of least resistance or cost (Myers, 1984). In the context of small businesses, this theory suggests that smaller firms are more likely to rely on internal financing due to limited access to external capital and the high costs associated with

obtaining it, partly due to information asymmetry (Myers & Majluf, 1984). Information asymmetry occurs when small business owners and managers possess more information about the firm's operations and prospects than external investors or lenders. This discrepancy leads to a higher perceived risk of external financing, thereby encouraging a preference for internal funds.

Trade-off Theory suggests that firms seek an optimal balance between the benefits of debt (such as tax shields) and the costs associated with it (such as bankruptcy risk). For small businesses, the trade-off theory can be particularly relevant in explaining why these firms might still opt for debt despite preferring internal funds, aiming to optimize their capital structure by balancing the costs and benefits of different financing sources (Kraus & Litzenberger, 1973).

3.3.2 Application of Theories through Case Study Analysis

A multiple case study design enabled the examination of how different small businesses managed their financing strategies within the framework of these theories. By analysing multiple cases, the study uncovered patterns of behaviour and decision-making processes that are consistent with or deviate from the theoretical expectations.

For instance, information asymmetry can be explored by examining how small businesses perceive their relationships with external financiers, the extent to which they disclose information, and how this influences their financing choices. Each case provided a detailed narrative of the small business's experiences and challenges in obtaining financing, which can illustrate how information asymmetry affects their preference for internal financing, as suggested by the pecking order theory.

Similarly, the preference for internal financing can be analysed across different cases to determine whether small businesses consistently prefer to use retained earnings over external debt or equity. By comparing cases, researcher can assess the factors that lead some small businesses to deviate from this preference and seek external financing, such as growth opportunities or the need to manage cash flow shortages, thereby integrating insights from the trade-off theory.

3.3.3 Framing the Analysis

The use of a multiple case study design supported the framing of analysis by allowing for a comprehensive examination of the empirical evidence considering theoretical concepts. Through detailed case descriptions and cross-case analysis, the study could:

Identify Patterns and Variations: Highlight common themes and differences in financing behaviour among small businesses that align with or challenge the pecking order and trade-off theories.

Interpret Findings within Theoretical Frameworks: Use the pecking order and trade-off theories as lenses to interpret the findings, examining how small businesses balance internal and external financing sources in response to information asymmetry and other market conditions.

Draw Context-Specific Conclusions: Provide insights into how small businesses navigate their financial environments, considering their unique characteristics, such as size, industry, and market conditions, thereby offering a nuanced understanding of how these theories apply in different contexts. In summary, a multiple case study design was particularly effective for analysing small business financing strategies through the lenses of pecking order and trade-off theories. It allowed for a detailed examination of individual cases while also enabling a broader analysis of patterns and themes that contribute to a deeper understanding of how small businesses make financial decisions in the presence of information asymmetry and other constraints.

3.4 Population and Sampling

Aliard (1970) describes the researchers' target population as the entire group of individuals or objects from which researchers seek to conclude. Aliard (1970) further reveals that the target population usually has various characteristics and is called the theoretical population. In this study, the target population included all the business leaders or owners that employ 0-50 employees, and they are responsible for managing their businesses beyond the fifth year of operation in eThekweni Municipality. According to Mchunu (2022), approximately 2 900 small businesses operate in the eThekweni Municipality.

Determining the appropriate sample size improves the accuracy of the study's findings (Cohen et al., 2013). A reasonable number of experts in qualitative research have attempted to answer the question, "What is the appropriate sample in a qualitative study?". In qualitative research, the empirical evidence proves that discussing the appropriate sample size is only possible by mentioning the concept of saturation. Schwab (2021) defines saturation as the point at which enough interviews have been conducted in a qualitative study, further explaining it as the stage where additional qualitative data collection yields no new knowledge or only produces previously discovered information.

Moreover, Schwab (2021) suggests that this is where the performance of research begins to decline; for instance, as the research approaches saturation, a new interview will make a lesser contribution than the previous one. In their qualitative study conducted in Ghana and Nigeria, Guest, Bunce, and Johnson (2006) attempted to determine where new interviews no longer produced new knowledge. They discovered that the amount of new knowledge found in each interview decreased as the number of interviews conducted increased. What caught the eye of the researchers was the enormous speed at which this phenomenon was occurring. "Beyond the 18th interview, new codes become rarer until they almost disappear beyond the 36th interview" (Guest et al., 2006:63).

This discovery influenced the conclusion of the study by Marshall et al. (2013), which stated that a sample of 30 to 35 in-depth interview participants is sufficient in qualitative research to draw accurate conclusions since saturation is evident from around the 35th interview. In support is the study by Adler & Adler (2011) that suggested graduate students' sample between 12 and 60 participants or interviews, with 30 interviews being the mean. Ragin (1999) indicates a sample range of 20 to 50 qualitative interviews for master's and Ph.D. dissertations.

3.5 Sampling Method

The study used non-random sampling and a method-purposive sampling to select a sample of 35 participants for this study. The researcher aimed to achieve saturation through researching the phenomenon. Even though there are various types of purposive samples, for instance, Patton (2002) listed sixteen different types of purposive samples, all sharing the common element that researchers predetermine the criteria used to select research participants in alignment with specific

research objectives. Consequently, the researcher selected small businesses that are Proprietary Limited (Pty Ltd) or registered with CIPC since the Companies Act, no 71 of 2008 requires such firms, to ensure that their financial statements undergo an annual audit. Robinson (2014) points out the relevance of purposeful sampling when selecting research participants for a multiple case study. The researcher also aimed to select participants conveniently located in an area easily reachable to them.

3.6 Ethical Research Consideration

Research ethics encompass moral standards that guide researchers in conducting and reporting their studies with integrity and without intent to harm participants or society, whether knowingly or unknowingly (Baral, 2016). Adhering to ethical norms during research is crucial for ensuring the validity of findings (Singh, 2019). Researchers must address various ethical considerations concerning the study's target population. Privacy emerged as a significant ethical issue; ensuring the anonymity of all participants from the target population was paramount (Lewis-Beck et al., 2004). Safeguarding participant privacy and rights involves careful handling of data collection, storage, analysis, and disposal processes (Beskow et al., 2014; Yin, 2018).

Upon completion of the study, the researcher will securely store data for five years and subsequently destroy physical documents by shredding and delete electronic copies using Permdelete software. The credibility of the study hinges on the researcher's integrity (McLaughlin & Alfaro-Velcamp, 2015). Ethical clearance for conducting interviews was obtained from the University of KwaZulu-Natal's HSS ethics committee (approval number HSSREC/00006127/2023) before commencement as shown in appendix 3. Before each interview, participants were required to sign informed consent forms, that is presented as appendix 2, as outlined by Dal-Ré et al. (2017), ensuring they voluntarily agreed to participate after being fully informed about the study. To guarantee informed consent, participants were informed about the study's purpose and objectives (Cohen et al., 2013). The consent form affirmed the researcher's commitment to maintaining participant privacy and integrity (Marrone, 2016). According to Kaye et al. (2015), informed consent represents a social contract between the researcher and the participant. Participants retained the right to withdraw from the interview or research at any time, as indicated at the start of the interview through the Consent Form.

Further notification was given to participants that there were no consequences for withdrawing from the study. Participants stayed and participated in the study until its completion; no participant wanted to drop out. The participants received no incentives or rewards for their involvement in the study; their participation was entirely voluntary.

3.7 Data Collection Instrument

The researcher used semi-structured interviews that included open-ended questions; the principal aim was to allow research participants to expand as much as possible on their experiences instead of one-word answers. Open-ended interview questions, as presented in appendix 1, help the researcher understand a significant amount of data better while providing more information about the participants' experiences concerning the discussed research topic (Hoffmann, 2007). Tenny et al. (2017) perceive open-ended questions as the core characteristic of qualitative research. The study observed that presenting the answers to these questions in numbers is impossible. Furthermore, qualitative research is often less direct than quantitative research design due to the open-ended nature of the questions asked (Tenny et al., 2017). Using interviews allowed for studying participants' experiences with the research phenomenon. Qualitative analysis gained the first preference. The participants of this study were owners of small businesses that have been operational for a period of more than five in the province of KZN, in eThekweni Municipality.

