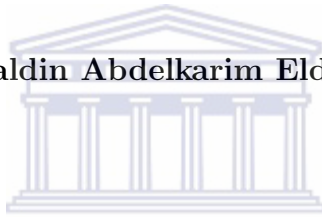# THE MODERATING EFFECT OF MICROFINANCE ON THE FINANCIAL CONSTRAINTS TO SMME GROWTH IN SOUTH AFRICA

UNIVERSITY *of the* **WESTERN CAPE**

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A thesis submitted in fulfillment of the requirements for the Degree of Philosophiae Doctor in the School of Business and Finance, University of the Western Cape

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Declaration of Authorship

I, the undersigned, Nasraldin A. E. Omer, hereby declare that the, Financial Constraints to SMME Growth in South Africa: Investigating the Moderating Effect of Microfinance, is my own original work and that it has not been submitted before for any degree or examination in any other university and that all the resources I have used or quoted have been indicated and acknowledged as complete references.

Nasraldin A. E. Omer, January 2016

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Signature

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Acknowledgments

Abstract

Small, Medium and Micro Enterprises (SMMEs) play a significant role in an economy. Thus, governments all over the world concentrate on the development of the small business sector to endorse economic growth. SMMEs are a large contributor to the creation of job opportunities, improvement of the economy, and promote the effective use of regional resources which leads to the engineering of economic development and growth. SMMEs are an important source of jobs, entrepreneurial spirit and innovation and are thus vital to promoting competitiveness. However, despite the noted contribution of SMMEs, in many countries they face serious constraints, often resulting in failure. The constraints and economic environment have significant and unequal effects on SMMEs in different industries and in different locations. Constraints have been used, amongst other growth factors, to understand why some SMMEs fail to grow.

This study lays the foundation for understanding the concept of SMME growth. SMME growth was examined in detail, and found to be heterogeneous in nature. The variation in measures used in SMME growth studies, the variation in growth indicators, the variation in the measurement of growth over time, and the variation in the characteristics of the SMMEs are all important features of SMME growth as a phenomenon. SMME growth models were examined to further understand why some firms survive and grow, and others fail. The models examined the problems SMMEs experience at different stages of growth, and the actions to be taken to overcome them as they progress from one stage to the next. Four growth models identified in the literature is discussed: stochastic models of firm growth, the resource-based view of firm growth, the motivation view on organizational growth, and the life cycle view of firm growth. The study then discussed the concept of constraints to growth, and conducted a literature review on the effect of some factors that act as constraints to SMME growth. It was concluded that constraints have a negative effect on SMME growth.

The study also discussed various theoretical models on the financing of firms, starting with the traditional concept of the financial behaviour of firms. The relevancy of trade-off theory, agency theory, and the pecking order theory to SMME finance and capital structure is also examined. The theories explain the financial behaviour of enterprises, taking into account their different characteristics and problems. It is suggested by the theories that internal sources of finance such as equity, retained earnings, and venture capitalists represent the cheapest

and best source of SMMEs capital structure.

The study applied a quantitative research survey. The approach enabled the determination of the factors acting as constraints to SMME growth, and examination of how SMMEs could overcome these constraints to survive and grow. The approach chosen aims at investigating the moderating effect of microfinance on the relationship between financial constraints and SMME growth. The primary aim of this study was to explore and investigate the factors acting as constraints to SMME growth. The study investigated the effect of nine types of constraints on SMME growth namely: lack of access to finance, lack of skilled employees, competition, corruption, lack of professional financial advisors, lack of clear business plan, government rules and regulations, lack of awareness of financial services and assistance, and lack of government support. The study also empirically examined the moderating effect of microfinance on overcoming, avoiding or mitigating the financial constraints to SMME growth in South Africa, particularly in the province of the Western Cape. In order to assess the aim of the study, five secondary objectives were developed. The objectives were subdivided into seven hypotheses.

The study found evidence that the lack of skilled employees, competition, corruption, lack of awareness of financial services and assistance, lack of professional financial advisors and lack of access to finance were significant constraints to SMME growth in South Africa. An important contribution this study makes is that microfinance provides a way to overcome or mitigate financial constraints for SMMEs. The negative effect of a lack of professional financial advisors and the lack of access to finance is reduced when SMMEs make use of microfinance source. As such this is an important finding that adds to existing studies on the role of constraints as well as to the literature on entrepreneurship in developing economies. However, contrary to the study hypothesis, microfinance does not moderate the relationship between the lack of awareness of financial services and assistance, and SMME growth. This can be attributed to the important role that has to be played by the microfinance institutions (MFI) and government agencies in ensuring that procedures are simple, financial products are demand-driven, and clear and brief financial information is provided.

These results imply that microfinance can play a positive role in SMME growth particularly for SMMEs that experience financial constraints. The study also suggests that MFIs and government agencies should provide more information to the public in particular to SMMEs. This study is not without its limita-

tions. Firstly, the study is based on the province of the Western Cape, of South Africa. In a South African context, with its two tiered economy, the Western Cape is perceived to be a "developed" economy as opposed to other developing African countries. Further studies can be conducted in other countries or can include samples from other provinces to compare the results. Secondly, as this study provides only a measurement at one moment in time, we are not able to establish causal and longitudinal effects. However, the sample size of this study is favourable in comparison to other recent studies, and thus provides extended validity. Future studies that apply longitudinal designs are needed to establish the causality of the relationships found in this study.

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Acronyms

B-BBEE Broad-Based Black Economic Empowerment

BBBEEA Broad Based Black Economic Empowerment Act

BEE Black Economic Empowerment

CATI Computer-Assisted Telephone Interview

CPPP Community Public Private Partnership Programme

DBL Double Bottom Line

DED Department of Economic Development

DFIs Development Finance Institutions

DTI Department of Trade and Industry

EBIT Earnings before Interest and Taxes

EICs Enterprise Information Centres

FSCs Financial Services Cooperatives

GDP Gross Domestic Product

GEM Global Entrepreneurship Monitor

GNU Government of National Unity

GPPSPR Green Paper on Public Sector Procurement Reform

HDIs Historically Disadvantaged Individuals

IDC Industrial Development Corporation

IPAP Industrial Policy Action Plan

JSE Johannesburg Stock Exchange

LFS   Labour Force Survey

MAFISA Micro-Agricultural Financial Institute Of South Africa

MFIs   Microfinance Institutions

MFRC   Microfinance Regulatory Council

NAMAC   National Manufacturing Advisory Centre

NEF   National Empowerment Fund

NGOs   Non-Governmental Organizations

NSBA   National Small Business Act

NSBAC National Small Business Advisory Council

NSDPSB National Strategy for the Development and Promotion of Small Business

NYDA   National Youth Development Agency

PPPFA   Preferential Procurement Policy Framework Act

RDP   Reconstruction and Development Program

RFI   Funding For Retail Financial Institutions

RPPR   Revised Preferential Procurement Regulations

SAMAF   South Africa Microfinance Apex Fund

SBA   Small Business Administration

SDA   Skills Development Act

SEDA   Small Enterprise Development Agency

SEFA   Small Enterprise Finance Agency

SMMEs Small, Medium and Micro Enterprises

STP   SEDA Technology Programme

TPP   Ten Point Plan on Procurement Reform

VAT   Value Added Tax

VIF   Variance Inflation Factor
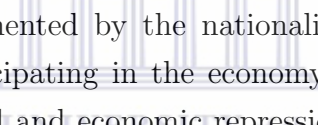
WPNSDPSB White Paper on National Strategy for the Development and
Promotion of Small

Chapter 1

Introduction and background to the study

1.1 Introduction

Apartheid polices implemented by the nationalist party governmentexcluded many citizens from participating in the economy on the basis of race (Peters 2010). This form of social and economic repression led to the expropriation of Black property under the Natives Land Act, 1913 (subsequently renamed Bantu Land Act of 1913 and Black Land Act of 1913) (Act No. 27 of 1913).

The Act limited land ownership by Black people to 7% of the land area of South Africa and created a system of land tenure that deprived the majority of South Africa's Black people of the right to own land, which had many socio-economic repercussions. This left the majority of Black people with a lack of skills, and a lack of access to resources. Therefore, also leading to the empowerment of the White race over other races (Hoskinson 2008; Richards 2006).

It is in light of this that the South African government, the private sector and non-profit organisations formulated plans to create an enabling environment by using the Small, Medium and Micro enterprises (SMME) sector to achieve this desired outcome. Various policy frameworks incorporating interventionist methods, such as Black Economic Empowerment (BEE) and an array of various sector charters have been adopted by the government. The post-apartheid South African government has given SMMEs an important focus to address the challenges of job creation, economic growth and equity.

SMMEs are increasingly seen as playing an important role in the economies of many countries. Thus, governments throughout the world focus on the development of the SMME sector to promote economic growth. South Africa suffers from high unemployment with an official estimate of approximately 24.5% of the economically active population unemployed (Statistics South Africa (SSA) 2012). One of the best ways to address unemployment is to leverage the employment creation potential of SMMEs, and to promote business development (FinMark Trust 2008). In South Africa, SMMEs contribute 56% of private sector employment (Olawale and Garwe 2010). In both developing and developed countries, SMMEs play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth (Jassiem, Damane, Dlamini, Swartz, Bortaar, Mabuthile, Mahote and Bruwer 2012; Mahembe, Chiumya and Mbewe 2011; Ogujiuba, Ohuche and Adenuga 2004).

SMMEs are an essential source of jobs, entrepreneurial spirit and innovation, and are thus crucial for fostering competitiveness (Temtime and Pansiri 2004; Wong, Ho and Autio 2005). The South African economy is characterised by a low growth rate, high inflation and high rate of unemployment (Fatoki 2011). SMMEs employ half of the working population and contribute 50% to the gross domestic product (GDP) of South Africa (Gimede 2004; Mutezo 2005; Rogerson 2008).

1.2 SMMEs definition

The importance of SMMEs in contributing to economic development in different countries has been recognized. However, there is no single definition of what constitutes SMMEs, which is accepted by all countries (Carter and Jones-Evans 2000). SMMEs are defined differently by countries and within sectors. Definitions differ in the ways they employ and also in the underlying basis used for classification. Hence, SMMEs cover a wide range of definitions and measures, varying from country to country and between the sources reporting the SMME statistics (Ayyagari, Beck and Demirguc-Kunt 2007). Some of these definitions are based on quantitative measures such as staffing levels, turnover or assets, while others employ a qualitative approach.

1.2.1 International perspective

Meredith (1994) suggests that any description or definition must include a quantitative component that takes into account staff levels, turnover, assets together with financial and non-financial measurements, and this description must also include a qualitative component that reflects how the business is organised and how it operates. From a governmental standpoint, depending on the country being considered, there are a variety of SMME definitions,. For example, in the late 1960's the Australian Federal Government commissioned a report from a committee known as the Wiltshire Committee.

> The report suggested the following flexible definition of any SMME: "Small business is one in which one or two persons are required to make all of the critical decisions (such as finance, accounting, personnel, inventory, production, servicing, marketing and selling decisions) without the aid of internal (employed) specialists and with owners only having specific knowledge in one or two functional areas of management" (Meredith 1994).

The Wiltshire committee concluded that normally this definition could be expected to apply to the majority of enterprises in Australia with fewer than 100 employees. The United States based its definition on the position of the organisation within the overall market place. According to the United States Small Business Administration (SBA) which is based on section three of the Small Business Act of 1953; "an SMME shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation". However, the act also states that in determining what constitutes a SMME, the definition will vary to reflect industry differences accurately. For example, in manufacturing and mining industries, a SMME is one with 500 or fewer employees and $7 million in average annual receipts. In wholesale trade, a SMME is the one which has 100 or fewer employees (Tundui 2012). By comparison, the United Kingdom took a more quantitative approach, the UK, sections 382 and 465 of the Companies Act 2006 define a SMME for the purpose of accounting requirements. According to this, " a small company is one that has a turnover of not more than ÂŁ6.5 million, a balance sheet total of not more than ÂŁ3.26 million and not more than 50 employees. A medium-sized company has a turnover of not more than ÂŁ25.9 million, a balance sheet total of not more than ÂŁ12.9 million and not more than 250 employees". Following this, many studies have based their model on this definition (Bolton 1971; Bradbard, Norris and Kahai

1990; Chen 1993).

The European Commission defines SMMEs as:

> "A micro enterprise is a business with up to 10 employees; a micro-
> or small-sized enterprise has up to 50 employees, and a medium
> enterprise has fewer than or equal to 250 employees" (Tundui 2012).

In Canada, Industry Canada uses the term small and medium enterprise (SMME) to refer to businesses with fewer than 500 employees, classifying firms with 500 or more employees as large businesses. Breaking down the SMME definition, Canadian industry defines a SMME as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs, but fewer than 500 employees is classified as medium- sized (Tundui 2012).

1.2.2   African perspective

The development of the SMME varies greatly throughout Africa. SMMEs are booming in South Africa, Mauritius and North Africa. Elsewhere, the development of SMMEs has been delayed by political instability or strong dependence on a few raw materials (Kauffmann 2005).

Africa's private sector consists of mostly informal microenterprises, operating alongside large firms. Most companies are very small because of legal and financial obstacles to capital accumulation. SMMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include: cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes (Kauffmann 2005).

Many firms stay small and informal, and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings so they can be more flexible in uncertain business conditions (Kauffmann 2005). Some countries have working definitions of SMMEs. However, the definitions of SMMEs in African countries are as follows:

(A) In Algeria, the National Office of Statistics (NOS) defines SMME as an enterprise employing one to 250 people with a turnover not exceeding 2

million Dinars, which is equivalent to $24,571 or with a total annual balance sheet not exceeding 500 million Dinars, which is equivalent to $60.2 million, and which respects the criteria of independence (United Nations 2008)

(B) In Ethiopia, an official definition of small manufacturing enterprises was provided primarily by proclamation number 124/1977. The proclamation defined small manufacturing enterprises as, "manufacturing activities that uses motive, power and machines with a capital of not more than ETB 200,000, which is equivalent to $10,534 and which have a fixed asset excluding land and building" Agaje (2004).

(C) In Libya, as defined by General People's Committee, SMMEs are considered to be enterprises employing fewer than 50 people and having invested fewer than 2 million Libyan Dinars, the equivalent to $1.6 million (United Nations 2008).

(D) In Kenya, Micro, small and medium enterprises (MSMEs) Act classifies enterprises primarily by the number of employees engaged by firms (Migiro 2005).

(E) In Morocco, based on General Confederation of Enterprises of Morocco (CGEM) definition, SMMEs are enterprises that adhere to the following conditions (United Nations 2008):

  (a) managed and/or administered by the owners, co-owners or shareholders,

  (b) with a permanent staff not exceeding 200 people

  (c) annual turnover not exceeding 75 million Moroccan Dirhams, which is equivalent to $9 million or annual balance sheet not exceeding 50 million Dirhams, which is equivalent to $6 million over the last two fiscal years

As per table 1.1 and the above review, appear that the definition of SMMEs differ from one country to another. Some refer to the criterion of number of employees; some refer to turnover, while others refer to both. Most of these definitions are centered on the number of employees as an indicator in defining SMME. Thus, it is can be concluded that number of employees is the most relevant factor to define SMMEs.

Table 1.1: SMMEs definition

Perspectives	Country	Definition body	Underlying variables
International perspective	Australia	Australian Federal Government, The Wiltshire committee	Number of persons who make the critical decisions
	United States	United States Small Business Administration (SBA)	independently owned and operated
			Number of employees
	United Kingdom	Companies Act 2006	Turnover
			Number of employees
	European Union	The European Commission	Number of employees
	Canada	Industry Canada	Number of employees
African perspective	Algeria	National Office of Statistics (NOS)	Turnover
			Number of employees
	Ethiopia	Proclamation number 124/1977	Capital used
	Libya	General People's Committee	Number of employees
			Capital used
	Kenya	Micro, small and medium enterprises (MSMEs) Act	Number of employees
	Morocco	General Confederation of Enterprises of Morocco (CGEM)	Number of employees
			Turnover

1.2.3 SMMEs in South Africa

In South Africa, SMMEs constitute a business categorisation based on the size, number of employees, and to a lesser extent on the annual revenues. A SMME in South Africa must meet the qualitative and quantitative definitions of a SMME as prescribed by the National SMME Act. The South African National Small Business Act, (Act 102 of 1996, as amended in 2003 and 2004), describes a SMME as,

> "A separate and distinct entity including cooperative enterprises and non-governmental organizations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and can be classified as a SMME by satisfying the criteria mentioned in the schedule of size standards" (The South African National Small Business Act (NSBA) 1996).

The Act classifies SMMEs into five categories. Each is discussed in the white paper on national strategy for the development and promotion of small business in South Africa, which was published by the Department of Trade and Industry (DTI) (1995):

1.2.3.1 Survivalist enterprises

These are enterprises that have generated income that is generally less than the minimum income standard or poverty line. There are generally no paid employees. The business asset value is minimal and the economic activity is mainly directed at providing the minimal means to keep the business owner alive.

1.2.3.2 Micro enterprises

These are enterprises that lie between the survivalist, and the small enterprises. They are identified by several characteristics. Micro enterprises generate an annual turnover that is less than the VAT (Value Added Tax) registration limit of R250,000 per annum. They usually do not have to abide by formal tax registration, may not adhere to labour legislation and standard accounting procedures, and usually have fewer than five employees. They include spaza shops, cafas, home-based businesses, mini-taxis, small-scale construction, and textile manufacturing. The defining line between the smallest micro enterprises and the survivalist enterprises is, however, often blurred.

1.2.3.3 Very small enterprises

This is a category unique to South Africa, and refers to businesses employing fewer than 10 persons, except for the mining, electricity, manufacturing, and construction sectors where the number of employees is limited to 20. These enterprises operate in the formal economy, are VAT-registered and have access to limited technology in business operations.

1.2.3.4 Small enterprises

These enterprises are distinguished from very small enterprises by the upper limit on employee size of 50. Such enterprises use more established business practices, and supervision and management structures are more complex. They would have usually passed the stage of direct supervision by the entrepreneur, and would have developed secondary management systems. They usually require an accumulation of resources over time and access to credit.

Table 1.2: Classification of SMMES in South Africa

Sector or subsector	Size	Total employees	Turnover	Total asset
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, AccommodaÂtion and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Source: Adapted from National Small Business Act of 2003, No. 26 of 2003

1.2.3.5 Medium enterprises

Medium enterprises are formal entities with more complex divisions of labour and management structures. They employ up to 100 persons (200 in the mining, electricity manufacturing, and construction sectors (NSBA 1996).

The National Small Business Act of 2003, (Act No. 26 of 2003) aims to update and further define business according to the five categories established by the original act, namely, standard industrial sector and subsector classification, size of class, equivalent of paid employees, turnover, and asset value excluding fixed property. The Act's definitions of the different categories of business may be summarised as set out in Table 1.2 on page 8.

SMMEs have drawn significant interest in South Africa, a fundamental justification for which SMMEs are seen as a solution to many socio-economic ills confronting the country. Indeed, SMMEs play an important role in the economy. For instance, the SMME sector makes up more than 95% of the total of enterprises in the country (GDP) (Peters 2010).

1.3 Characteristics of SMMEs

It is widely acknowledged that SMMEs are different from large businesses. The nature of SMMEs affects the way they operate (Gunaratne 2008). SMMEs have certain common characteristics, some of which are briefly discussed below and shown in figure 1.1 on page 10 were cited by Manjunath (2010):

1.3.1 Born out of individual initiatives and skills

SMME startups tend to grow along a single entrepreneur or a small group of entrepreneurs; in many cases leveraging on a skill set. There are other SMMEs being set up purely as a means of earning livelihood. These include many trading and retail establishments while most developed countries compare SMMEs to manufacturing services. Others adopt a broader definition and include retailing as well.

1.3.2   Greater operational flexibility

The direct involvement of owners/ managers, coupled with flat hierarchical structures and fewer people ensure that there is greater operational flexibility. Decision making such as changes in price mix or product mix in response to market conditions is faster.

1.3.3   Low cost of production

SMMEs have lower overheads. This translates to lower cost of production, at least up to limited volumes.

1.3.4   High propensity to adopt technology

Traditionally SMMEs have shown a propensity of being able to adopt and internalize the technology being used by them.

1.3.5   High capacity to innovate export

SMMEs skill in innovation, improvisation and reverse engineering are legendary. By being able to meet niche requirements, they are also able to capture export markets where volumes are not huge.
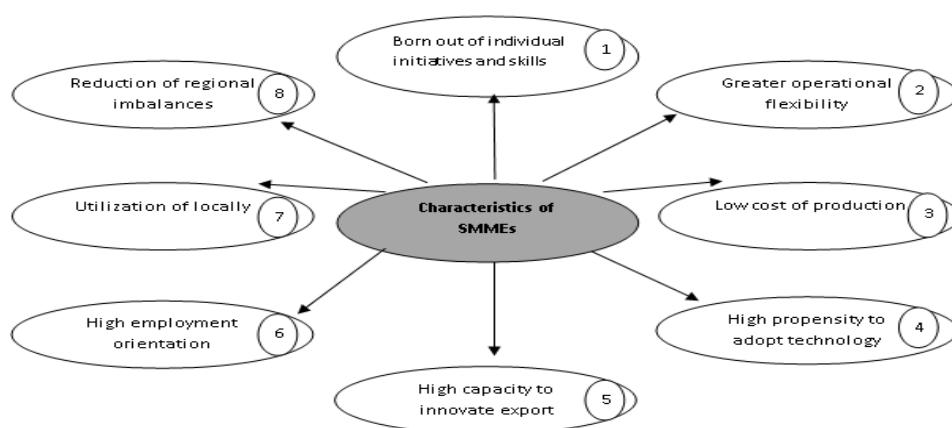
Figure 1.1: Characteristics of SMMEs

1.3.6   High employment orientation

SMMEs are usually the prime drives of jobs. SMMEs tend to be labor intensive per se and are able to generate more jobs for every unit of investment, compared to their bigger counterparts.

1.3.7   Utilization of available human and material resources

SMMEs provide jobs locally, thus utilizing locally available manpower. Since it is not available for them to transport materials over long distances, they often improvise with materials which are available locally.

1.3.8   Reduction of regional imbalances

Unlike large industries where divisibility of operations is more difficult, SMMEs enjoy a flexibility of location. SMMEs can be found spread virtually right across several locations, even though some specific locations emerge as 'clusters' for units of a similar kind. Nevertheless, the spread of SMMEs is a fact which enhances their attraction from a national or regional policy point of view.

1.4   Governmental policies and supports

The impact of government policies and support for the growth of SMMEs has been extensively investigated in past research. Restrictive social and industrial legislation and paperwork overload were found to have a negative effect on the growth of SMMEs (Kozan, Öksoy and Özsoy 2006; Olawale and Garwe 2010; Rankhumise and Rugimbana 2010). In South Africa, the government has invested in initiatives aimed at supporting and growing the SMME sector. SMME is a central part of South Africa's economic policy. In redressing the legacy of the past, the new government through the Ministry of Trade and Industry initiated a wide-ranging consultation and research process (Mahembe et al. 2011).

1.4.1 Governmental policies

The policy environment for public sector procurement and preferential procurement reforms in South Africa is outlined in the following policy initiatives:

1.4.1.1 Reconstruction and development program (RDP) white paper, 1994

According to the Reconstruction and Development Programme (RDP) (1994), the aim of the paper is to increase the participation of Black people in the economy and to ensure that existing ownership patterns become less concentrated, more racially inclusive and that SMMEs account for a substantially larger part of economic activity. As a result, the RDP 1994 is further aimed at addressing the discriminatory practices of the past that have left a legacy of inequality.

The RDP 1994 also identified the key areas of support to SMMEs such as access to marketing and procurement and the encouragement of inter-firm linkages. The government is committed to facilitating entry of entrepreneurs with opportunities which arise from the investments which include the sale, installation and servicing of domestic appliances and wiring, construction and related manufacturing and service activities. Moreover, the government committed itself to encourage entrepreneurs to seek technical training and joint ventures with the formal sector (RDP 1994).

1.4.1.2 White paper on the national strategy for the development and promotion of small business

In March 1995 the Government of National Unity (GNU) published a White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa (WPNSDPSB). The national strategy aimed to create an enabling environment for SMMEs, address the legacy of apartheid-based disempowerment of black businesses, support the advancement of women in all business sectors, create long term jobs, stimulate sector-focused growth, and level the playing fields for smaller and bigger businesses (DTI 1995).

According to the DTI 1995 SMMEs regard market constraints and the inability to sell their products and services as one of the most serious challenges to establishing a business and ensuring growth beyond mere subsistence level. The Paper

also acknowledged that the establishment of legislation laying down certain conditions and principles about set-asides for SMMEs, non-discriminatory public sector procurement rules and incentives for big businesses for sub-contracting to SMMEs could accelerate progress and lead to participation among all firms rather than only a few progressive ones (DTI 1995).

1.4.1.3 The ten point plan on procurement reform (TPP), 1995

As part of South Africa's initiatives to introduce new reforms in government procurement, the Ten Point Plan (TPP) (1995) was introduced as a set of interim strategies to further the procurement reform process. The previous Tender Board policies and procedures favoured the larger and better established entrepreneurs and therefore did not create an environment that allows easy access for SMMEs into the mainstream procurement activities funded by the public sector (TPP 1995). The plan introduced a set of ten strategies which include, amongst others, preferential procurement that aimed to give preference points to companies owned by people disadvantaged by racial discrimination in the previous political dispensation of apartheid, as well as women entrepreneurs when competing for government contracts (TPP 1995).

1.4.1.4 The South African national small business act (NSBA), act 102 of 1996

The objective of the NSBA 1996 is not only to regulate but also to stimulate and promote SMMEs activities in South Africa. The spirit of entrepreneurship would be integrated in government, NGOs, private consultancies, partnerships and consultancies to address the needs of SMMEs as a whole. The NSBA 1996, (as amended in 2003 and 2004), introduced a standard definition of SMMEs which categorises businesses per sector or industry. The NSBA 1996 further made provision for the establishment of NTSIKA Enterprise Promotion Agency, which aimed to expand, co-ordinate and monitor the provision of training, advice, counselling, and financial and non-financial support to SMMEs. The agency also aimed to facilitate market access for SMMEs and strengthen their capacity to successfully compete in the broad economy (NSBA 1996).

1.4.1.5 Green paper on public sector procurement reform in South Africa (GPPSPR), 1997

As part of the procurement reform initiatives in the country, the Ministry of Finance and the Ministry of Public Works established a task team with funding from the World Bank that produced the Green Paper on Public Sector Procurement Reform to make the tendering system more easily accessible to SMMEs. According to the Green Paper on Public Sector Procurement Reform (GPPSPR) (1997) the government's aim was to transform the public procurement process in order to achieve its socio-economic objectives within the ambit of good governance.

The socio-economic objectives through the procurement system includes access to tendering information and the simplification of tender documents, break-out procurement, awarding of tenders in terms of a development objective mechanism, drafting of an affirmable SMME participation program, promoting employment-intensive practices, affirming marginalised sectors of society in construction projects, and the development of an affirmable procurement policy (GPPSPR 1997).

1.4.1.6 Skills development act (SDA), Act 97 of 1998 (as amended in 1999, 2003, 2008 and 2010)

The access to acquiring the requisite technical skills is vitally important for the operation of SMMEs and the lack of technical skills need to be addressed before headway is made in the SMME sector (Hlakudi, 2012). In order to address these points, the Skills Development Act (SDA) (1998) should be seen within the framework of the NSBA 1996, as more of a supportive role. The SDA 1998 was proclaimed to provide a framework to develop and improve the skills of the South African workforce, to provide for learner-ships that lead to recognised occupational qualifications, and to provide financing for skills development by means of a levy grant scheme (Richards 2006).