3.7.1 Qualitative Research Question

What financing strategies do small business owners use to access adequate capital required to run sustainable business operations for the initial five years?

3.8 Data Collection Technique

Burns (1999) affirms that interviews are popular and mainly used for collecting data for qualitative investigations. He further mentions that with interviews, the researcher aims to get first-hand information directly from knowledgeable participants and to determine and understand participants' thoughts. Interviews are a critical tool any researcher can use to understand how people think, perceive, and interpret the world around them (Zohrabi, 2013). According to Flick (2006), the objective of the interview is to expose existing information in a way that participants can state in the form of answers, making it available for interpretation.

Zohrabi (2013) reveals two ways to conduct interviews: person-to-person and collective or group setups. Merriam (1998) supposes that both formats of interviews are goal-oriented conversations. Johnson & Turner (2003) listed the advantages of interview conversations as follows:

- Effective for judging attitudes and most other topics of interest.
- Allow the interviewer to probe.
- Able to provide detailed information.
- Allow for high interpretive validity.
- Telephonic interviews are more time-conservative and less time-consuming.
- High measurement validity for well-designed and proven interview techniques.

Burns (1999) and Patton (1990) distinguished interviews into three categories. The first is the unstructured interview, which is the informal conversation interview. The informal conversation interview is typically conducted with no planned questions and in no particular order. The questions arise naturally from the course of the conversation. This exploratory interview style might be challenging for inexperienced researchers (Patton, 1990). Secondly, semi-structured which is an interview that has a predetermined guide. This type of interview specifies the themes and questions; however, they can be modified in any order depending on the situation. One advantage of using an interview guide is that the information gathered "can later be compared and contrasted" (Fraenkel & Wallen, 2003: 456). Data collection using this approach is more systematic and conversational. Lastly, a structured open-ended interview is an interview that has a strict list of predetermined questions that are almost in a fixed order (Burns, 1999). However, this type of interview is excessively rigid, and sticking to predetermined questions may prohibit the researcher from accessing participants' perspectives and understandings.

The interview questions available on appendix 1, were similar to those of the study by Iyanda (2021), which studied the funding strategies for small business sustainability in midwestern and south-eastern regions of the United States of America. Semi-structured open-ended questions that

were used during the interviews allowed the researcher flexibility to get as much information from participants as possible.

3.9 Data Collection Methods

The researcher used platforms such as Yellow SA, SEDA, and the Durban Chamber of Commerce to compile a list of SMEs that will be approached for interviews. These small businesses were contacted telephonically or through email to set appointments with the owners for face-to-face interviews. According to Irvine (2011), face-to-face interviews yield higher volumes of data because they are typically more interactive and longer in duration compared to telephone interviews. Therefore, face-to-face interviews are considered the optimal method for conducting in-depth discussions. Additionally, in qualitative case studies, interviews serve as the primary data source (Neusar, 2014).

In the study, to understand various financial strategies entrepreneurs implement for sustainability beyond the five-year mark, the small business owners are the primary data source since the researcher was interviewing them. The study will use semi-structured interviews. Vila-Henninger (2019) defines semi-structured interviews as reflective conversations that allow an opportunity for intervention and clarification to the researcher as the research participant reflects on the researched topic.

The opportunity for clarification provided by interviews, since they are reflective, allows the participants to review and confirm what the researcher has reported based on the narrative they provided, improving the study's accuracy and credibility (Marshall & Rossman, 2016). As a result, member checking, also known as participant or participant validation, which includes returning recorded text from an interview to the participant to confirm accuracy (Birt et al., 2016), was used during the study. The researcher used a recording device during discussions with the participant's permission.

3.10 Data Analysis

The primary aim of this study was to investigate the financing strategies employed by small business owners to maintain profitable operations beyond five years. Small business owners utilize various strategies, and this study focuses primarily on assessing the impact of these strategies. The

conceptual framework guiding this research is the pecking order theory, and the interview questions were formulated based on principles derived from the pecking order theory. A cross-case report should be produced in a multiple-case study, through which an investigator presents a summary of each case and conclusions (Yin, 2017). As a result, researchers may have generalizable findings and theory development based on the evidence discovered from the studied multiple cases (Lewis-Beck et al., 2003). The study by Khan & VanWynsberghe (2008) defines cross-case analysis as the method of research that allows for the mobilization of knowledge from individual case studies, and the study further proposes that case knowledge mobilization transpires when researchers accumulate case knowledge, cases are compared. As a result, the study generated new knowledge.

Stretton (1969) briefly reveals the advantages of a researcher's engagement in a cross-case analysis as it extends the researcher's knowledge beyond a single case. As a result, it motivates the investigator's mind to ask new questions, reveal new dimensions, produce alternatives, and construct ideas and utopias. Ragin (1997) and Eckstein (2002) add that cross-case analysis improves the investigator's capacities to understand the possible existence of relationships among independent cases, accrue information on multiple cases, refine and develop concepts, and test or shape theory.

The researcher used thematic analysis to analyse responses provided by participants during the semi-structured interviews. When researchers aim to identify, explore, examine, and record eloquent data, thematic analysis has proven to be the best form to implement (Teruel et al., 2016). According to Braun & Clarke (2006), thematic analysis is a qualitative research approach involving the exploration of datasets to identify, analyse, and document recurring patterns. In contrast, Kiger & Varpio (2020) contend that thematic analysis is particularly suited for researchers aiming to comprehend experiences, thoughts, or behaviours across a targeted population.

In this study, thematic analysis was used to systematically examine the interview transcripts, identifying key themes that emerged from the participants' responses. These themes were then aligned with the research objectives and questions, ensuring that the findings were directly relevant to the aims of the study. The use of thematic analysis also allowed for a nuanced understanding of

the data, capturing the richness and complexity of the participants' experiences and perspectives (Nowell et al., 2017).

The process of thematic analysis typically involves several stages: familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final report (Braun & Clarke, 2006). In this study, these steps were meticulously followed to ensure a rigorous and transparent analysis process. The coding process involved reading and re-reading the interview transcripts to become thoroughly familiar with the content, followed by the identification of initial codes that were relevant to the research questions. These codes were then grouped into broader themes that reflected the overarching patterns in the data.

The themes identified through this process provided valuable insights into the research questions, helping to elucidate the factors that influence the phenomena under study. By linking the themes back to the research objectives, the study was able to provide a comprehensive understanding of the issues being investigated, grounded in the participants' lived experiences and perspectives (Vaismoradi, Jones, Turunen, & Snelgrove, 2016). Overall, thematic analysis proved to be an effective tool for analysing the interview data, allowing the study to achieve its research objectives by uncovering the underlying themes and patterns that addressed the research questions.

Triangulation is beneficial in case study research as it enhances the validity of the findings (Yin, 2018). Carter (1969) concurs, asserting that collecting data from all research participants through in-depth interviews and triangulation strengthens the study's validity. Patton (1999) defines triangulation in qualitative research as the use of multiple methods or data sources to gain a comprehensive understanding of a phenomenon. Consequently, scholars view triangulation as a method for testing validity in qualitative research by integrating data from various sources (Carter, 1969).

Four different types of triangulations were identified by Denzin (1978:35) and Patton (1999:14), namely: Method triangulation involves employing various data collection methods to investigate the same phenomenon (Polit & Beck, 2012). According to Houghton et al. (2013), methodological triangulation advocates for using multiple data sources to corroborate information accuracy and bolster credibility. This study finds this triangulation method viable since small businesses registered with CIPC (Companies and Intellectual Property Commission) must have their financial

statements audited annually; these financial statements can serve as supporting data sources. This triangulation method is primarily utilized in qualitative research and may involve conducting interviews, observations, and collecting field notes. Consequently, the researcher used multiple data sources during this study, including semi-structured interviews, company records, relevant participant documents, and external publications.

After completing the interviews and verifying participant responses, the researcher entered all the data into NVivo 12, an analysis software tool. NVivo 12 facilitates the examination of open-ended interview responses (Feng & Behar-Horenstein, 2019) and assists in coding and analysing qualitative data. This computer-assisted software enables researchers to effectively evaluate, code, segment, and organize qualitative data (Bazeley & Jackson, 2013; Kirby et al., 2014). Thematic analysis, guided by the conceptual framework and relevant literature on pecking order theory, will be conducted using NVivo 12 to identify and analyse themes.

During the study, the researcher interviewed 35 small business owners. The researcher presented findings in major themes and subthemes.

3.11 Reliability and Validity

Only high-quality research can produce valid and accurate information (Saunders et al., 2015). A research study must demonstrate reliability and validity (Konradsen et al., 2013). Reliability pertains to the consistency of a measurement, whereas validity concerns the accuracy of the test results. It is essential that the data collection instrument accurately and consistently measures what it was intended to measure. The reliability of an instrument assists researchers in constructing reliable assessments, while its validity instils confidence in the researcher's ability to make accurate projections (Green & Salkind, 2017).

3.11.1 Reliability

In qualitative research, reliability pertains to the consistency with which researchers produce robust and dependable conclusions (Zohrabi, 2013). Cope (2014) describes data consistency as dependability, which enables the replication of study findings with similar participants in comparable settings. To evaluate the credibility of a qualitative research study, researchers must

examine the reliability of the findings to ensure the study's soundness and integrity (Noble & Smith, 2015).

According to Moon (2019), triangulation is a method for enhancing the credibility and dependability of research findings. In this study, the researcher employed various data collection techniques, including semi-structured interviews, unpublished business documents, and member checks. These methods facilitated thorough triangulation, thereby increasing the study's reliability (Park et al., 2016). Data saturation is crucial in qualitative research, indicating the point at which researchers can no longer obtain significant new information from additional sources (Hancock et al., 2016). Achieving data saturation is typically done through the interview process, with the number of interviews determined by the depth of the responses (Fusch & Ness, 2015). In qualitative research, the recurrence of data signifies data saturation (Morse, 1995).

Researchers employ member checking to enable participants to verify, assess, and provide feedback on the quality and reliability of the collected data (Nelson et al., 2013; Vance, 2015). This process involves sharing the findings with participants to ensure they accurately reflect and align with their experiences (Birt et al., 2016). Participants can confirm that the findings resonate with their own experiences, emotions, and viewpoints, or suggest modifications. Gaining participant confirmation enhances the study's credibility. In this research, the investigator conducted member checking by sharing the findings with participants for their verification and approval, ensuring reliability and informing future research efforts.

3.11.2 Validity

Messick (1998) refers to the degree to which an instrument measures what it is intended to measure as validity. Researchers can establish validity in their findings by obtaining creditability, transferability, and confirmability (Cope, 2014). According to Houghton et al. (2013), researchers aiming for validity in their findings must evaluate four aspects: credibility, transferability, confirmability, and data saturation. Enhancing the credibility of a study involves utilizing diverse sources of information, such as interview transcripts, business documents, and external literature (Heale & Forbes, 2013). Researchers employ member checking to enhance the accuracy, reliability, validity, and applicability of participant responses (Leonidou et al., 2017)

3.12 Summary

This chapter detailed the methodology employed in the ongoing study, focusing on the qualitative research method chosen for its suitability in exploring the strategies entrepreneurs use to sustain new small businesses beyond five years. The qualitative approach, particularly through interviews, provides an in-depth understanding of participants' real-life experiences, enabling a thorough analysis of their perceptions and behaviours. The positivist qualitative paradigm was adopted to facilitate deeper explorations of the research questions.

The case study design was identified as the most effective for examining the research problem within a specified context, offering a comprehensive understanding through representative cases. This design, supported by robust theoretical underpinnings from various scholars, allows for nuanced insights that are essential in qualitative research. Population and sampling considerations were addressed, highlighting the use of purposive sampling to ensure a targeted selection of participants. The goal was to reach saturation, ensuring that the data collected would be rich and comprehensive. The data collection technique involved interviews, recognized for their effectiveness in capturing firsthand information from knowledgeable participants.

Data analysis will focus on understanding the financing strategies employed by small business owners, using the pecking order theory as the conceptual framework. This approach allows for a structured analysis of the strategies' impact, with cross-case reporting facilitating the synthesis of findings across multiple cases. Finally, the importance of reliability and validity was underscored, emphasizing the need for consistent and accurate measurements to ensure the research's credibility. By adhering to these methodological rigors, the study aims to produce high-quality, reliable, and valid findings that contribute meaningfully to the understanding of small business sustainability strategies.

Chapter 4: Presentation of findings and analysis

4.1 Introduction

This study aimed to identify small business funding strategies to sustain successful operations beyond the first five years. The researcher used a qualitative research approach and a multiple case study design to offer the information required to answer the research question. Thirty-five small business owners were interviewed by the researcher and ensured anonymity in the data. To accommodate small business owners' busy schedules and ensure convenience, participants could also do interviews virtually on Teams or Zoom platforms. The researcher gained a better knowledge of the phenomenon and participants' experiences using this approach and multiple case study design. The coding process resulted in the identification of three major themes:

1. Internal sources of financing
2. External sources of financing
3. Reducing business operating costs and expenses

4.2 Internal Sources of Financing

The study's 35 participants said internal finance was the most used method for financing their businesses. To most participants, internal finance was the preferred option, which meant using personal savings and personal sources of income to finance business operations for most of the initial five years. One participant described their first five years as follows:

"For the first five years, it was mainly personal funds being poured into the business until I ran out of savings, then I had to take up personal debt, so personal funding went a long way."

Additionally, another small business owner concurred and reported the heavy reliance of his business on his cash flow during the early days of their operations. As shown in Table 4.1, 11.43% of participants reported selling their personal assets to keep the lights on during COVID-19. One participant even went on to explain in detail how they had to be creative and flexible based on the situation they were in:

"When I started, I planned to use my funds for my business for as long as I could before looking for either debt or equity funding externally, but during COVID-19, I could not get business debt from banks. I had to turn to selling some of my assets to keep the business running."

Internal funding is the most accessible, cost-effective financing available to business owners. Furthermore, business owners prefer internal capital since it has low or zero interest rates and lacks the administration to secure external funding.

The low interest or zero interest rates and low risk associated with internal funding make internal funding the most preferred type. This participant mentioned that:

"Several financing options differ according to their costs, some being more costly than others, and being an entrepreneur nurturing a young business, you need to always opt for the cheapest option, my funding."

One of their principal aims was to rely on internal finance for as long as possible, avoiding debt. Another SME owner expressed how he valued the benefits of having many savings and investing accounts, ranging from fixed to accessible deposits with various financial institutions. She said,

"Personal cash, family savings, and emergency funds had to be utilized; luckily, the business started generating profit before we desperately needed external debt."

Table 4.1 Subthemes within Theme 1

Theme	% of participants reporting the theme. (N=35)
Use of personal savings and income.	100%
Use of family savings.	28.58%
Crowdfunding with friends, family, and colleagues.	2.86%
Re-investment of profit generated from the business.	94.29%
Use of personal debt (Loans and credit cards).	74.29%
Liquidation of personal assets.	11.43%

Note: Data Collected by the author in March 2024

4.2.1 Use of Bootstrapping Methods

In section 2.4.7.1.1 bootstrapping was defined and in summary it encourages the use of personal income, savings and personal credit for business purposes and maximizing on sweat equity. The interviews revealed that several bootstrapping methods has been used by participants as outlined below.