The SDA 1998 prescribes the establishment of the National Skills Authority and skills programs. The purpose of SDA 1998 is to assist persons to enter special education and training programs, to find employment, to start income-generating projects, and to participate in special employment programs (Richards 2006).

1.4.1.7   Preferential procurement policy framework act (PPPFA), act 5 of 2000

The Preferential Procurement Policy Framework Act (PPPFA) (2000) prescribes in detail categories of persons referred to as Historically Disadvantaged Individuals (HDIs) who qualify for preference in the allocation of contracts which include people who did not have permit in national elections prior to the implementation of the 1983 Constitution and/or the Interim Constitution of 1993. This included women and people living with disabilities. The PPPFA 2000 also aims to promote the attainment of RDP 1994 goals which include the development of SMMEs.

1.4.1.8   Broad based black economic empowerment act (BBBEEA), act 53 of 2003

The Broad Based Black Economic Empowerment (BBBEEA) (2003), (as amended in 2011 and 2013), prescribes a legislative framework for the promotion of Black Economic Empowerment (BEE) in order to realise the constitutional right to equality, increase broad-based and effective participation of black people in the economy, and promote a higher growth rate, increased employment, more equitable income distribution, promote economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services. The PPPFA 2000 and the BBBEEA 2003 have been enacted to achieve similar objectives of redressing economic imbalances of the past, including the promotion of equal distribution of economic resources of the country. The BBBEEA 2003 also aims to include the private sector to contribute to BEE through various strategies such as the development of small enterprises.

1.4.1.9   Revised preferential procurement regulations (RPPR), 2011

The Revised Preferential Procurement Regulations (RPPR) (2011) was introduced to put practical measures in place and prescribe the threshold values for the implementation of the RPPR 2011. Due to the challenges posed by the inconsistency between the BBBEEA 2003 and PPPFA 2000, the RPPR 2011 attempts to merge the two policies were issued and became effective from 7 December 2011. The new regulations do not change the value given to preferential procurement, but rather attempt to encourage transformation in companies

by incorporating all the seven elements of BBBEEA 2003 into the preferential procurement system.

1.4.1.10 Black economic empowerment (BEE)

The concept of economic empowerment is not new to South Africa. Whites enjoyed protection under apartheid policies that saw them receiving beneficial treatment over other races by the government. With the new government coming to power in 1994, and inheriting a very uneven distribution of wealth between Whites and Blacks, and an education system in shambles, the new government saw fit to introduce measures aimed at correcting the imbalances created by the previous regime. This was the starting point for the implementation of Black Economic Empowerment (BEE) by the ANC led Government (Peters 2010).

Friedman (1992) defines empowerment as an alternative development, which places emphasis on the improvement in the conditions of life and livelihood of the excluded majority. Empowerment is an alternative development because it aims to redress the historical process of systematic disempowerment or exclusion of the vast majority of people from economic and political participation.

Empowerment thus aims to "humanise the system that has shut out the majority", and its long-term aim is to transform the whole of society, including the structures of power. Empowerment is an alternative development addresses the question of the improvement in the conditions of life and livelihood from the perspective of the household (Friedman 1992). Against this conceptual framework, the study presents the two approaches to BEE:

1.4.1.10.1 The minimalist approach to BEE

This approach takes the individual Black entrepreneurial, managerial and professional class as its unit of analysis. It focuses on BEE discourse and practice on the career mobility and/or advancement of Black managerial, professional and business ranks. This approach defines BEE in terms of development of Black-owned businesses or creation of Black business class (Edigheji 2012). This has become the dominant position within the minimalist approach.

As Freund and Padayachee (1998) argued that, this approach to BEE "is largely a class creation project, the promotion of a new class of wealthy and powerful African movers and shakers". Minimalist approach defines BEE also in terms of

share acquisitions by the Black business class in previously White-owned businesses, or the establishment of joint ventures between Black and White entities.

As a result of the adoption of this definition of BEE, many became millionaires in a very short time. One major area where the increase in the asset base of the emerging Black entrepreneurs is noticeable is the Johannesburg Stock Exchange (JSE), where Black equity stakes increased from less than 1% of its total capitalisation in 1994 to between 7% and 8% in mid-1999 (Peters 2010).

The minimalist approach has ended in South Africa as a means to reduce the role of the state in the economy and the implementation of cost recovery social policy. This is because transformation of state assets and outsourcing of government services, are carried out in the name of helping Black entrepreneurs (Edigheji 2012).

Nzimande (1996) notes that, "we need to challenge the notion that Black economic empowerment only means the development of a Black bourgeoisie or a 'patriotic bourgeoisie', an ambiguous concept, yet to be defined by those who advocate it. Black economic empowerment should be rescued from this perspective and be given concrete meaning directed at empowering the mass of the people of our country. There is no reason why we should not be exploring alternative forms of economic ownership, like co-operatives".

1.4.1.10.2   The maximalist approach to BEE

The other framework to BEE could be broadly referred to as the maximalist approach, emphasising a comprehensive restructuring of institutions and society, which would effectively alter relations in the political and economic spheres, rather than just the replacement of White individuals with Black ones. The maximalists approach requires the generation and redistribution of resources to the majority of the people, ranging from skills and educational training to land redistribution (Peters 2010) .

The two approaches discussed above treat individual and collective empowerment as antagonist and separate developments. The major theme of the minimalist approach is its emphasis on individual empowerment. On the other hand, the maximalist approach stresses the importance of collective empowerment.

Henderson (1993) analyses the significance of empowering African-Americans and the role African-American-owned businesses could play in the process, there-

fore, constitutes a useful starting point to understand empowerment. Furthermore, he argues that economic empowerment is a source of individual financial wealth, community capital formation, self-esteem for business owners, employees and their communities, skills formation and capacity building, and even political power.

1.4.2   Government support

The South African government suggests that the SMMEs sector, with the help of government support, is capable to achieve their objectives. Accordingly the government has introduced a number of agencies and funds institutions. The overall objective of these agencies is to create an enabling environment for SMME development. The main agencies are distributed across mainly five different departments (Mahembe et al. 2011):

(A) the Department of Trade and Industry (DTI);

(B) the Department of Economic Development (DED);

(C) the Presidency; and

(D) the Department of Agriculture

1.4.2.1   Department of trade and industry (the DTI)

SMMEs fall under the Minister of Trade and Industry and specifically under two of the Department's units; the Enterprise Organization and the Empowerment and Enterprise Development Division. The department has various entities under it, namely:

1.4.2.1.1   Small enterprise development agency (SEDA)

The Small Enterprise Development Agency (SEDA) was established in December 2004 as an agency under the Department of Trade and Industry (the DTI). The establishment was done by merging three organisations, namely the NTSIKA Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC), and Community Public Private Partnership Programme (CPPP). The GODISA Trust and National Technology Transfer Centre were integrated into SEDA in April 2006, becoming the SEDA Technology Programme (STP) Small

Enterprise Development Agency (SEDA) (2004).

SEDA provides business development and support services for SMMEs through its national network, in partnership with other role players in the SMMEs support. SEDA also implements programs targeted at business development in areas prioritised by the government. The business model of SEDA is based on a number of delivery points located throughout the country, supported by a national office located in Pretoria/ Tshwane.

Whilst the national office is responsible for overall co-ordination and provision of support services and systems to the provincial network, the various delivery points are the interface point with the target market, and responsible for the provision of the products and services that SEDA offers its clients. These delivery points currently take the form of SEDA branches and Enterprise Information Centres (EICs), as well as SEDA Technology supported business incubators (SEDA 2004).

To increase the number of delivery points through which SEDA accesses its clients, the institution increase the rate of co-ordination and number of partnership agreements and associations with other SMME support agencies/institutions. As at end December 2012, SEDA had an established network of 43 branches, 18 mobile units, 48 electronic information kiosks, 3 enterprise information centres, 12 enterprise development centres, 42 incubation centres and 47 access points where SEDA co-locates in (SEDA 2004).

1.4.2.1.2   National empowerment fund (NEF)

Set up in 1998 and operational in 2004, the National Empowerment Fund (NEF) (2014) aims to fund black-owned and empower (both big and small) businesses. Between 2003 and March 31 2010, the fund made 208 disbursements of over R1.5 billion. Of these, 156 worth R457 million went to small black-owned businesses or franchisees (through the IMBEWU Fund). The NEF's role is to support B-BBEE. As the debate around what constitutes meaningful and sustainable B-BBEE evolves, the NEF anticipates future funding and investment requirements to assist black entrepreneurs and communities achieve each element of the Codes of Good Practice. These include a focus on preferential procurement, broadening the reach of equity ownership, transformation in management and staff, while preventing the dilution of black shareholding in (NEF 2014).

The NEF differentiates itself not only with a focused mandate for B-BBEE, but by assuming a predominantly equity-based risk to maximise the empowerment dividend. Reward should balance the risk, with the application of sound commercial decisions to support national priorities and government policy, such as the Industrial Policy Action Plan (IPAP). The work of the NEF, therefore, straddles and complements other development finance institutions (DFIs) by allowing the organisations to work in close collaboration with each other. Close co-operation with these institutions, and the sharing of its special sector expertise and knowledge, enables the NEF to add value to the work of other DFIs and further contribute to the realisation of their mandate (NEF 2014).

1.4.2.1.3   National small business advisory council (NSBAC)

In terms of the NSBA 1996, the Minister of Trade and Industry facilitated the establishment of an advisory body. This body would represent and promote the interests of the SMMEs sector as envisaged in the National Strategy for the Development and Promotion of Small Business (NSDPSB) in South Africa. The body is the National Small Business Advisory Council (NSBAC) (2013) and operates on a tenured basis with a three-year service cycle. It acts as an advisory body to the Minister of Trade and Industry on matters pertaining to the promotion of s SMMEs in the country (NSBAC 2013).

The ministerial mandate, synthesised from the national priorities of the country, has informed the program. Such mandate includes employment creation, the NSDPSB and the strategic objectives of Medium-Term Strategic Framework of the Department of Trade and Industry (the DTI). The Plan will be revisited annually and form the basis of the annual work program of the NSBAC. The NSBAC operates with a secretariat, comprising permanent employees of the DTI, which assists in all operational matters. There are three primary working groups in each of the following primary areas NSBAC 2013:

(A) Access to finance;

(B) Demand and markets; and

(C) Regulatory review.

The work program developed in each of these areas will be executed during the NSBAC's mandate. The NSBAC 2013 intends to establish ways in which to reduce or eliminate the institutional barriers that are hampering the develop-

ment of a vibrant and significant entrepreneurship sector in South Africa. The NSBAC 2013 advises the Minister of Trade and Industry actively on the policy, legacy and institutional arrangements required to create a robust support system for business development. Such a support system should achieve tangible output in developing SMMEs in the country (NSBAC 2013).

A key to success is the evaluation of what has and what has not worked in SMMEs development to date. Many interventions and models have been tried, some at great expense to government. However, the culture of entrepreneurship envisaged in the DTI 1995 has not translated into widespread employment creation. In this context, SMMEs development is not only a critical enabler of the South African economy, but also a tool for transformation and global competitiveness. Several main themes and challenges have emerged. Among them is access to finance. This, driven by institutions and policies, is still a barrier and will remain a challenge, until such constraints are quantified NSBAC 2013.

As a key intervention, the Industrial Policy Action Plan 2010/11-2012/13 (IPAP 2) offers an economic transformation agenda that enables South Africa to take its rightful place as a driver of economic growth, continentally and worldwide. The growth and development strategies of every province include the expansion of the SMMEs sector. IPAP 2 sets the stage for South Africa to play a major role in green technologies, innovation and the use of technology to achieve development (NSBAC 2013).

It explores strategies to make key economic sectors globally competitive and examines the comparative strength of the country in driving economic growth. The Companies Act, 2008 (Act No. 71 of 2008) promises to level the playing fields, enabling big and small business to compete on an equal footing in certain areas. The Competition Commission and Tribunal play a significant role in intervening in markets. The NSBAC 2013 questions whether it does enough for SMMEs, though.

Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice and other interventions have achieved elements of transformation. However, the preoccupation with compliance rather than active participation has all but negated the anticipated impact on SMMEs. This has been particularly noticeable in enterprise development, local beneficiation, supply-chain transformation and overall achievement of socio-economic transformation. Various incentive and institutional models, which had and continue to have SMMEs development

as their objectives, have been in place over the last 10 to 15 years (NSBAC 2013).

While negative and positive incentives each have their own merits, regulation as a form of negative incentive apparently does not work. Compliance versus incentives has given rise to major debate. Businesses need to be motivated to transform through initiatives focusing on supplier mentoring, supplier diversity, buyer education and re-education. It is the role of the NSBAC to examine issues critically to address these challenges with best-practice and practical solutions (NSBAC 2013).

Thus, the NSBAC 2013 will be scrutinising various interventions that have not worked and need to be consolidated, as well as those that have succeeded and need to be supported more aggressively to achieve sustainable results.

1.4.2.2 Department of economic development

The Department of Economic Development (DED) was set up in 2009 to co-ordinate the South African Government's economic policy. The Department oversees various entities, including:

1.4.2.2.1 Industrial development corporation (IDC)

The government's development finance institution was set up in 1940, and the funding of SMMEs forms a large part of its mandate. The IDC falls under the Department of Economic Development. The IDC financed 159 SMMEs to the tune of R2.13 billion (from a total of R10.9 billion) in 2008/2009. This compares to 94 dispersals the year before, valued at R933 million (out of a total of R8.4 billion). One hundred and forty two of the net approvals during 2010 (67% of the total number of approvals) were for SMMEs. R2.103 million (more than 23% of the total value of approvals) was for these SMMEs companies with fewer than 200 employees, turnover less than R51 million and/or less than R55 million total assets (Industrial Development Corporation (IDC) 2014).

1.4.2.2.2 South African Microfinance apex fund (SAMAF)

The SAMAF) was established to provide access to micro- loans and support to the social capital mobilization. SAMAF is a wholesale funding institution

tasked to facilitate the provision of affordable access to finance by SMMEs for the purpose of growing their own income and asset base.

The primary purpose of SAMAF is to reduce poverty and unemployment and also to extend financial services to reach deeper and broader into the rural and urban areas. As a wholesale institution, SAMAF provides microfinance to financial intermediaries such as Financial Services Cooperatives (FSCs) and microfinance institutions (MFIs) who in turn on-lend to their members and clients. Therefore, anyone who wants to obtain a SAMAF-backed loan should first join an FSC or apply to the MFI for a loan. SAMAF offers two types of loans via its financial intermediaries, microenterprise loans and development loans.

The Micro-enterprise loan is offered to financial intermediaries who then on-lend to poor people to establish and grow their SMMEs. To qualify, the loan applicant must earn not more that R 3,500.00 per month. Development loans are aimed at FSCs and MFIs for on-lending to client households earning R 1,500.00 and below per month. Clients can use development loans for paying school fees, medical fees and improvements to the household.

1.4.2.2.3 KHULA finance limited

KHULA was set up in 1996 to help fund SMMEs. KHULA is a wholesale finance institution which operates across the public and private sectors through a network of channels to supply funding to SMMEs. KHULA operates through a network of financial intermediaries across the country. Its channels include South Africa's leading commercial banks, retail financial institutions and specialist funds and joint ventures in which KHULA itself is a participant. Its primary aim is to bridge the "funding gap" in the SMME market not addressed by commercial financial institutions (Small Enterprise Finance Agency (SEFA) 2014). KHULA lending comprises of four components;

(A) Funding for retail financial institutions (RFI);

(B) Credit guarantee scheme;

(C) Equity capital; and

(D) Gearing capital for public and private sector funds targeting small enterprises in specific sectors.

1.4.2.2.4 Small enterprise finance agency

Small Enterprise Finance Agency (SOC) Ltd commonly known as SEFA 2014
was established on 1st April 2012 as a result of the merger of South African Micro
Apex Fund, KHULA Enterprise Finance Ltd and the small business activities
of IDC. SEFA's mandate is to foster the establishment, survival and growth of
SMMEs and contribute towards poverty alleviation and job creation. SEFA has
a regional footprint of 9 offices around the country.

1.4.2.3 The presidency

The National Youth Development Agency (NYDA) (2009) is a South African
based agency established primarily to tackle challenges that the nation's youth
are faced with. The NYDA 2009 was established by an Act of parliament, act
no 54 of 2008. The institution was established to be a single, unitary structure,
established to address youth development issues at National, Provincial and
Local government level. The existence of the NYDA 2009 should be located
within the broad context of South Africa's development dynamics. Similar to
many developing countries, South Africa has a large population of youth, those
between the ages 14-35; represent 42% of the total population.

Given the youthful nature of the South African population much of the socio
economic challenges faced by the nation, i.e. poverty, inequality and joblessness,
poor health etc., are borne by the youth. The gravity of challenges South Africa
is faced with, require multi - pronged efforts, that simultaneously promote the
development of sustainable livelihoods, reduce poverty, inequality and priorities
the development of policies which create an enabling environment for youth
development (NYDA 2009).

The NYDA 2009 plays a lead role in ensuring that all major stakeholder's, such
as, government, private sector and civil society, priorities youth development
and contribute towards identifying and implementing lasting solutions which
address youth development challenges. Furthermore, the NYDA designs and
implements programs aimed at improving lives and opportunities available to
youth. These programs could be clustered as follows (NYDA 2009):

(A) At an individual level (Micro level), the NYDA provides direct services
to youth in the form of information provision, career guidance services,

mentorship, skills development and training, entrepreneurial development and support, health awareness programs and involvement in sport.

(B) At a Community level (Meso Level), the NYDA encourages young people to be catalysts for change in their communities through involvement in community development activities, social cohesion activities, national youth service programs and dialogue.

(C) At a Provincial and National level (Macro Level), through its policy development, partnerships and research programs, the NYDA facilitates the participation of youth in developing key policy inputs which shape the socio economic landscape of South Africa.

The NYDA 2009 derives its mandate from the legislative frameworks, including the NYDA Act (54 of 2008), the National Youth Policy (2009-2014) and the draft Integrated Youth Development Strategy as adopted by the Youth Convention of 2006. The NYDA (2009) activities could be summarized as follows:

(A) Lobby and advocate for integration and mainstreaming of youth development in all spheres of government, private sector and civil society

(B) Initiate, implement, facilitate and coordinate youth development programs

(C) Monitor and evaluate youth development intervention across the board and Mobilize youth for active participation in civil society engagements

1.4.2.4 Department of agriculture

The Micro-Agricultural Financial Institute of South Africa (MAFISA) (2006) was established to contribute to the working poor's ability to run existing agricultural businesses; to start new ones and be able to develop these into fully commercial operations. MAFISA 2006 propels and facilitates the development of financial services intended to uplift very small and micro level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes. Through the departments, numerous programs, for funding or otherwise, have been implemented. This set up has however proved problematic for strategic coordination purposes as programs tend to be implemented in isolation of each other; and also risks the effectiveness of funding programs to SMMEs, a problem that has been identified by a number of commentators, including the DTI (MAFISA 2006).

The small business program, which is running under the DTI, this program is taken place to ensure that all government policies incorporate the development, growth and investment measures with regard to maximising SMMEs contribution to the overall economy.

1.5   Background to the study

The South African government has identified the SMME sector as one of the potential means of creating an enabling environment by improving job creation opportunities and wealth distributions necessities in order to reduce poverty and create a more equitable distribution of wealth (Department Trade and Industry (DTI) 1995).

However, despite the above supports provided by South African government, SMMEs suffer from a high failure rate. According to Brink and Michael (2003), it is estimated that the failure rate of SMMEs in South Africa is between 70% and 80%. As a result, many SMMEs do not reach their full potential and fail to grow, resulting in lost jobs and wealth for the region in which they are based. Sha (2006) notes that given this high failure rate, it becomes vital to research the factors that are required to enable SMMEs to survive.

The next sections introduce the study that will be undertaken to examine the effect of constraints on SMME growth, and investigate how SMMEs can overcome or move away from these constraints. The conceptual and contextual background, which underscored the importance of the study, will be also discussed. The next sections also give the background to the research, the research problem, aims, objectives and hypotheses.

1.6   Problem statement

SMMEs have the potential to make a significant contribution to overcoming challenges faced by developing countries. Some of these challenges include high levels of poverty, severely skewed distribution of income, and high levels of unemployment. However, despite the noted contribution of SMMEs, in many countries they face serious constraints, often resulting in firm failure. According to Brink and Michael (2003), in South Africa the estimation of SMMEs failure rate is

between 70% and 80%. As a result of resource constraints, many SMMEs do not achieve their full potential and are unable to grow, causing a reduction in jobs and wealth for the area in which they are based. Sha (2006) notes that to understand the failure rate it is essential to study the factors that are required to enable the SMMEs to survive.

Although the constraints, and economic environment have significant and unequal effects on organizations in different industries, and in different locations (Olawale and Garwe 2010), it remains unclear which constraints have effects and how SMMEs can overcome particular constraints. Therefore, this study explores and investigates how SMMEs should overcome constraints to growth.

In the South African context, SMMEs suffer from poor performance, low growth rates and high failure rates. These challenges are particularly prevalent amongst historically disadvantaged SMME owners, as a direct consequence of the past apartheid government policy. As a result, many of the SMMEs constrained by, lack of skilled employees (Saigosoom 2012), competition (Ibidunni and Ogundele 2013), corruption (Nkonoki 2010), lack of clear business plans (Tushabomwe-Kazooba 2006), government rules and regulations (Rankhumise and Rugimbana 2010), and a lack of government support (Madrid-guijarro, Garcia and Auken 2009). These constraints are referred to in this study as business constraints. SMMEs are also constrained by other factors referred to as financial constraints, such as lack of professional financial advisors (Agaje 2004), lack of access to finance (Abor and Quartey 2010; Krasniqi 2007) and lack of awareness of financial services and assistance (Magesa, Shimba and Magombola 2013).

SMMEs need access to financial resources to finance their operations and investments. Microfinance has been identified as one of the ways to overcome financial constraints to poor household and small business (Babandi 2011). Microfinance is a strategy aimed at the development and technical assistance of the poor and small entrepreneurs through training, funding and consulting to create self-employment and income generating activities (Brau, Hiatt and Woodworth 2009). Thus this context provides a good setting to examine the effects of constraints on SMME growth, and to investigate how SMMEs should overcome these constraints, in particularly financial constraints.

1.7   Objectives

The primary objective of this study is to explore, and investigate the factors acting as constraints to SMME growth. The study empirically examines the moderating effect of microfinance on overcoming, avoiding or mitigating the financial constraints to SMME growth in South Africa, particularly in the province of the Western Cape. In order to assess these factors, the following secondary objectives are pursued:

1. To investigate literature on the constraints to SMME growth;

2. To determine the factors that acting as constraints to SMME growth;

3. To examine the effect of constraints on SMME growth in terms of an increase in employees;

4. To perform an empirical investigation on the ways to overcome, avoid or mitigate the financial constraints to SMME growth; and

5. To present recommendations to SMMEs on how to manage their business functions to survive and grow.

1.8   Hypotheses

In order to meet the research objectives set out in this study, hypotheses need to be formulated and tested. There are seven hypotheses used in this study to examine the effect of constraints on SMME growth, and to investigate the moderating effect of microfinance on overcoming financial constraints. The hypotheses are:

(H1) There is a significant relationship between the demographic characteristics of an SMME owner/manager namely: gender, age and education level, and SMME growth.

(H2) There is a significant influence of SMME characteristics (namely: business size, business age, business sector and ownership type) on SMME growth.

(H3) There is a significant relationship between the types of customers (namely: government contracts, sub-contracting from large firms, overseas customers, general public customers and other SMMEs) and SMME growth.

(H4) There is a significant influence of government initiatives and programs on SMME growth.

(H5) There is a significant relationship between sources of financing SMME capital structure (namely: own equity, family or friends, commercial banks, combination, microfinance) and SMME growth.

(H6) Constraints to growth have a significant effect on SMME growth. SMMEs with constraints will have limited capability to expand, employ good technologies and search for new ideas. Accordingly, SMMEs constrained by conditions, which could be specified as follows:

(H6)A Lack of skilled employees has a negative effect on SMME growth;

(H6)B Lack of clear business plans has a negative effect on SMME growth;

(H6)C Lack of government support has a negative effect on SMME growth;

(H6)D Government regulations have a negative effect on SMME growth;

(H6)E Competition has a negative effect on SMME growth;

(H6)F Corruption has a negative effect on SMME growth.

(H6)G Lack of professional financial advisors has a negative effect on SMME growth;

(H6)H Lack of access to finance has a negative effect on SMME growth;

(H6)I Lack of awareness of financial services and assistance has a negative effect on SMME growth.

(H7) Microfinance is a positive moderator of the relationship between financial constraints and SMME growth. Accordingly, the moderating effect of microfinance could be hypothesized as follows:

(H7)A Microfinance is a moderator of the relationship between the lack of professional financial advisors and SMME growth. The negative effect of the lack of professional financial advisors is reduced when SMMEs use microfinance.

(H7)B Microfinance is a moderator of the relationship between lack of access to finance and SMME growth. The negative effect of the lack of access to finance is reduced when SMMEs use microfinance.

(H7)C Microfinance is a moderator of the relationship between the lack of

awareness of financial services and assistance and SMME growth.
The negative effect of the lack of awareness of financial services
and assistance is reduced when SMMEs use microfinance

1.9   Conceptual framework

The study is driven by three main theories, growth theory, theory of constraints
and microfinance theory, and the selection of the study variable is based upon
these theories. The dependent variable is selected by growth theory; constraints
to growth as independent variables including financial constraints are selected
by theory of constraints. While the moderating variable is selected in according
to microfinance theory. The study investigates the possible moderating effect of
using microfinance as a way to overcome financial constraints.

Constraints are considered as negative predictors to SMME growth. The frame-
work of this study views microfinance as a way of overcoming, avoiding or
mitigating financial constraints. Literature suggests that microfinance provides
SMMEs with access to several types of financial products and services, which
can assist them to survive and grow. Figure 1.2 presents the research model of
this study.
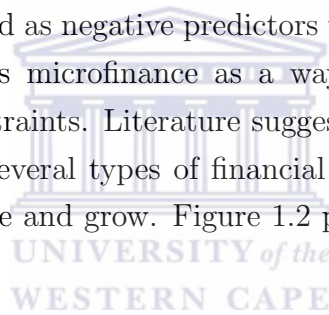
1.10   Possible contribution of the study

The study is expected to contribute in following areas:

1. It may lead to develop a model of measuring growth of SMMEs.

2. It is expected to determine the factors responsible for the failure of SMMEs
   in South Africa.

3. It will provide an in-depth analysis of potential strategy to overcome or
   move away from factors constraining SMMEs.