4.2.1.1 Personal Funds

All the participants in this study reported using personal savings, investments, salaries, and other personal sources to fund their businesses at some point during the initial five years of their business. Two participants even suggested using funds set aside for their children's future higher education to fund their enterprises in the early years. Most business owners reported relying primarily on their salaries from their 9-5 jobs to fund their firms, and many of these entrepreneurs reported starting their businesses as widely recognized "side hustles." One participant, who used to work as a full-time financial planner for one of the major financial services organizations in the country, remembers financing his logistic firm's two initial trucks with his salary. Another entrepreneur stated that she had been saving for over fifteen years to finance her property business, which she intended to establish as she approached her retirement. She ended up retiring early and relying exclusively on her savings and retirement payout. The company has expanded and is exploring new ventures to show positive investment growth. Another participant also stated that they founded their company as a group of colleagues three years before the business's launch, and they used crowdfunding to finance it. From their salaries, they contributed to the fund each month. They continued contributing each month until the businesses started making a profit.

4.2.1.2 Family-Spousal Savings

As shown in Table 4.1. 28.58% of participants reported that their family's income and savings initially funded their businesses. One participant explained,

"At the beginning, I secured a bank loan which lasted a few months. Despite trying for a top-up, my request was denied. Subsequently, I obtained equity from my recently retired dad, leading to his ownership of a portion of the company and his transition into a full-time employee."

One participant started his business in 2018 after being recently retrenched. He used family savings as the primary funding source for his business and even received equity from his spouse.

4.2.1.3 Profit Generated from the Business

Many small businesses primarily relied on reinvesting profits as their primary source of capital once they began generating a profit. Many small businesses primarily relied on reinvesting profits as their primary source of capital once they began generating a profit. Participants mentioned that by reinvesting profits into the business, they were able to keep up with the growing demands and enhanced performance with reduced reliance on external financing. When he initially launched his startup, one participant took out a substantial bank loan, using his full-time work salary as collateral. This participant remarked,

"As soon as my business started making profits, my priority was to repay that loan as quickly as possible; ever since then, we have been self-funded."

Aligning with this approach, another participant mentioned,

"We decided to reinvest our profits back into the company to continue developing it, especially without having to look for overpriced outside funding; today, we rely primarily on our own funds."

4.2.1.4 Debt-Based Internal Financing

As seen in Table 4.1, 74.29% of the sample in this study reported using personal debt to fund their businesses in their early stages. One participant mentioned consistently relying on their credit card for short-term cash emergencies. Moreover, due to their inability to qualify for personal loans, as demonstrated in Table 4.1, 8.58% of participants reported having their spouses or other family members take out loans on their behalf. Similarly, to finance the initial trucks for their company, another participant mentioned obtaining personal vehicle finance loans, with their salary being used to pay off the debt used to purchase those trucks.

4.2.2 Correlation of theme 1 to the literature.

Theme 1 supports the pecking order concept, indicating a preference for internal finance. Myers (1984) suggests internal funding is more cost-effective than external finance. Participants mentioned using internal funds initially before turning to external funding. Small business owners can operate successfully for many years without borrowing money (Mazzarol & Reboud, 2020). According to the pecking order concept, small business owners prioritize low-cost finance sources. Some entrepreneurs opt for debt financing due to limited financing options. Obtaining loans in the early stages of a small business can be challenging due to a lack of collateral.

Internal funding is often necessary due to limited resources, even if it is not always the preferred option. The trade-off theory, which aims to optimize business value through debt, offers an alternative capital structure approach. The pecking order theory may have limited applicability to small and emerging enterprises, as their financing preferences are often constrained (Grigore & Gurau, 2019).

4.3 External Sources of Financing

The study confirmed that obtaining outside funding in the very initial stages of a business was difficult. The business owners claim that getting loans and outside funding is challenging, if not impossible, for small businesses. The study discovered that small businesses would have limited access to external financial sources, and those available would be unreasonably overpriced. Winborg and Landström (2001) state that many managers of small businesses depend on their resources. Reaching resource requirements without long-term debt or equity is known as financial bootstrapping (Winborg & Landström, 2001).

Throughout the interviews, all participants came to the same conclusion: It is almost impossible for a startup to obtain outside funding in its early years. Unfortunately, those who tried to apply for bank business loans were unsuccessful, even though some remained doubtful about business loans. One participant claimed that his business banker always encouraged him to use his business bank account for business activities to increase the company's creditworthiness when he wanted to open a business account. Another participant mentioned that his business was turned down for a loan because he needed more experience in its operating sector. According to another participant,

a new firm that has obtained a government tender has a higher chance of securing bank funding than the average business owner because they can use the contract as proof of future revenue. Securing credit facilities from banks involves much administration. One participant added that even when the business finally qualifies for some credit, the banks will offer it at ridiculously high interest rates with unfavourable conditions. According to another participant, obtaining bank loans with better interest rates and terms became easier after being operational for three years or more. The study revealed that obtaining bank loans was more difficult in the early years than in subsequent years, particularly for businesses seeking lower interest rates. One business owner explained:

"So, after the first three years, I got a loan from the bank; although it was not a whole lot, it supported me with my business."

A loan agreement letter shared during the interview confirmed this.

Table 4.2 Subthemes within Theme 2

Theme	% of participants reporting the theme. (N=35)
Use of external debt.	20%
Use of SEFA business development loans.	5.72%
Use of SEDA grants	2.86%
Use of new equity	8.58%

Note: Data Collected by the author in March 2024

4.3.1 Use of External Debt and Government Grants

Throughout the study, business owners acknowledged using various external funding sources, with bank loans being the most prevalent. Most research participants expressed concern about the dilution of ownership in their businesses; hence, equity was the least used external funding option

in this study. Seven participants discussed how they balanced internal capital and bank debt funding during the initial five years of their operation.

As shown in Table 4.2, 20% of participants stated they had to seek external debt financing to survive COVID-19, which was extremely difficult for their companies. One interviewee explained:

"If it were not for the external finance we secured during that period, we would have been counted among the many businesses that had to shut down during Covid-19".

One entrepreneur stated that keeping up with their business's rapidly growing demand became challenging by their fourth year of operation.

"I had to urgently look for funding to be able to invest in the expansion of my business so that we would be able to keep up with the demand, or else somebody who had better access to funding than us would come, copy us, and then simply replace us in the market."

As depicted in Table 4.2, Only 5.72% of participants reported having access to the Small Enterprise Finance Agency (SEFA) funding. One business owner stated that the SEFA loan benefited his firm because it was significantly less expensive than bank loans. Furthermore, another entrepreneur mentioned that SEFA loans are the best alternative due to their low interest rates and lack of collateral requirements. SEFA loans are subsidized and have favourable terms to help small enterprises prosper. Both agreed that the application processes for SEFA finance were inconveniently protracted. The business owner recalled his difficulty obtaining bank financing to purchase the necessary equipment, as they refused to lend his business capital. He also stated that the SEFA provided finance to assist him in running and expanding his business, unlike large banks that refused to grant him business funding. He revealed that the finance he got from SEFA was 50% credit and 50% grant, which was highly cost-effective and convenient for his firm then.

During the first five years of operation, one applicant reported receiving business help from the Small Enterprise Development Agency (SEDA). One business owner said:

"Being a business operating in manufacturing is hard because machinery can get too expensive sometimes; SEDA bought the equipment on my behalf; equipment was then donated to my business."

4.3.2 Careful Consideration of External Debt Before Use

During discussions with the business owners, they all emphasized the importance of being cautious when seeking external financing. The consensus amongst participants was that the most cost-effective external funding source should be chosen. One entrepreneur mentioned that while considering external debt, he constantly examines the costs associated with each option and prioritizes the most cost-effective facility that offers the most convenience for the business while staying within budget. Another business owner said he has learned to negotiate the best rates with his banker over the years.

"I always shop around for a bank that has the lowest interest in the market, and after getting a quote from that bank, I take that quote to my business banker, who usually makes sure that they either match or beat that offer."

One participant shared loan offers and credit card approval letters, which he used to negotiate better deals with his bank—a strategy that has proven successful for him. Another business owner stated that while he prefers loans with extended repayment periods, he recommends repaying loans as quickly as possible.