4. It is expected to assist South African government by recommending poli-
   cies to develop small business sector.
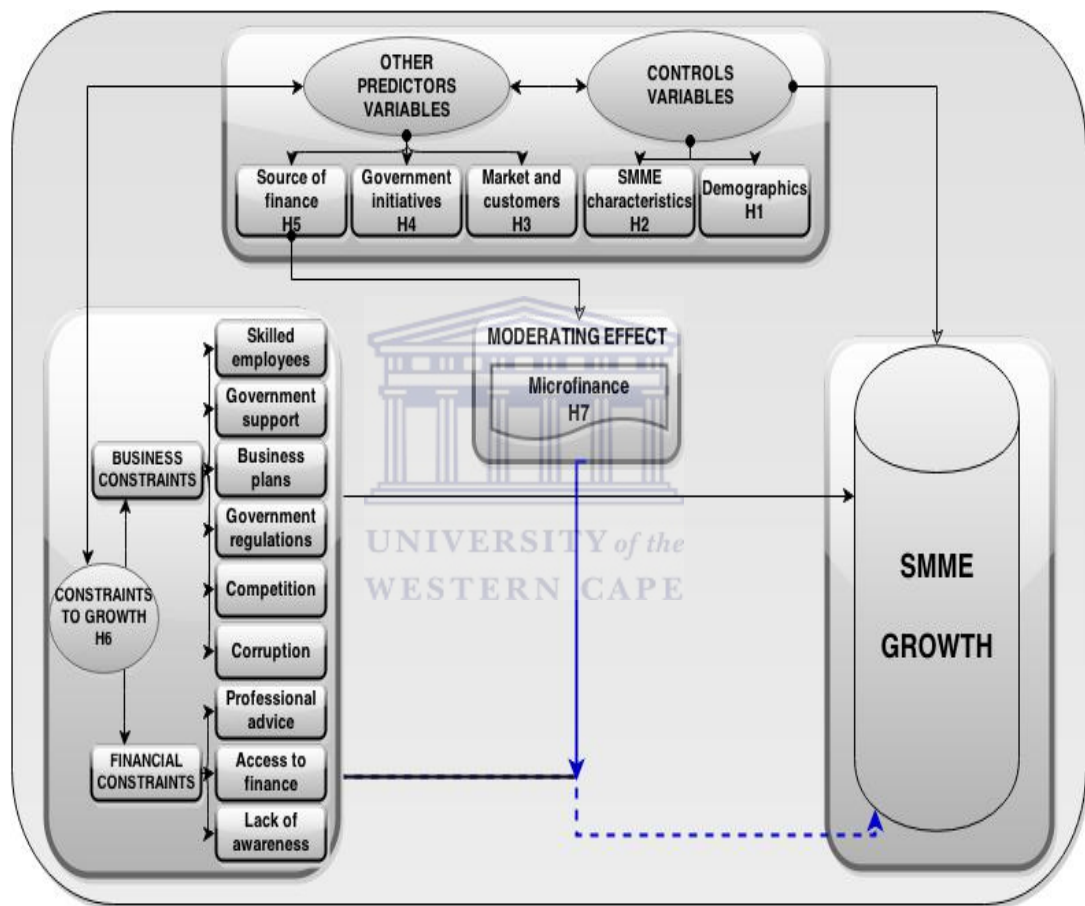
Figure 1.2: Proposed conceptual framework

1.11   Justification for research

There are some evidences to support the contention that SMMEs are not being well served by the existing extension systems in developing countries (Davidsson, Kirchhoff, Hatemi-J and Gustavsson 2002; Fatoki 2011; Mahembe et al. 2011). The failure to grow SMMEs is part of an overall problem related to a lack of support and resources. Therefore, undertaking this research is justified by the following observations:

1. The SMME sector is a significant contributor to the economic.

2. The growth of employment comes mostly from the expansion of current small businesses.

3. The SMME sector continues to be faced by dynamic constraints, and plagued with high failure rates and poor performance levels.

4. Most studies investigating the constraints to SMME growth have been conducted in developed countries where the business environment is very different from that in a developing country, such as South Africa.

1.12   The layout of the study

Chapter 2: The impact of constraints on SMME growth

The chapter begins with a brief review of SMME growth, and how it has been measured. It is followed by a brief description of the various SMME growth models cited in literature. The models discuss the problems SMMEs experience at different stages of growth, and the actions taken to overcome them as they progress from one stage to the next. The chapter then presents the factors that have a random influence on SMME growth. The chapter concludes with a discussion of the concept of constraints to growth, and examines the effect of some factors as constraints to SMME growth in South Africa.

Chapter 3: Financial structure and source of finance for SMMEs

This chapter looks at the capital structure and financing sources for SMMEs. SMMEs need funds to finance their non-current assets, working capital, product development and initial losses. Also discussed in this chapter, capital structure theories and how they affect the financing decisions of SMMEs. The chapter

concludes with a discussion on the sources of finance for SMMEs, and the role of Microfinance.

Chapter 4: Research methodology

This chapter has a detailed discussion on the research process; which includes the research design, and the methodology followed in the study.

Chapter 5: Research analysis and findings

This chapter presents the raw data, an analysis, and findings of the study. Results are presented in accordance with both questionnaire and growth analysis.

Chapter 6: Summary, conclusion and recommendations
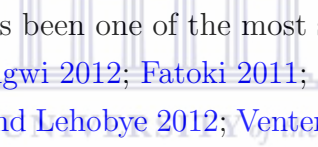
This chapter includes a summary of the results of the study, which includes the conclusions drawn from the study. The chapter also discussed the limitations and recommendations for additional research.

Chapter 2

The Impact of Constraints on SMME Growth

2.1 Introduction

The growth of SMMEs has been one of the most studied topics in South Africa (Bezuidenhout and Nenungwi 2012; Fatoki 2011; Jassiem et al. 2012; Mahembe et al. 2011; Rankhumise and Lehobye 2012; Venter 2012), A topic which extends across the subject areas of management, economics, accounting and finance and organizational behaviour, researchers have used those subject areas as the basis to understand how SMMEs operate, grow and achieve a high growth rate, and how to allocate scarce and costly resources to both the needs of the market and in response to the uncertainty of the external environment. The aim of this study is to explore and investigate the factors acting as constraints on SMME growth. The study also empirically examines the moderating effect of microfinance on overcoming, avoiding or mitigating the financial constraints to SMME growth in South Africa. This chapter presents the impact of constraints on SMME growth. The chapter begins with a brief review of SMME growth, and how it has been measured. This is followed by a brief description of various SMME growth models. The models discuss the problems SMMEs experience at the different stages of growth, and the actions taken to overcome them as they progress from one stage to the next. The chapter then presents the factors that have a random influence on SMME growth. The chapter also discusses the concept of constraints to growth, and examines the effect of some factors that act as constraints to SMME growth in South Africa.

2.2   SMME growth

To study SMME growth and development, there are various factors need to be examined. The variation in measures used in SMME growth studies, the variation in growth indicators, the variation in the measurement of growth over time, and the variation in the characteristics of the SMMEs are all important features of SMME growth as a phenomenon. Some of these problems have been identified in SMME growth literature (Chandler and Hanks 1998; Delmar 2006).

Delmar (2006) has noted that the heterogeneity of measures used in SMME growth studies impairs the ability of scholars to accumulate and compare results. Thus SMME growth is measured in several ways and various indicators are used to measure growth. Growth is measured in terms of increases in employment, turnover, profitability, assets and market share. Measuring turnover growth and relative employment growth during a specific time period is the most common indicators used. Indicators such as profitability, assets and market share are also commonly used, however not as commonly used as turnover and employment (Poblete and Leon 2010).

Owners/managers of SMMEs are most attracted to financial indicators. Similarly, government, in addition to interest in increases in employment, has also been focused on the contributions of SMMEs to the economy, which can be measured by the growth of sales or turnover growth (Storey 1994). Another aspect of financial indicators is profitability, since the profit focuses on the earnings of firm, various measures of profit are used: profit margin, earnings per share and earnings per capital employed (Dobbs and Hamilton 2007). Growth also takes the form of development in management, technology, employees and increase in the market share.

Turnover and employment growth are measured by absolute or relative growth. The choice of absolute or relative method is especially important for the relationship between SMMEs size and anything correlated with its size and growth. Absolute measures tend to ascribe higher growth to larger firms whereas SMMEs more easily reach impressive growth in percentage terms. The implications of the choice between relative and absolute method are much discussed in the literature and seem to be reasonably well understood by researchers when designing their studies (Donckels and Lambrecht 1995; Dunne and Hughes 1994).

There seems to be an emerging consensus that if only one indicator is to be

chosen as a measure of firm growth, the most preferred measure should be sales (Ardishvili, Cardozo, Harmon and Vadakath 1998). It is relatively easily accessible, it applies to all sorts of firms, and it is relatively insensitive to capital intensity and degree of integration. It has been argued that sales is a highly suitable indicator across different conceptualizations of the firm (Davidsson and Wiklund 2006).

Sales is not, however, the perfect indicator of growth for all purposes. Sales are sensitive to inflation and currency exchange rates and it is not always true that sales lead the growth process. For high-technology start-ups firms, it is possible that assets and employment will grow before any sales occur. Arguments have been offered for employment as a much more direct indicator of firm complexity than sales, and may be preferable if the focus of interest is on the managerial implications of growth (Churchill and Lewis 1983; Greiner 1998). Because no universally superior growth indicator seems to exist, some scholars composite measures using multiple indicators while other scholars use the same explanatory model on several growth measures (Davidsson 1989; Delmar 2006).

The reason behind multiple-indicator measures is that different indicators of growth (such as change in employees, sales, or market share) are attributes of the same underlying theoretical concepts of growth and therefore tend to be correlated. The underlying causes of growth are assumed to be the same, but situational and characteristic factors that cannot be included in the research model may determine the specific form of growth a firm engages in.

Since there appears to be no one best measure of firm growth, as well as no one best composite measure of firm growth, it would be advantageous to explore the use of many different growth measures in a study of firm growth. The use of multiple measures of firm growth would likely provide a more complete picture of any empirical relationships as well as provide a way to test the strength of any theoretical model to misspecifications in the dependent variable. The use of multiple measures also offers the opportunity to use a measure optimized to the study's specific purposes while allowing comparisons with the results of previous studies using other growth measures.

Therefore turnover and employment are the two most important multiple-indicators measuring SMME growth. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments. Sales and turnover figures are on the other hand affected by inflation and exchange rates and it is

difficult to compare sales figures between industries. That is why it is important to use multiple growth indicators to study firm growth (Delmar, Davidsson and Gartner 2003). This study uses two measures of SMME growth, change in employment and change in turnover.

This study focuses on sales and employment only, for the following reasons. First, the use of sales and employment measures are the most widely used in empirical growth research (Delmar 2006). Second, these growth indicators are the only ones available in the present study for all of the firms of interest. Finally, other indicators have some obvious shortcomings that limit their applicability outside of very special contexts. For example, such indicators as market share and physical output can only be compared within industries for firms with a similar product range. Using an indicator such as total asset value is highly related to the capital intensity of the industry and sensitive to changes over time. And, while profits are an important indicator of success, the relationship of profits to size is only evident in the aggregates of firms or over long periods for individual firms.

2.3   Models of SMME growth

The business needs to change the way it operates and must become more formal without becoming too bureaucratic and these changes must be properly managed if the firm seek to grow successfully (Burns 2001). Hall (1995)states that, over time a business will change and that some changes will reflect the need to respond to new threats or opportunities, which can arise in even the most stable environments. Some changes will reflect a failure to meet a threat or the change may result from the fruits of success.

Burns (2001) believes the growth models that seek to describe the changes faced by the entrepreneurs will also provide them with ways and means of managing such change. Dodge and Robbins (1992) point out the development of any business organisation, large or small, tends to follow a predictable pattern that is usually characterised by sequential and progressive phases.

The creation and growth of businesses have been studied from as early as the 1960's. There are a large number of conceptual frameworks which have attempted to capture aspects of SMME growth. Approaches to the study of SMME growth may be divided into four dominant theories, they are:

2.3.1   Stochastic models of firm growth

This model was developed mainly in the field of economics, and suggests that there are a large number of factors which affect growth, thus explaining the absence of any dominant theory. The stochastic approach stems from (Gibrat 1931) "Law of Proportionate Effect" which has been a useful benchmark for many previous studies on the determinants of business growth. This law predicts that the size of a firm at a future point in time is independent of its present size or, in other words, a firm's past growth cannot be used to predict future growth (McMahon 2001).

Gibrat law is the formal acceptance that there are a large number of causes behind the change in the size of a business, but none exerts a major influence over time. The growth or decline of a firm will depend on the quality of its management, the tastes of its customers, government policy and a range of other forces, but each variable accounts for only a very small portion of the proportionate growth of businesses. There are a huge number of these variables, some making for growth, others causing decline, but together acting randomly on the sizes of firms.

There have been some studies incorporating Gibrat hypothesis and, for the most part, these have tended to reject the basic proposition with evidence that smaller firms have higher subsequent growth rates (Evans 1987; Reichstein and Dahl 2004). Nevertheless, many applied studies do have large unexplained variation in growth performance and some stress the very weak serial correlation of business growth rates, a direct corollary of Gibratlaw (Dunne and Hughes 1994; Hart 2000).

2.3.2   The resource-based view of firm growth

The resource-based view of SMME growth is not a new approach stemming as it does from the influential work of Penrose 1995, especially pp. 215 - 288 and refined by Wernerfelt (1995). The essence of this theory, as applied to SMMEs, is that their growth depends on the managerial resources available over time to plan and manage growth in addition to maintaining current operations (Orser, Hogarth-Scott and Riding 2000).

The theory has its roots in the economic theory, specifically how a firm can attract economic rents in a market economy to stimulate growth. At the heart

of this theory is that the competitive advantage of a firm lies in the application of its internal resources. According to Penrose (1995):

> "There is a close relation between the various kinds of resources with which a firm works and the development of the ideas, experience and knowledge of its managers and entrepreneurs and we have seen how changing experience and knowledge affect not only the productive services available from resources but also "demand" as seen by the firm. Unused productive services are, for the enterprising firm, at the same time a challenge to innovate, an incentive to expand and a source of competitive advantage. They facilitate the introduction of new combinations of resources, innovation within the firm".

In addition to this, a critical requirement of SMMEs founders is the strategic capability to identify opportunities for growth in the "interstices" where large firms have left scope for small firms to grow (Penrose 1995). Empirical studies have also arisen to explain SMMEs performance, measured as growth in profitability by evaluating the degree of fit between the resource-base and the strategy of the business (Edelman, Brush and Manolova 2005).