Most business owners believe it is preferable to avoid high-interest loans. Participants identified lower interest rates and extended repayment terms as preferences for obtaining external funding. One entrepreneur emphasized the importance of considering all available options before deciding. She mentioned that she could obtain cost-effective credit from her suppliers, allowing her to avoid taking out a business loan unless it were the last resort.

Another participant stated that his company has had a business credit card for a few years and tries to use it as much as possible each month for expenses like purchasing auto parts or paying for gas, always paying the outstanding balance in full at the end of each month. He claimed that this strategy has significantly enhanced the company's credit profile. As their credit rating improved, banks regarded them as less risky, which could result in lower interest rates on future loans if needed.

One SME owner insisted on having an expert understanding of every credit facility used by the business to ensure the relevance of different facilities for various circumstances. He also mentioned

the necessity of carefully reading loan documentation and understanding the terms and conditions, including fine print details, as non-compliance can harm the credit profile and result in costly future consequences. This statement underscores the importance of financial knowledge and seeking professional guidance before taking out loans.

The study found that external finance should be sought only to expand and improve a business's operations rather than to support day-to-day expenses. One participant emphasized this point further.

"We have used loans to fund business activities we believed will result in the increase of business profitability in the future; a business cannot rely on loans to finance regular business operations; that is not sustainable."

While all the participants desired expansion, they agreed that debt acquisition should be approached cautiously, as excessive debt could harm the company. One participant stated that,

"taking up a loan to buy a new firm will result in a significant decrease in profit, as it will be used to service debt, but when that new firm becomes fully functional, profit margins will increase."

Participants agreed that external financing should be kept to a minimum because it entails a high risk, which is why entrepreneurs should be cautious when taking on debt.

4.3.3 Use of New External Equity

As presented in Table 4.2, Only 8.58% of participants examined during the study reported using equity within the first five years of operation, and all the equity sources came from close family members and friends.

4.3.4 Correlation of Theme 2 to the Literature

The second theme aligns with the pecking order theory, emphasizing the challenges faced by small enterprises. Entrepreneurs may struggle to access external funding due to knowledge asymmetry, a short credit history, or insufficient collateral. Small business entrepreneurs may face challenges to the legitimacy of the pecking order concept. Entrepreneurs without access to financing frequently rely on internal funding for their businesses.

Small business entrepreneurs are increasingly using external debt to raise money. This new concept challenges the pecking order paradigm by prioritizing different financing sources. Small businesses have limited access to debt finance due to insufficient collateral, credit history, and increased risk. In contrast to the pecking order theory, which prioritizes capital acquisition in a specified sequence, the trade-off theory focuses on obtaining the optimal debt level for maximum business value.

Theme two is also in line with the theory of financial intermediation, which maintains that banks act as a middleman between investors and capital recipients because banks must have adequate information to evaluate whether they are comfortable lending to these small enterprises. The informational asymmetry between banks and small businesses explains why banks are finding it risky to lend to small businesses. Banks become information producers when they consider small businesses for funding or enter debt contracts with SMEs. These processes allow banks to determine small business quality through screening and monitoring small businesses, thereby addressing the challenge of information apathy (Berger & Udell, 1998). Participants emphasized caution when contemplating external finance sources. A particular participant had an unpleasant encounter with a lender who they saw as unethical. Another member was afraid to pursue equity ownership in a larger company owing to concerns about losing control.

Dowling et al. (2019) contend that new equity investors exert influence over the operations of businesses they invest in. Small business owners retain ultimate control through internal funds. External equity becomes crucial for struggling businesses lacking liquidity and facing high risk of failure (Vanacker & Manigart, 2008). Small businesses, often experiencing high failure rates and limited early-stage cash flows, find equity an appealing investment option. This perspective challenges the pecking order theory, which posits equity as a last resort for supporting small businesses. The findings align with the conceptual framework advocating equity as a final option when internal funding and debt are exhausted. According to Myers and Majluf (1984), companies prioritize internal funding over debt issuance, reserving stock issuance as a last resort.

4.4 External Sources of Financing Used at Later and Critical Stages of Business

During the study, data showed that small businesses relied on internal finance during the early years of their operations. The main reasons were their inability to qualify for external debt, their

inability to afford external debt, and their need for more education on how to manage the everyday finances of their businesses to build and improve their creditworthiness. Most small business owners began seeking external financing near the end of their initial five-year term or after five years of operation. As shown in Table 4.2, Only 20% of participants could obtain external funding, such as bank loans, before the end of their first five years in operation.

Banks view new firms as risky credit clients during their early years. Consequently, small business owners must be prepared to support their operations with personal funds until they become eligible for external funding. One entrepreneur mentioned using personal funds for his business for as long as possible. He only turned to external debt when the business needed more capital than he could afford. Even then, he emphasized the importance of keeping debt to a minimum to ensure profitability, enhancing the business's eligibility for future credit.

4.4.1 External Financing is Often Used at Critical Stages of Business

Small business owners indicated that they only consider external funding a last resort in desperate situations, such as surviving difficult periods. They consider external financing only after exploring and exhausting all internal financing possibilities. One SME owner emphasized the dangers of using outside debt during the poor profitability phase, which he stated would expose the business to the possibility of functioning only to fulfil those debt commitments barely.

4.4.2 Correlation of Theme 2.1 to the Literature

The emerging issue is a lack of external financing among small business owners, particularly in the early years of operation. This conclusion implies that the pecking order hypothesis may not apply to all stages of a small business's life cycle. According to Berger and Udell (1998), ideal capital structures change throughout time. Due to the high failure rate of small businesses, banks were forced to reallocate credit from risky to safer markets during stress testing (Cortes et al., 2020). According to the findings, this situation decreases the availability of external financing for small business owners, prompting them to seek internal funding.

4.5 Reducing Business Operating Costs and Expenses

The survey revealed that one of the strategies used by the participants was to keep business operational expenditures to a minimum. Well-managed operating expenditures allowed enterprises to rely on internally restricted financing for longer before seeking external capital. According to Erdogan (2018), a company's ability to acquire bank loans is directly proportional to the duration of its relationship with the bank.

Table 4.3 Subthemes within Theme 3

Theme	% of participants reporting the theme. (N=35)
Maximize on the resources accessible to the entrepreneur.	11.43%
Avoidance of confusion of business and personal expenditure.	20%
Negotiate to minimize costs	8.58%
Comparing of suppliers to choose the cheapest one.	51.43%
Leveraging relationships	2.86%
Minimal self-paying.	25.72%

Note: Data Collected by the author in March 2024

4.5.1 Optimal utilization of available resources

One of the ways employed in the study to lower operating costs is to optimize the entrepreneur's available resources. One participant, who operates a marketing company, worked from her family's spare room for two years before considering renting office space.

"I saved a lot on operational expenses by using the space when I felt like I needed to hire more people when I decided to rent out an office."

4.5.2 Separate business and personal expenditures.

One participant remembers nearly bankrupting his young business when he used his business bank account as a regular personal debit card.

"I knew I had to stop when my expenditures were almost as high as my business expenditures, and my business banker advised that that was not showing the kind of discipline they would like to see when my business is considered for debt from the bank."

4.5.3 Negotiate

As presented in Table 4.3, 8.58% of participants stated they constantly sought to negotiate everything to save as much money as possible on operating expenses. One participant stated,

"When I first moved into the office space I am currently renting, it was already reasonably priced, but the landlord agreed to reduce the deposit by 50% and the monthly rent by 15%," remarked one participant.

Another participant, supporting the previous statement, added,

"I am always dealing with service providers, and I have learned that if you negotiate, almost all of them are always willing to meet you halfway."

4.5.4 Comparing Suppliers

When searching for suppliers, invest time comparing options and finding the right balance between price and quality. The objective should always be to obtain the highest quality at the lowest price. Cheaper materials may necessitate a compromise on quality.

4.5.5 Making the Most of Relationships

An extensive functional network is typically beneficial for entrepreneurs. One business owner even goes so far as to state that when she needs to prepare a lease agreement for a new tenant, she frequently asks her attorney friends to do it for her rather than paying for the attorney's services. They usually charge a lower fee than she would have spent on an attorney.

4.5.6 Not Paying Self

One participant stated that one of the biggest mistakes entrepreneurs make when they are just starting their businesses is paying themselves too much.

"It is normal to make such a mistake, but in entrepreneurship, the margin for errors is very slim technique."

This SME owner is among the participants who advocated for using sweat equity as much as possible in the initial years of the business. Sweat equity refers to worker-owners who support their business by allocating time and getting wages below market rates (McGrattan & Prescott, 2005).

4.5.7 Correlation of Theme 3 to the Literature

Small business owners might issue equity by distributing it to staff or not paying their salaries. This action gives the receiver ownership status rather than a monetary incentive. Employees who receive equity reinvest their salaries in exchange for a stake in the company. Equity is the most expensive funding option but does not require repayment if revenue decreases (Martinez et al., 2019).

4.6 Financial Growth Cycle of Small Business

Berger & Udell's (1998) financial growth cycle is based on the view that firm size, firm age, and information availability determine which type of finance businesses are most likely to use. The researcher aimed to study the early years of small businesses, so only the relevant cycle timeline was considered in this analysis. The findings of this study proved to be consistent with the theory of the financial growth cycle since data showed that new small businesses, possibly without any collateral and no track record, all showed heavy reliance on initial insider finance. The research showed that as businesses grew and more information about their operational capabilities and growth potential became available, they became more advantageous to access third-party finance, especially debt finance. The study also revealed that as businesses start to generate more positive cash flow and a growing amount of tangible assets that might be used as collateral, banks begin to minimize the risky status that small businesses are usually given. The sequence of funding

illustrated by the small business growth cycle supports the views of the modern information-based theory of security design and the ideas of the financial pecking order.

4.7 Correlation of Findings to the Trade Off Theory

The trade-off theory of capital structure suggests that firms aim to balance the costs and benefits of debt and equity to achieve an optimal capital structure. The theory posits that firms make financing decisions by weighing the tax advantages of debt (such as interest tax shields) against the costs of potential financial distress or bankruptcy that might arise from excessive debt levels (Kraus & Litzenberger, 1973).

In the context of small and medium-sized enterprises (SMEs), the trade-off theory can be particularly illuminating. SMEs face unique challenges and constraints, such as limited access to capital markets, higher levels of perceived risk, and lower asset bases, which can influence their capital structure decisions (Berger & Udell, 1998). The trade-off theory suggests that SMEs, like larger firms, consider both the benefits and costs associated with different financing options, but these considerations may manifest differently due to the specific characteristics and circumstances of SMEs.

4.7.1 Study Findings and the Trade Off Theory

The findings of the study indicate that SMEs often make financing decisions based on a careful consideration of the costs and benefits associated with debt and equity, reflecting the principles of the trade-off theory. Several key relationships can be drawn between the study's findings and the trade-off theory:

4.7.1.1 Limited Access to Equity Markets

The study finds that SMEs rarely opt for equity financing due to a lack of access to equity markets and the high cost of issuing equity. This is in line with the trade-off theory, which suggests that firms will opt for the type of financing that minimizes their overall cost of capital while maximizing firm value (Myers, 1984). For SMEs, issuing new equity can be more expensive and

dilutive, especially if the firm's ownership is concentrated among a few individuals or families who are reluctant to relinquish control. As a result, the preference for debt over equity, despite its costs, reflects an effort to maintain an optimal capital structure.

4.7.1.2 Impact of Information Asymmetry

The study's findings suggest that information asymmetry plays a critical role in SMEs' financing decisions. The trade-off theory is modified under conditions of information asymmetry, where managers have more information about the firm's value and prospects than external investors (Myers & Majluf, 1984). For SMEs, this asymmetry is more pronounced due to less formalized financial reporting and transparency. Consequently, the cost of issuing new equity becomes higher because potential investors demand a higher return to compensate for the perceived risk, leading SMEs to favour debt financing. However, they do so within a range that avoids excessive debt levels, aligning with the trade-off theory's emphasis on balancing the benefits and costs of financing options.

4.7.1.3 Preference for Retained Earnings

The study indicates a strong preference among SMEs for using retained earnings over external financing, which aligns partially with the trade-off theory. While the theory primarily addresses the balance between debt and equity, it also implies that firms will prioritize financing options that minimize costs. Retained earnings have no direct cost, do not dilute ownership, and do not carry the risk of financial distress, making them a favourable option for SMEs looking to maintain a balanced capital structure without incurring the additional costs associated with debt or equity issuance (Modigliani & Miller, 1963).

4.7.1.4 Dynamic Adjustment to Target Capital Structure

The study finds that SMEs tend to adjust their capital structures dynamically in response to changing market conditions and internal financial performance, which is consistent with the trade-off theory's assertion that firms have a target capital structure that they adjust toward over time (Fama & French, 2002). For SMEs, this means carefully monitoring debt levels to ensure they do

not exceed a threshold that could lead to financial distress while also not under-leveraging, which would forgo the tax benefits of debt.

The findings of the study align closely with the trade-off theory by illustrating that SMEs weigh the costs and benefits of different financing options, particularly debt and retained earnings, in a manner that seeks to optimize their capital structure. The trade-off theory provides a valuable framework for understanding these decisions, particularly in the context of the unique constraints and challenges faced by SMEs. By emphasizing the balance between the advantages of debt financing and the risks of financial distress, the study highlights how SMEs navigate their financial environments in pursuit of sustainability and growth.

4.8 Analysis of Access to External Funding in Various Industries

The access to external funding is a critical factor for the growth and sustainability of small businesses. This analysis delves into the patterns and determinants of external funding availability for small businesses across different industries, focusing on the initial five years of operation. The data provided encompasses industry participation, percentage representation, and the timeline for earliest access to external funding, revealing crucial insights into the financial dynamics of small businesses.

Table 4.4 Industry Comparison

Industry	Participants in Industry	%	Earliest Access to external funding
Marketing	2	5.71%	After 5 th year
IT and Software	2	5.71%	After 5 th year
Agriculture and Agribusiness	1	2.86%	3 rd year
Tourism and Hospitality	1	2.86%	4 th year
Health and Wellness Services	4	11.43%	After 5 th year
Manufacturing	2	5.71%	3 rd year
Transport	5	14.29%	4 th year
Electricity, Gas and Water.	3	8.57%	5 th year
Security Services	6	17.14%	After 5 th year
Construction and Real Estate	5	14.29%	3 rd year
Retail Trade	4	11.43%	After 5 th year
	35	100%	

Note: Data Collected by the author in March 2024

4.8.1 Industry Participation and External Funding

4.8.1.1 Marketing and IT & Software

As shown in table 4.4 both the marketing and IT & software sectors each have 2 participants, representing 5.71% of the total sample. These industries had access to external funding only after the fifth year. This delay in funding might be attributed to the intangible nature of their primary assets, such as intellectual property and brand equity, which are less favourable as collateral for traditional bank loans.

4.8.1.2 Agriculture and Agribusiness

Table 4.4 shows that agriculture and agribusiness have one participant, making up 2.86% of the sample. This sector accessed external funding as early as the third year. The relatively quicker access can be linked to the tangible nature of agricultural assets (e.g., land, machinery) that can be used as collateral, and perhaps also to sector-specific funding programs and subsidies.

4.8.1.3 Tourism and Hospitality

The tourism and hospitality sector, with one participant 2.86%, managed to secure external funding by the fourth year. This industry often deals with substantial capital investments in property and infrastructure, which can serve as collateral, explaining the relatively earlier access to funding compared to more intangible asset-heavy industries.