According to Dierickx and Cool (1989), these characteristics are individually necessary but not sufficient for a sustainable competitive advantage. The arrangement of resources was found to be central on a firm's ability to attract economic rents but competitive advantage can only be derived when the arrangement of these resources create value and not being implemented by competitors in the present or possible future. Barney (1991) similarly found that competition only ends when a competitor firm's actions do not affect the firm's strategy it is then that the firm's strategy and subsequent growth is deemed to be sustainable.

2.3.3 The motivation view on organisational growth

This model of firm growth relies on research from economics and psychology. The theory discusses that growth of the SMMEs depends firstly, on the intentions of the entrepreneur and secondly, on how the entrepreneur perceives the risks in the external environment. The motivation view also explains the effects of a business owner's reaction to the performance of business (Okubena 2014). According to Benzing and Chu (2009), subscribers of this theory underline that the social and psychological motive can significantly influence business owner's

behaviour and therefore growth of the business. They further argue that personal needs of owner/managers motivate them to seek further growth and that these needs are socially generated, sustained and changed.

This is viewed from two perspectives, psychology and economics. From the psychology perspective point of view, firms must start small and grow to a certain size to become economically viable. From this point onwards, the SMMEs owner has the freedom to choose to grow the business further or not. A challenge is that many SMMEs owners are often unprepared to change their roles (Hakkert, Kemp and Zoetermeer 2006).

On the other hand, the economic decision to grow a firm is built on the concept of rationality (Rozyn 2007). The SMME owner calculates the expected utility of all alternatives/prospects by assigning a utility or value to the consequences of the different alternatives of growth. In contrast, the bounded rationality theory takes the view that individuals satisfies rather than optimize their decision and that decision making cannot be understood if it is not accounted for the limited ability to evaluate all alternatives and for the complexity and uncertainty of the growth situation (Hakkert et al. 2006).

The value of the motivation theory is that it presents additional factors into the theory of how a firm grows. These factors include aspirations, growth attitude, growth intention and orientation. Hakkert et al. (2006), found four types of entrepreneurs in their research of small business owners as follows:

(A) Must growers: These are SMMEs owner that make the growth decision from firm establishment until the firm is an economically viable entity.

(B) Proactive growers: Once SMMEs has become economically viable, the owner searches actively for growth by looking for new opportunities.

(C) Reactive growers: Here the owner is more reactive and passive and needs an external motivation to grow.

(D) None growers: The motivation for the owner is not to grow as the complexity interferes with the preferences of the owner.

2.3.4   The life cycle view of firm growth

These theories on firm growth are based on the cycle of life drawn from the biological sciences, the progression of a firm as a life can be compared to living

organisms that progress through a number of life stages, each with discernible characteristics (Rozyn 2007).

The various organisational life cycle models suggest that there are different challenges to overcome as the firm moves from one phase to the next. In order for the SMMEs to grow successfully, the owner/manager must develop the necessary skills to enable their business to progress to the next phase. Churchill and Lewis (1983) believe that there is number of reasons for developing such a model of the organisation life cycle, namely:

(A) It can assist in assessing current challenges,

(B) It can aid in anticipating key requirements at the various stages,

(C) It assists in diagnosing problems and it matches solutions to the problems,

(D) It provides a basis for evaluating the impact of present and potential shifts emanating from the external environment, and

(E) It provides a guideline to the content and level of sophistication of material to be attempted within each of the phases.

A number of organisational life cycle models try to explain the changes a firm experiences as it progresses from initial phase through to the decline stage. The models have a number of similarities. However, there are also areas where they differ, such as the number of stages or phases, the duration of each phase and the terminology used to describe each phase. Some authors suggest five stages while others suggest four stages as follows:

2.3.4.1 Churchill and Lewis model

Many scholars have described the growth path of a SMME as a lifecycle model which is usually based on the size of the business and its maturity where the chronological stages in the model represent the growth phases in the firm's development. Churchill and Lewis (1983) developed a growth model, which explains the predictable growth pattern of a SMME. The model developed by Churchill and Lewis (1983) has five stages, namely existence, survival, success, take-off and resource maturity.

2.3.4.1.1 The existence stage

In the existence stage, the key focus is on obtaining customers and as such the extent of formal systems is minimal and in some cases non-existent. In addition, the organisational structure is flat and therefore the owner/manager adopts a management style where there is direct supervision of those working in the business.

2.3.4.1.2 The survival stage

As the business progresses to the second stage called survival, the business begins to employ some formal systems as the organisational structure develops more levels and hence, the owner/manager begins to delegate some of the responsibilities to employees.

2.3.4.1.3 The success stage

The success stage is characterized by the owner/manager deciding either to keep the business at its current operational level or to use the business to launch into some form of growth. The decision will be driven by the owner/manager's motivation, opportunity recognition and resources. Functional managers are usually used in this stage, as the business would normally have grown for the organisation to have employees taking even more management responsibility. In addition, the business has basic systems such as finance, marketing, and operations.

2.3.4.1.4 The take-off stage

In the fourth stage called take-off, the key management issues confronting the owner/manager includes determining the rate of growth and financing of the desired growth. Embedded in making these decisions are issues of delegation where the owner/manager would have to allow for even greater delegation to functional managers to improve organisational effectiveness, availability and access to financial resources required to support the desired growth.

2.3.4.1.5   The resource maturity stage

The final stage is resource maturity where the main concern for owner/manager includes managing the financial gains resulting from growth and maintaining the benefits associated with SMMEs such as flexibility, responsiveness to customers' changing needs and entrepreneurial behaviour. A business in this stage would typically have well-established organisational systems.

2.3.4.2   Generic stages of SMME growth

Unlike the Churchill and Lewis (1983) model, generic stages model has four stages of growth: introductory, growth, maturity/stability and decline.

2.3.4.2.1   Introductory stage

This stage is characterized by a low growth rate of sales as SMME is newly launched and consumers may not know much about it. Traditionally, a company usually incurs losses rather than profits during this phase. Especially if the product is new on the market, users may not be aware of its true potential, necessitating extensive information and advertising campaigns (Boundless 2014). This stage is comprised of three sub-stages: idea conceptualisation, start-up and existence/survival.

Idea conceptualisation stage   It is also referred to as the start-up stage or conception stage of the organizational life cycle. Timmons (1994) stresses that, this is the most risky stage and is characterised by the direct and extensive drive, energy, and entrepreneurial talent of the owner/manager and a key team member or two. During this stage, the critical mass of people, market and financial results, and competitive resilience are established while investor, banker, and customer confidence is earned. The failure rate of firms during this stage is as high as 60% (Timmons 1994). Greiner (1998) argues that, the characteristic of this stage considers as the founder's technical or entrepreneurial orientation which results in the product absorbing both their physical and mental energies. The firm at this stage is emerging, concentrating on obtaining customers with generally a single or basic product.

The management style is personalised based on the behaviour of the entrepreneur who also closely supervises all activities. The main problems arising from this

stage are the creative ability to identify potentially viable product ideas and the ability to assess the merits of investigating the initial feasibility of establishing a business founded on the initial business idea.

The start-up stage   The transition from idea conceptualisation stage to start-up stage requires converting the product idea into an actual business activity. This stage requires more analysis of the business in the form of a business plan from which the owner/manager can work when establishing and setting up the business. Greiner (1998) points out that in order for the firm to develop, the founder must provide leadership and tackle the various management issues that arise. This will be particularly difficult for owner/managers who enjoyed the initial creative phase with its informality. However, if the owner/manager can provide the requisite leadership for the firm, they can begin the process of charting the direction in which they want the business to move.

Kuratko and Hodgetts (1995) see the two most important considerations during this phase as being the identification of the businesses' competitive advantage and the location of a feasible source of finance. A further consideration during this phase is the type of marketing being pursued by the owner/manager of the business (Sha 2006).

The existence/survival stage   During the previous stage, the owner/manager was more concerned with the establishment of the firm as well as trying to gain market acceptance. The focus is now to get enough customers so as to make the business economically viable. Burns and Dewhurst (1996) go further by stating that owner/managers need to focus on solvency with the task of monitoring cash flow and meeting break-even as being of prime importance. This view is also supported by Churchill and Lewis (1983) who also suggest as a primary strategy that the owner/manager attempts to keep the business solvent long enough for the customer base to be expanded and at this stage of the organisation life cycle, the owner/manager still does everything in addition to directly supervising staff. The primary strategy is simply to stay alive.

Burns and Dewhurst (1996) also suggest that the margins that were initially projected are indeed achieved and that the owner/manager must focus on developing the products unique selling proposition based on the initial reaction from the customers. During this phase, there is a shift in emphasis away from establishing the firm in the market towards identifying new customers, that is,

a greater shift towards the marketing function (Tyebjee, Bruno and McIntyre 1983). In this stage, the firm develops credibility in the marketplace and establishes the technical capabilities of its product offering. The need to improve internal reporting and to improve financial control systems becomes a priority and this is largely due to the economies of scale taking effect since the firm's product lines become more standardised and attract a wider array of customers (Tyebjee et al. 1983).

This stage also, creates a situation where the employees find themselves restricted by the owner/manager's attempts to monitor everything and, as they understand their role in the organisation, they need autonomy and freedom from the owner/manager's watchful eye. In order to motivate the employees, the owner/manager must delegate authority and give their employees more responsibility. This will enable them to be more responsive and allow them to take initiative without having to have everything checked by the owner/manager.

According to Burns and Dewhurst (1996), the owner/manager should be monitoring margins, cash flow and break-even. Churchill and Lewis (1983) emphasise the importance of having sufficient cash flow to allow the firm to expand to an economically viable size. Curran and Stanworth (1986) warn that failure to deal with the problems identified during this stage of the organisational life cycle will result to business failure.

2.3.4.2.2   Growth stage

This is also referred to as the high growth stage, rapid growth stage or take-off stage of the organizational life cycle. The growth stage is the period during which the SMME eventually and increasingly gains acceptance among consumers, industry and the wider general public. During this stage, the product or the innovation becomes accepted in the market and as a result sales and revenues start to increase, profits begin to be generated (Boundless 2014).

Timmons (1994) suggested that this is the most difficult challenge for the founding entrepreneur when they find it necessary to let go of power and control over key decisions that they have always made. Other challenges may arise like the ability of a firm to grow as rapidly as the market opportunities. A major change in entrepreneurial strategy is required on the part of the owner/manager during this stage.

During this stage, the owner/manager must take heed by keeping a close eye on new entries into the market. Larger competitors are likely to react to the entry of new firms into the market. Burns and Dewhurst (1996) suggest the adoption of more control systems along with the recruitment of more skilled staff in preparation for this increase in growth. The issue of control also emerges as an important area according to Greiner (1998) as a direct result of the delegation of authority which was necessary in the previous stage. It is also during this stage that the feeling of losing control arises as a result of the delegation of authority from the previous stage.

Therefore, there is a need to coordinate the systems more effectively which ought to result in the efficient allocation of the firm's limited resources. Burns and Dewhurst (1996) suggest that the owner/manager must manage the allocation of the limited resources as well as participate in strategic planning to deal with the expansion in the business operation.

The greatest need identified during this stage, is the need for the effective delegation of authority not just the allocation of duties by the owner/manager (Burns and Dewhurst 1996; Churchill and Lewis 1983; Tyebjee et al. 1983). In this stage also, the firm grows sufficiently in size so as to require skilled management and if the owner/manager is lacking the necessary management skills, this could lead to business failure.

Churchill and Lewis (1983) refer to this as the disengagement option where the business is firmly established in the market by allowing control to be handed over by the owner/manager in favour of professional management. Another option available to the owner/manager is the development of their own managerial skills and competencies necessary for the successful management of the firm (Kuratko and Hodgetts 1995).

The high growth experienced by the business will eventually begin to slow down due largely to the increase in the number of competitors attracted to the market. Tyebjee et al. (1983) identified market saturation as the major cause for the slowing down of growth which requires the firm to pursue other product positions in order to sustain the growth.

Owner/managers at this stage of the organisational life cycle find that they are unwilling or unable to make the necessary personal and business changes to grow the business further which results in the demise of the business or the owner/manager leaves to start another venture. McMahon (2001) believes that

a major stress factor faced by the owner/manager is the possibility of loss of control resulting from the need for an infusion of equity capital by selling a portion of the business.

McMahon (2001) identified the financial gap as a problem that occurs very often during this stage. The financial gap contains the finance related problem such as the raising of capital and initial government grants ceasing as the firm is established while the firm is still regarded as too small and risky by financial institutions. According to Burns (2001) and McMahon (2001), the main sources of finance at this stage is the owner/manager, suppliers and commercial financial institutions.

2.3.4.2.3   Maturity/stability stage

This stage is also referred to as resource maturity stage or stability stage of the organizational life cycle. The key issue according to the firm is no longer survival, but rather one of steady profitable growth (Timmons 1994). Hall (1995) adds that it is during this stage that a firm will have the advantages of size, financial resources and managerial talent.

After the rapid growth and expansion of the business in the preceding stage along with the increase in competition, this stage is characterised by stability (Churchill and Lewis 1983). The role of the owner/manager changes during this stage and must be re-directed from one that focuses on growth to ensuring that the company consolidates its position in the marketplace and looks strategically to the future rather than complacently reaping the fruits derived from past successes (Burns 2001).

Kuratko and Hodgetts (1995) suggest that this stage is the one that will either drive the firm forward to a higher level of profitability or condemn it to decline and failure. This responsibility is highly dependent on the actions of the owner/manager and it is believed that innovation is critical to reduce the chances of failure during this stage.

One of the potential difficulties identified by Greiner (1998) is an increase in 'red tape' due to the plenty of control and coordinating system implemented during the earlier stages and the solution to this problem is to narrow the gap through collaboration between the owner/manager and lower levels of management which may have been caused by the rise of red tape.

While the life cycle concept provides valuable information on how a firm develops and evolves through the various stages of development, it has some limitations imposed upon it. Storey (1994) has cited four limitations:

Firstly, while implied by the models, not all firms move sequentially through all stages due to business failure. It is accepted that not all firms progress sequentially through all stages but not all models expect it to, either implicitly or otherwise. Also, Eggers and Leahy (1995) model depicts the firm moving forward and regressing, omitting some stages entirely.