4.8.1.4 Health and Wellness Services

As demonstrated in table in 4.4, health and wellness services, comprising 4 participants (11.43%), also only accessed external funding after the fifth year. This may be due to the sector's reliance on service-based revenue models, where tangible assets for collateral are less prevalent, and the higher regulatory requirements that may delay funding approval.

4.8.1.5 Manufacturing

As presented in Table 4.4 manufacturing, with 2 participants (5.71%), accessed external funding by the third year. The manufacturing industry is asset-intensive, with machinery and equipment that can be used as collateral, providing a significant advantage in securing early external funding.

4.8.1.6 Transport

The transport sector includes 5 participants (14.29%), with access to funding by the fourth year. Similar to manufacturing, the transport industry benefits from substantial tangible assets such as vehicles and infrastructure, making it easier to secure loans.

4.8.1.7 Electricity, Gas, and Water

The utilities sector, with 3 participants (8.57%), gained access to external funding by the fifth year. The capital-intensive nature of this industry, requiring significant infrastructure investments, might explain the relatively longer wait to secure external funding, despite the tangible asset base.

4.8.1.8 Security Services

Security services, the largest group with 6 participants (17.14%), accessed external funding only after the fifth year. This sector might face challenges due to its reliance on human capital over tangible assets, which are less favourable for collateral.

4.8.1.9 Construction and Real Estate

Construction and real estate, comprising 5 participants (14.29%), had access to external funding by the third year. This industry heavily relies on physical assets, such as property and machinery, making it more attractive for lenders seeking collateral.

4.8.1.10 Retail Trade

Retail trade, with 4 participants (11.43%), only accessed external funding after the fifth year. Despite having some tangible assets like inventory, the retail sector might be seen as riskier due to fluctuating market conditions and profit margins.

4.8.2 Factors Influencing Access to External Funding

4.8.2.1 Tangible Assets and Collateral

The analysis indicated a clear advantage for industries with substantial tangible assets, such as manufacturing, construction, and transport. These assets can be pledged as collateral, reducing the lender's risk, and facilitating earlier access to funding.

4.8.2.2 Financial Literacy and Resource Management

The case of the manufacturing participant highlights the importance of financial literacy and efficient resource management. Businesses that demonstrate strong financial management practices are more likely to gain lender confidence, irrespective of the industry.

4.8.2.3 Industry-specific Risks and Regulatory Environment

Different industries face varying levels of risk and regulatory hurdles, impacting their ability to secure funding. For instance, health and wellness services may encounter stringent regulations, while agriculture might benefit from sector-specific support programs.

Access to external funding is influenced by a combination of industry-specific factors, asset tangibility, and financial management capabilities. Industries with substantial physical assets tend to secure funding earlier due to the collateral they provide, while sectors with intangible assets or higher regulatory burdens face delays. Improving financial literacy and management practices can enhance funding opportunities across all industries. This analysis underscores the need for tailored financial strategies and support mechanisms to address the unique challenges faced by different sectors, ensuring a more equitable distribution of funding opportunities for SMEs.

4.9 Summary

The findings of this study provide a comprehensive understanding of the financing methods utilized by small business owners, particularly during the initial five years of operation. The results indicate a strong preference for internal financing, underscored by the widespread use of personal savings and other personal income sources to sustain business activities. This reliance on internal finance is largely driven by its accessibility, cost-effectiveness, and the absence of interest rates and administrative burdens typically associated with external funding.

The study revealed that all participants utilized personal funds at some point during their first five years in business. Bootstrapping methods were prevalent, with personal debt being a common strategy. A substantial 74.29% of participants resorted to personal debt, including credit card usage and loans taken out by family members on their behalf. Once businesses began generating profit, many small business owners reinvested these profits back into their operations. This approach allowed them to meet growing demands and improve performance without increasing reliance on external financing. Reinvesting profits became a critical strategy for sustaining and expanding their businesses while minimizing the risks associated with external debt.

The study confirmed that obtaining external funding in the early stages of a business is notably difficult. Participants consistently reported challenges in securing bank loans and other forms of external financing, often finding such options prohibitively expensive or unattainable. The scepticism towards business loans was prevalent, with some participants doubting their feasibility and others being outright unsuccessful in their applications. Business owners expressed concerns about the dilution of ownership, leading to minimal use of external equity, with only 8.58% utilizing equity from close family and friends.

Despite the challenges, external debt was sometimes necessary for survival, particularly during crises like COVID-19, with 20% of participants seeking such financing. However, the balance between internal capital and external bank debt was crucial, and seven participants discussed their strategies in managing this balance during their early operational years. The reluctance to dilute ownership and the high costs associated with external debt made internal funding methods more appealing to the majority of participants.

A critical strategy for prolonging reliance on internal financing was minimizing business operating costs. By effectively managing operational expenditures, businesses could extend the period before needing to seek external capital, thus maintaining greater control over their financial resources.

The study also highlighted the variability in access to external funding across different industries. The analysis indicated that the ability to secure external financing is crucial for the growth and sustainability of SMEs, with significant differences observed in the availability and timing of such funding across various sectors. This variability underscores the importance of industry-specific strategies and support mechanisms to facilitate better access to external financial resources.

In conclusion, the study underlines the critical role of internal financing in the early stages of small business operations. The reliance on personal funds, family-spousal savings, and reinvested profits reflects the need for accessible and low-cost funding options for entrepreneurs. The challenges associated with securing external financing, coupled with the preference to avoid ownership dilution, further emphasize the importance of internal funding. Effective cost management strategies also play a significant role in sustaining businesses through their formative years. Future research could explore targeted support mechanisms to enhance access to external funding, particularly in industries where such access is limited, to foster the growth and sustainability of small businesses.

Chapter 5: Recommendations and Conclusion

5.1 Introduction

This chapter presents a comprehensive review of the study's objectives, an analysis of the findings, and recommendations for future research. This chapter will also provide recommendations for future research, suggesting avenues such as industry-specific studies and expanding the geographical scope to include more diverse contexts. Additionally, it highlights the importance of addressing the knowledge gap regarding alternative sources of capital, such as angel investors, private equity, and venture capital, and the need for government programs to educate SME owners about these options.

5.2 Review of Objectives

The primary aim of this study was to explore the funding strategies utilized by small business owners in the eThekweni Municipality, KwaZulu-Natal, who have sustained profitable operations for over five years. The study examined how these owners accessed sufficient capital to maintain their businesses, why they chose specific financing strategies, and how these strategies supported long-term sustainability and success. Emphasizing the pecking order theory and trade-off theory, the research also briefly considered the theory of financial intermediation and market timing theory. Key objectives included determining the specific financing methods used by successful small business owners in eThekweni, understanding their rationale for these choices, and evaluating the effectiveness of these strategies in ensuring business longevity and profitability.

As compared to the aim and objectives of the study, this study was a success since it managed to identify key funding strategies for small businesses to sustain operations beyond the first five years, emphasizing the importance of internal financing, prudent use of external debt, and effective cost management. By leveraging personal and family resources, negotiating effectively, and reinvesting profits, small business owners can navigate the financial challenges of the early years and build a foundation for future growth.

5.3 Executive Summary

This study sought to identify small business funding strategies that sustain successful operations beyond the first five years. Through qualitative research and a multiple case study design, insights were gathered from 35 small business owners, unveiling the crucial role of internal and external financing and cost reduction strategies in early-stage business sustainability.

5.3.1 Internal Financing

Internal sources of financing emerged as the most prevalent and preferred method among participants. Personal savings, reinvestment of business profits, family savings, and personal debt were the primary internal funding sources. This reliance is largely due to the accessibility, low cost, and minimal risk associated with internal funds. Entrepreneurs often resorted to bootstrapping techniques, such as using personal funds and leveraging family resources, to finance their businesses and minimize the need for external debt or equity. This approach aligns with the pecking order theory, which suggests a preference for internal over external financing due to its lower cost and reduced administrative burden.