Secondly, the firm's management style may be more advanced than the firm's organisational structure, which means they are not moving in parallel as suggested by the models. Greiner (1998) admits also that this could potentially be a problem if the owner/manager attempts to institute an inappropriate organisational structure. The owner/manager might not even realise the stage the firm is going through or even consciously think what they have to do. By using the organisational life cycle models as a guide, the appropriate managerial style might emerge as a solution to the problem.

Thirdly, firms may reach one particular stage and remain at that stage. It is difficult to see how this can be a limitation. Churchill and Lewis (1983) offer numerous scenarios in which this situation occurs. As long as the owner/manager is happy to accept the stage they are in, then the models have served their purpose in guiding the owner/managers behaviour through change to a stage where they are content to remain at.

Finally, Greiner (1998) and Churchill and Lewis (1983) models suggest transition between stages is caused by crises. Storey (1994) sees this as an untested and untestable hypothesis. Rather than looking at the models as comprising a number of distinct and discrete stages, each indicated and identifiable by crises, it may be possible to look at the models and their stages as a simplification to help in understanding of a process, which is essentially continuous rather than discrete.

2.3.4.2.4 Decline Stage

This stage is characterised by the slight decline in sales over time. The decline stage of the life cycle model is where the organisation ultimately 'dies' due to the low or negative growth rate. Profitability will fall, eventually to the point

where it is no longer profitable to produce, and production will stop (Boundless 2014).

Nieman and Nieuwenhuizen (2009) argue that this stage is not necessarily inevitable but should rather serve as a warning against complacency on the part of the owner/manager. The challenge during this stage for the owner/manager is to either create an environment that is conducive to creativity so that the venture can be rejuvenated or allow the venture to continue to slip into decline. Features of the decline stage include (Boundless 2014):

(A) A decline in sales volume as competition becomes severe, and popularity of the product falls,

(B) A fall in prices and profitability,

(C) A counter-optimal cost structure,

(D) Profit increasingly becomes a challenge of production/distribution efficiency rather than increased sales.

It is important to note that this stage is not usually the end of the business cycle, rather, it is only the end of a single entrant within the larger scope of an on-going business program.

The life cycle model can be viewed as important as it represents the external determinant of the potential growth of SMMEs. Thus, market demand and industry structure characteristics of the life cycle model determine the scope for understanding SMME growth. This life cycle model evaluates the SMMEs from a change in the role of the owner/manager to the emergence of some formal management structure where the owner/manager begins to delegate their operating role and then some management roles (Churchill and Lewis 1983; Greiner 1998). These structure adaptations are necessary for the continued growth and success of the business. It could also be implied that the development of a managerial division of labour (structure) may be a consequence and an instigator of successful growth.

2.4 Factors influencing SMME growth

In the absence of functional specialists, SMMEs perform their business activities with less expertise than large businesses (Freel 2000). Hall (1995) has also

found that only a few SMMEs have the potential to grow. SMMEs cannot offer the challenging careers and the attractive remuneration packages offered by large companies nor can they offer the same opportunities for training and skill development (Webster, Walker and Barrett 2005). Despite these distinct disadvantages, employees in SMMEs claim more personal satisfaction from the freedom, flexibility and the more congenial work environment that is found in such businesses (Shuster 2000).

The innovative capabilities of SMMEs are constrained by the limited access they have to forms of finance and for venture capital, lack of sufficient resources limits the long-term planning capability of SMMEs (Barringer and Jones 2004; Freel 2000). The typical problems faced by SMMEs are lack of management expertise, under-capitalization, disadvantages of lack of economies of scale, lack of resources to carry out research, and inability to adapt new technologies (Akgün, Lynn and Byrne 2004; Lauder, Boocock and Presley 1994; Yasuda 2005). All these are the usual strengths of well performing large companies.

SMMEs size and simple structures provide the flexibility to be responsive to changing circumstances. This entrepreneurial dynamism promotes creativity, and endows them with a combination of characteristics crucial to achieving competitive advantage (Barrett and Rainnie 2005; Metzler 2006). There is also limited consensus on major impediments to SMME growth at different stages of the life-cycle. Therefore, a systematic study which proposes strategic solutions to the problems SMMEs experience at different stages of their life-cycle, would help to promote organizational growth.

This study gathers information on the factors influencing businesses growth under two categories, predictors of SMME growth and constraints to SMME growth. The following section presents the influence of general predictors to SMME growth under three categories mainly, owner- manager factors, the internal factors, and the external factors. Then the study discusses the constraints to growth.

2.4.1 Influence of owner/manager factors

These factors relate to the entrepreneur's personality and characteristics. It has been argued that the mentality, in the form of individual matters, of the owner/manager is strongly related to growth (Peters and Brijlal 2011). Factors

such as gender, age and education have shown a relationship with SMME growth and performance as follows:

2.4.1.1   Owner/managers' gender

The literature on the effects of gender factor on SMME growth suggests that there are significant gender factor differences in relation to measuring business growth. Female and male owner/managers measure SMME growth and performance in different ways. Female look at business growth in terms of meeting personal goals they set when they started their businesses. They do not focus mainly on the financial indicators. Instead, they place a higher value on their personal goals, self-fulfilment, and their family (Tundui 2012).

Welter (2001) found that women entrepreneurs seemed less interested in growing their businesses than their men counterparts. This is also in accordance with findings of Isaksen and Kolvereid (2005). There are some differences between genders when considering education, women entrepreneurs with higher education state a larger interest in growing their enterprise (Welter 2006).

Rosa, Carter and Hamilton (1996) found the performance of female to be lower as compared to male owner/managers. Similarly, Tundui (2012) found that female owner/managers do not achieve high business growth compared with their male counterparts. However, he argues that the gender differences in business growth are the results of differences in individual growth objectives.

On the other hand, some studies found that there is no any significant gender effect on SMME growth. Du Rietz and Henrekson (2000) discovered that gender differences are highly significant at the descriptive level. This significance disappears when regression analysis is applied. They conclude that their findings provide no support for female underperformance according to a strict interpretation of their hypothesis. Similarly, Johnsen (2005) found that the consistent statistically significant differences in financial performance and growth do not exist between female SMMEs and male owner-managed.

The literature on gender differences show conflicting results relating to gender, performance and business growth. This indicates that the effects of the gender factor on growth are different across female and male owner/managers.

2.4.1.2   Owner/managers' age

Onuorah (2009) found that there was a significant relationship between age of the owner of a business and the profitability of the business. Hall (1995), states that the age of the owner when the business was started is believed to be positively correlated to the probability growth. Storey (1994) found that middle-aged entrepreneurs are more likely to grow their SMMEs than their older or younger counterparts. Storey (1994) credits this to a combination of experience gained with age and the energy and enthusiasm of relative youth. The number of studies also indicate that there is a positive relationship between age and SMME growth (Andersson, Gabrielsson and Wictor 2004; McGee and Sawyerr 2003).

Abouzeedan and Busler (2004) suggest an opposite relationship between age and SMME growth. They also found that the older owner-managers are less successful in comparison to their younger counterparts. This suggests that older owner/managers are less able to handle the routine problems encountered by small businesses.

2.4.1.3   Owner/managers' education

Education affects owner/managers' motivation, enhances exploratory skills, communication skills and foresight which influence the performance of SMMEs. Education has served also as a proxy for entrepreneurial skills and abilities (Dobbs and Hamilton 2007; Smallbone and Wyer 2000).

Sapienza and Grimm (1997) argued that searching skills, foresight, imagination, computational and communication skills are enhanced through college education. In addition, specific forms of knowledge-intensive education, such as engineering, computer science, and biochemistry, provide the recipients of education an advantage if they start a firm that is related to their area of expertise. To support this argument, Kozan et al. (2006) found a positive relationship between higher educational qualifications and business growth.

According to Kolvereid (1992), factors such as education have been found to be related to aspirations, with people with lower education levels having fewer growth aspirations. This implies that the level of education and growth aspirations is directly related. Although, Wynarczyk, Watson, Storey, Short and Keasey (1993) found no clear relationship between educational attainment and employment growth.

2.4.2   Influences of the internal factors

The growth of SMMEs is influenced by the internal factors of the business. These factors can be subdivided into three categories: the characteristics of the business and factors that correspond to its ownership and organisational form, the strategies employed by the business and internal management competencies. The emphasis within this section is on the impact of the characteristics of the business and the strategies employed by the business on the employment growth of SMMEs.

Emphasizing the role of firm characteristics has become an increasingly important consideration in the empirical studies examining the growth and performance of firms. SMMEs characteristics seem to be an important factor associated with systematic differences in firm growth.

2.4.2.1   Businesses age

The total employment created by SMMEs in a country depends on the ability of all small businesses to realise their full potential. Hall and Young (1991) have argued that targeting support for SMMEs based on age should not be avoided.

The age of the business is an important factor that determines the growth rate of a small business (Davidsson 2002). Younger businesses grow quickly initially to reach the minimal efficient size and slow down once that has been achieved (Heinonen, Pukkinen and Nummela 2004). This has linked view to the reduction of owner/managers' growth motivation due to attainment of a satisfactory standard of living, life-style and family factors (Davidsson 1991; Dobbs and Hamilton 2007).

While some studies have found a positive relationship between business age and growth, for example by Birley and Westhead (1990); Davidsson (2002), other studies have found that there is no statistical relationships between business age and growth (Birley 1986; Yasuda 2005).

2.4.2.2   Ownership structure and control

Many studies have been conducted to explore the effects of business ownership on SMME growth. The findings of some of these studies show a positive relationship between the type of ownership of the business and levels of employment

growth (Birley and Westhead 1990; Westhead and Birley 1995).

SMMEs owned by several people are more motivated to grow than the businesses owned by a single person. This difference in growth is due to the greater variety, balance and synergy of skills provided by the team of owner/managers (Feeser and Willard 1990; Vesper 1990).

Birley and Westhead (1990) attributed the relationship between ownership structures and employment size to the availability of an array of skills within the expanded ownership of a business. Muller-Boling (1993) argues that the effects on the growth of a business are not related to the size of the management team but the right mix of the qualifications and skills within the members of the management team.

2.4.2.3   Legal Form

Another part that affects the growth of SMMEs is its legal form. Davidsson et al. (2002) found out SMMEs that adopt a legal form which gives limited liability to owners, experience high rate of growth than the sole proprietorship or partnership businesses. One reason for this correlation is that the limited liability assists in rising of necessary financial resources. The willingness of SMMEs to implement high risk strategies due to protection granted to personal assets is the second reason for rapid growth.

2.4.2.4   Location and networking

The location of the SMMEs has influences on the turnover and growth opportunities. Geographical closeness to critical buyers or suppliers promotes environmental scanning that allows SMMEs to more easily identify and exploit growth opportunities in the market (Dahl and Sorenson 2007).

Networking also is very important to SMMEs both new and established and can positively impact on their performance and growth. Okten and Osili (2004) found that the development of networks helps SMMEs to tap into resources in external environment and gain growth opportunities successfully. Shane and Cable (2002) argued that networking can be used to reduce information asymmetry in financing relationships. In addition, networks increase SMMEs opportunities and outreach, which in turn positively influence the growth.

Le and Nguyen (2009) point out that in the absence of effective market, networks play a significant role in increasing knowledge about a SMME existence and its practices. This suggests that location and networking can positively impact on the growth of SMMEs.

2.4.2.5   SMMEs Size

The size of the firm has been considered as a proxy for risk and so has been assumed to be influential in respect to growth. The small size of the business can be an advantage when it comes to specialization and filling niche markets with products. However, size can be a disadvantage when it comes to obtaining financing for the business (Michael 2014). Michaelas, Chittenden and Poutziouris (1999) examine the relationship between SMMEs sizes and their growth and highlight that, there is a positive relationship between SMMEs size and the growth rates.

On the other hand, SMMEs size limits the chances of getting external financial resources. Therefore, many SMMEs rely on personal assets of owners and management to finance the company. Limited funds also affect marketing and the ability to reach new markets, which can have a negative effect on its growth.

2.4.2.6   Marketing

SMMEs' strategies are fundamental in explaining their growth, and this can be seriously hampered when companies are subject to considerable market restrictions, the following strategies have been cited to have influences on SMME growth.

The marketing function consists of the process of analysing, planning, implementing and controlling the programs designed to develop, build and maintain beneficial exchanges of products and services with target customers and clients (Armstrong and Kotler 2006; Lamb, Hair, McDaniel, Boshoff and Terblance 2004). Marketing would also influence firm performance and growth by using strategies such as changing the product mix or increasing the use of sales promotion methods and re-evaluating the target market.

The literature on the relationship between marketing and firm performance cited a significant influence on SMME growth. The literature assessed the effect of marketing on firm performance and growth by a failure to pay attention to the marketing function. For example, Slatter (1984) found a relationship between

company failure and a lack of marketing effort. Gill (1985) reported lack of market research as a major problem affecting SMMEs performance. According to Hall (1995), failure to manage the market structure in terms of the level of competition may lead to business failure. Other areas related to marketing that are of considerable importance to SMME growth are selling, closer customer contact and an ability to communicate (Hill and Wright 2000).

2.4.2.7 Internationalisation

According to Ruzzier and Antoncic (2007), internationalisation refers to the geographic expansion of economic activities across national borders. Multiple approaches to examining internationalisation have been used in the extant literature and, as a result, a single, universally accepted definition of the term "internationalisation" is not identifiable. Eberhard (2013) defines internationalisation as the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services.

In the international business context, an opportunity is an unfilled, or imperfectly filled, demand in a foreign market (Toyne 1989). Thereby, the discovery or exploration is the seeking process of new opportunities, followed by the decision to exploit those opportunities (Choi and Shepherd 2004).