5.3.2 External Financing

The study revealed significant challenges in obtaining external funding during the early years of business operation. Participants reported difficulty securing bank loans and other external debt due to stringent requirements, high-interest rates, and insufficient collateral. As a result, the more asset intense operations, managed to obtain external funding faster. Despite these obstacles, a minority of participants utilized external debt and government grants, particularly during critical stages such as the COVID-19 pandemic. The cautious approach to external financing reflects the need to balance growth aspirations with financial sustainability, as excessive debt can jeopardize long-term viability.

5.3.3 Cost Reduction Strategies

Effective cost management emerged as a vital strategy for sustaining small businesses. Participants employed various methods to minimize operating expenses, including optimal utilization of available resources, separating business, and personal expenditures, negotiating with suppliers,

and leveraging personal relationships. These practices allowed businesses to extend the use of internal financing and delay the need for external funding. The emphasis on cost reduction underscores the importance of financial discipline and strategic resource management in the early stages of business development.

5.3.4 Theoretical Correlations

The findings of this study support the pecking order theory and the theory of financial intermediation, highlighting the preference for internal financing and the challenges associated with external funding. The financial growth cycle theory is also corroborated, as small businesses initially rely heavily on insider finance and gradually transition to external sources as they mature and establish a credit history.

In conclusion, the study provides valuable insights into the funding strategies of small businesses during their formative years. The heavy reliance on internal financing, combined with strategic cost management, is critical for sustaining operations and achieving growth. While external financing remains challenging, careful consideration and judicious use of such funds can support business expansion and resilience. These findings offer practical guidance for small business owners and contribute to the broader understanding of small business finance.

5.4 Recommendations for Future Research

This study, which aimed to examine funding strategies implemented by small businesses to sustain business operations beyond the initial 5-year mark, makes the following recommendations for future research:

- Industry-specific study: There is an opportunity to further the research by concentrating on SMEs operating in specific industries and contexts to develop industry-specific research findings.
- Expanding geographical context: This study concentrated its focus on the eThekweni Municipality context, which left an opportunity for future studies to widen their geographical contexts while studying the same phenomenon, for instance, increasing the number of participants and expanding the targeted population of the study to all small businesses in the province of KZN.

- The study also presented opportunities for similar study in other cities outside the province.
- The interviews with the sample of SMEs revealed a knowledge gap regarding alternative sources of capital, such as angel investors, private equity, and venture capital. This gap presents an opportunity for government programs to educate small business owners about these funding options.

5.5 Conclusion

In conclusion, this study delved into the critical aspect of funding strategies employed by small business owners to sustain their operations beyond the pivotal initial five-year period. Through a qualitative research approach and a multiple case study design involving 35 small business owners, the research uncovered valuable insights into the diverse financing options utilized by entrepreneurs and the challenges they encounter in accessing external funding sources.

The findings revealed that internal financing, predominantly through personal savings, income, and assets, emerged as the most preferred and accessible method among participants during the initial years of their businesses. Factors such as limited access to external financing, high costs associated with external debt, and the desire to maintain control over business operations drove this reliance on internal funds. Moreover, the study highlighted the significance of careful consideration and negotiation when exploring external financing options. Participants emphasized the importance of minimizing operating costs, negotiating with suppliers, and separating personal and business expenditures to optimize financial resources. The research also underscored the evolution of funding patterns over the business growth cycle, with small businesses gradually transitioning from heavy reliance on internal financing to accessing external funding as they matured and demonstrated financial stability.

Many researchers in different studies have widely mentioned the importance of small businesses in the economy. The high failure rate of small businesses has a substantial adverse effect on economic growth, especially in developing economies. The study aimed to reveal funding patterns and strategies used by entrepreneurs who have managed to sustain their businesses for over five years. The study highlighted different strategies used within the initial five years. Overall, it contributes valuable insights to the literature on small business financing strategies, providing practical recommendations for entrepreneurs and policymakers alike.

Future research opportunities include industry-specific studies and expanding the geographical scope to understand funding dynamics across diverse contexts better. By addressing these avenues, scholars can further enrich our understanding of small business financing and contribute to developing effective support mechanisms for sustainable business growth.

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Appendices

Appendix 1 Interview Questions

Source: Iyanda (2021)

- What strategies did you implement to secure the necessary capital to sustain your business operations and maintain profitability during the first five years?
- What sources of funding are you currently using to finance your business?
- How and why have you utilised various capital sources in the past and present to achieve your business's optimal capital structure?
- To what extent have you used internal financing, external debt, or new equity to sustain profitable operations beyond the first five years?
- What financing sources have you employed at different risk and profitability levels?
- If you have used external financing and new equity to fund your operations, how did you go about it?
- Based on your experience, how has using third-party financing, such as external debt or equity, affected your business's sustainability and profitability?
- What additional insights can you share about the financing strategies you implemented to sustain your business during the first five years?
- Can you share an instance where a financing strategy was implemented but either turned out to be a disaster or not as beneficial as anticipated?

Appendix 2

Information Sheet and Consent to Participate in Research

Date: 31 July 2023

Dear Participant,

My name is, Nkanyiso Thandizwe Ngcobo, a Master student in the School of Accounting, Economics and Finance. I am collecting data as part of my Research project titled: **Financing Strategies for Small Business Sustainability in eThekweni Municipality**. The study will be conducted under the supervision of Ms. Vanessa Gregory. I am writing to request your participation.

The study will assist business owners of new SMEs in our context of Durban, with strategic ideas on how to secure financing during the initial stages of their businesses. The study will also suggest to these entrepreneurs, optimal capital structures for infant SMEs during the initial 5 years of their operation. The study will also attempt to educate entrepreneurs on other creative financing alternatives they can employ in their businesses. It is also the aim of the researcher to try and give government support structures that are set up for SME development in the Durban context an up-to-date list of financial challenges faced by young SMEs and recommended solutions based on the findings of the study. It will furthermore form part of an empirical study in fulfilment of a master's degree (M. Com) in finance.

Participation in this study is voluntary. As a participant, you may withdraw from the research at any time without negative consequences. Participating in this study does not require any form of payment or incentives. In general, responses will be treated in a confidential manner. As a participant, you will be treated with respect and dignity.

The findings of the research project will be disseminated based on the university disclosure guidelines and guidance from the necessary school authorities.

Furthermore, a copy of the finished thesis will be available at the university's main library for general access by students.

Thank You for your time.

Your willingness to participate in this study will greatly be appreciated.

In the event of any problems or concerns/questions you may contact the researcher on:

Cell: 0748332851 /

214570980@stu.ukzn.ac.za

Or Supervisor:

Ms. Vanessa Gregory:

Gregoryv@ukzn.ac.za

CONSENT FORM

I (Full name of participant)
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 3



05 December 2023

Nkanyiso Thandizwe Ngcobo (214570980)
School Of Acc Economics & Fin
Westville Campus

Dear NT Ngcobo,

Protocol reference number: HSSREC/00006127/2023

Project title: Funding strategies for small business sustainability in eThekweni Municipality

Degree: Masters

Approval Notification – Expedited Application

This letter serves to notify you that your application received on 04 September 2023 in connection with the above, was reviewed by the Humanities and Social Sciences Research Ethics Committee (HSSREC) and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the 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.

This approval is valid until 05 December 2024.

To ensure uninterrupted approval of this study beyond the approval expiry date, a progress report must be submitted to the Research Office on the appropriate form 2 - 3 months before the expiry date. A close-out report to be submitted when study is finished.

HSSREC is registered with the South African National Health Research Ethics Council (REC-040414-040).

Yours sincerely,



Professor Dipane Hlalele (Chair)

/dd

Humanities and Social Sciences Research Ethics Committee

Postal Address: Private Bag X54001, Durban, 4000, South Africa

Telephone: +27 (0)31 260 8350/4557/3587 Email: hssrec@ukzn.ac.za Website: <http://research.ukzn.ac.za/Research-Ethics>

Founding Campuses: ■ Edgewood ■ Howard College ■ Medical School ■ Pietermaritzburg ■ Westville

INSPIRING GREATNESS

Appendix 4

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