2.4.2.7.1 Internationalization as a strategy to overcome constraints

Entrepreneurs are not determined by the constraints they face. They can take actions to avoid them or move away from them (Van Burg, Podoynitsyna, Beck and Lommelen 2012). One important strategy, serving to grow a firm and to avoid local constraints, is geographical expansion (Barringer and Greening 1998). Through exploring new markets, SMMEs are able to reach a larger number of customers and focus on markets that have less constraints. The geographic expansion strategy also allows SMMEs to pursue new opportunities to leverage essential competences across a broader range of markets (Zahra, Ireland and Hitt 2000).

The implementation of an expansion strategy faces many challenges such as newness and liability of foreignness in addition to the common ones associated with SMME growth (Hymer 1976). These challenges support the idea that exporting is an essential act of entrepreneurship since it is an approach in search of

opportunities for growth and exploring new markets (Lumpkin and Dess 1996; Zahra, Jennings and Kuratko 1999), as well as firms who pursue such a strategy may do this intentionally to avoid local constraints to growth.

The rapidly growing interest in the internationalization of SMMEs has led researchers to focus on various aspects of SMME export activities (Dichtl, Leibold, Köglmayr and Mueller 1984; Shoham 1998). Other scholars have expanded in their investigation beyond exporting to take into account more broadly the processes of internationalization, for example see Coviello and McAuley (1999). Some scholars have found that higher levels of international trading lead to higher growth rates. Most of these results were based on empirical studies of large, well internationalized firms (Kim, Hwang and Burgers 1993; McDougall and Oviatt 1996; Tallman and Li 1996), and as a result the insight in the effect of internationalization on SMME's is to a lesser extent explored.

Exporting has been regarded as the first step to enter a new international market, it is a platform strategy for any future international expansion. This strategy is applicable to SMMEs because of the local constraints faced by this sector (Dalli 1995; Zahra, Neubaum and Huse 1997). This strategy allows SMMEs to access foreign markets and provide them opportunities to gain valuable international experience. Hashi and Krasniqi (2011) argue that SMMEs that engaged in internatonalization activities acheived higher growth rates. Exploring new markets enables SMMEs to learn from competitors. As such, it seems to be a viable route to overcome or mitigate local constraints.

2.4.3   Influence of External Factors

It is widely acknowledged that external factors play a crucial role in SMME growth. The literature investigated the impact of external factors on the growth of SMMEs concluded that, the ability of SMMEs to achieve their growth is impeded by the external business factors. Discussions on the influences of external factors on SMME growth tend to revolve around the structure of industries and markets. Carroll and Hannan (2004) highlighted that there is some evidence to suggest that SMMEs grow more rapidly in industries regarded as dynamic.

In line with this, Grant (2010) found that external factors determine the SMMEs ability to survive and prosper. Furthermore, Chawla, Hazeldine, Jackson and Lawrence (2007) argue that a SMMEs must pay special and continual attention

to the external factors to achieve a high growth by supplying what customers want to buy in surviving and beating its competition, although, it is difficult for a firm to be able to control the external factors. According to Morrison (2006), businesses are affected by external factors that they cannot control such as political, economic, social, technological, environmental and legal factors, these are all beyond the control of the SMMEs. There are several variables discussed in the literature capturing the external business environment, the study presents some of them as follows:

2.4.3.1   Economic environment

Economic environment has a direct impact on the potential attractiveness of various strategies and consumption patterns in the economy and have significant and unequal effects on organizations in different industries and in different locations (Olawale and Garwe 2010). Economic variables include the fiscal and monetary policies of the government, inflation, interest rates and foreign exchange rates.

South Africa's current economic environment is characterized not only by high interest rates but also by low growth rates, high inflation rates and declining exchange rates. In addition, according to Olawale and Garwe (2010), the country is officially in economic recession for the first time in seventeen years due mainly to the global economic meltdown. Consumption and confidence have fallen with a lot of firms showing reduced sales. Unemployment is high as well. All these factors can affect sales, revenues and market potential of new SMMEs (Olawale and Garwe 2010).

2.4.3.2   Consumer behaviour

Consumer behaviour pressure SMMEs to constantly adapt in order to meet changes in demand for instance, the spread of consumer awareness of sustainable development and environmentally friendly products force firms to adjust their business (Poblete and Leon 2010). Cheah and Cheah (2005) argue that it is an opportunity for SMMEs to incorporate sustainability policies in their business strategies and operational activities, though, there is a need for more institutional and government support to promote its benefits. In addition, Hassan and Agus (2005) state that demand is changing due to globalization which also has a great impact on SMMEs.

2.5   The concept of constraints to growth

The Oxford English Dictionary defines constraints as "confinement, limitation imposed on motion or action". In ordinary usage, limiting or closing off alternatives is probably the most common understanding of the term "constraint". In other words, constraints will reduce rather than increase the number of options available for solving problems, the number of alternatives routes one can take, and ultimately the number of ideas generated and implemented (Hessels and Parker 2013).

The concept of constraints to growth implies a perceived discrepancy between an individual's conception of the current reality and the desired state of reality. The concept of constraints also has been described in terms of internal and/or external factors or conditions that influence business growth. Constraints that relate to the influence of the entrepreneur or scale of the firm are therefore regarded as internal constraints. Those that relate to the influence of the broader environment on small business development are referred to as external constraints (Smallbone and Wyer 2000).

Constraints to growth according to Huang and Brown (1999) are said to be influenced by characteristics of the individual including knowledge and motivation, as well as by external characteristics such as stage of growth, location, and national environment. Constraints are seen as preventing firms from growing when growth is desired. Davidsson, Achtenhagen and Naldi (2005) describe that some factors influence growth mainly as facilitators while others act mainly as growth deterrents. Constraints tend to fall into the latter category. McGee (1989) adopted this view of constraints as growth obstacles in the review of the literature which aimed to understand why so few firms with innovative potential made the transition to medium or large firms.

The literature on constraints assumes that a proportion of firms wish to grow, but are prevented from doing so by constraints (Storey 1994). The concept of constraints also implies that for growth to occur, constraints must be managed or overcome (Smallbone and Wyer 2000). In the absence of any kind of mediation to deal with constraints, growth is less likely. This concept of constraints to growth has been linked to the literature on barriers to growth.

2.5.1   Constraints to SMME growth

An analysis of extant work in the organization and management literature reveals an interesting tendency in this regard. Scholars increasingly seek to understand how to move away from constraints or at least to minimize their negative effects on growth. The effect of constraints in general and on innovation and SMME growth in particular is typically assumed to be negative (Hessels and Parker 2013).

According to Mahadea and Pillay (2008), the major internal constraints to SMME growth are management and finance. They further classified corruption and crime as one of the major constraints to business development. This conclusion is based on the study conducted on environmental conditions for SMME development in South Africa. Mahadea and Pillay (2008) examined the impact of various factors that may affect positively or negatively SMME growth. These factors included human resources and management skills, socio-economic, access to finance, innovation and technology, taxation, regulations, laws, corruption and crime. The study done by Hlakudi (2012) identified some factors acting as constraints to SMME such as increasing fuel prices, the general increase in food prices, rising interest rates, and fluctuating exchange rates.

For example, SMME sector cannot afford to operate with high transportation costs that result from higher fuel prices. Similarly, the rise in interest rates increases the cost of credit and reduces the chances of access to funding as well as increasing loan repayments. When interest rate goes up, the number of SMMEs go down and vice versa (Hlakudi 2012). As a result, it can be assumed that the SMME sector benefited from a decline in interest rates. As a result of local constraints, SMMEs in South Africa fail to maintain their existence in the mainstream economy over the long run (Phago and Tsoabisi 2010). Consequently, many firms have suffered financial ruin and bankruptcy because of delays in payments by government.

To have further understanding on the relationship between constraints and SMME growth, it is useful to look at how constraints to growth have been identified and measured in the literature. The literature on constraints to SMME growth draws largely from owner/managers' perceptions of constraints (Doern 2009). Perceptions of the business environment are said to be important because they affect the growth motivations of individuals and influence the decisions and actions of these individuals (Davidsson 1991). Owner/managers' perceptions of

constraints are most often collected by cross- sectional quantitative surveys and structured questionnaires tend to be employed for this purpose.

To identify constraints to SMME growth, owner/managers are usually presented with lists of potential constraints and asked to select only those constraints they perceive to affect the growth of the businesses, or they are asked to rank each constraint in terms of perceived importance, perceived difficulty or perceived severity (Doern 2009). To examine the effects of constraints on SMME growth, items estimated as being very important or important may be plugged into a regression model. This approach was employed by the majority of the scholars (Bartlett and Bukvič 2001). Pissarides, Singer and Svejnar (2003) assumed that the most important constraints identified, indicated by the frequency of responses would be viewed as most important by all SMMEs.

Constraints to growth have been used to understand growth of SMMEs and to investigate which type of SMMEs is most likely to grow (Doern 2009). However, the effects of constraints are contradictory (Van Burg et al. 2012; Weiss, Hoegl and Gibbert 2014). Constraints sometimes can be considered as opportunities, promoting innovation and risk taking, but this depends on the type of constraints faced by the firm (Van Burg et al. 2012). In particular, the psychological literature argues that people are more creative when facing constraints (Goldenberg, Lehmann and Mazursky 2001; Moreau and Dahl 2005). SMMEs appear to be more creative to take earnings from any emerging opportunity while employing their limited resources (Baker and Nelson 2005; Van Burg et al. 2012). However, literature that investigates the relationship between constraints and innovation has come out with varied results. Thus, it is unclear when constraints lead to innovative and imaginative problem-solving (Cunha, Rego, Oliveira, Rosado and Habib 2014; Dolmans, Burg, Reymen and Romme 2013; Senyard, Baker, Steffens and Davidsson 2014). Dolmans et al. (2013) argue that the lack of resources, which is seen as a constraint, drives firms to focus on innovation and enable them to survive.

However, despite potential positive effects, constraints are broadly defined as those factors that limit growth chances of a firm with a desire to grow (Storey 1994), and researchers have provided evidence of the negative effect of constraints on SMME growth (Bartlett and Bukvič 2001; Doern 2009; McCormick, Kinyanjui and Ongile 1997; McGee 1989; Smallbone and Wyer 2000; Storey 1994). A lack of resources can affect SMMEs performance and growth, as they will have a limited capability to expand, employ the latest technologies and search for new

ideas (Berger and Udell 2006; Daniels 2004; Dobbs and Hamilton 2007; Gimede 2004; Mukama and Fish 2005). SMMEs with financial constraints cannot hire the required employees, which influences their innovative capability and viability (Chittithaworn, Islam, Keawchana and Muhd Yusuf 2011; Hyytinen and Toivanen 2005). Thus, the overall expected effect of constraints on SMME growth is negative, but the literature lacks insight in when and how constraints can be avoided or mitigated.

2.5.2   Business constraints

The study investigates the effect of six types of business constraints on SMME growth in South Africa namely: lack of skilled employees, lack of clear business plans, lack of government support, government regulations, competition and corruption. The following subsections present a brief discussion on these constraints.

2.5.2.1   Lack of skilled employees

The competencies and skills of the employee can be improved through training and advice programs. The determination of the skills related to SMME growth has given rise to illustrate which types of support should be provided to SMMEs. The literature has found a relationship between employee skills, knowledge and ability and SMME growth (Macrae 1992).

Furthermore, Robson and Bennett (2000) provide empirical evidence of a positive association between employee skill level and firm growth. Employee skills is of crucial concern to the productivity of a firm's operation (Lin 1998). Supporting these arguments, Saigosoom (2012) found that weak employee skills and Inability to devote staff to innovate were statistically proven to cause the greatest negative statistical impact to the level of product innovation.

Similarly, the lack of skilled employees is frequently cited in the literature as a problem that stands out above all other problems facing SMMEs. Macrae (1992) notices that the availability of suitably skilled employees differentiates between growing and declining businesses. The lack of skilled employees include, but are not limited to, a lack of education, experience or skills of the employees (Rauch, Frese and Utsch 2005).

It is the entrepreneur's responsibility to hire and manage employees and other resources within SMME. According to Mahadea and Pillay (2008), recruitment of employees is affected by internal and external factors. Such factors include operating capacity, necessitate the hire of additional employee and the intricacies of the labour laws. On the other hand, when there is a shortage of skilled employees in a specific industry, keeping the existing of employees is also a problem, as skilled employees often shift from one firm to another in response to incentives that could range from higher salaries to better benefits (Mahadea and Pillay 2008).

Relationships between the lack of skilled employees and SMME growth have been widely studied. For example, Fischer, Reuber and Dyke (1993) found a negative effect of the lack of skilled employees on decision-making processes and SMME growth. As explained by Casson (2003), as SMME grows, it becomes increasingly important to delegate decision-making roles within the firm to skilled employees from an external labour pool, beyond the skills of family members or friends.

There is some evidence to suggest that SMMEs are lacking certain management and marketing skills. According to a survey of 18,939 SMMEs in the UK by Carter, Mason and Tagg (2006), the most likely skills shortages to characterise their existing workforces are managerial skills (32.7%), sales and marketing skills (30.2%). Furthermore, Carter et al. (2006) also argue that, because most SMMEs attract unskilled employees, the importance of training increases.

On the other hand, Aidis and van Praag (2007) found that neither general management experience nor job experience were significantly related to SMMEs growth. Similarly, Storey (1994) has claimed to the contrary that neither workforce training nor management training has much of an impact on SMME growth.

However, the lack of skilled employees is a constraint factor to SMMEs growth in developing countries (Sleuwaegen and Goedhuys 2002). The lack of skilled employees is also considered as one of the most crucial constraint for SMMEs, resulting in a slowdown in workforce development which has a negative impact on the quality of goods and services (Office of SMEs Promotion (OSMEP) 2007).

2.5.2.2   Lack of clear business plans

The ability of a business to undertake budgeting and planning increases the chances of reaching the growth objectives. For example, Duchesneau and Gartner (1990) found that a number of aspects of planning, including assessing the market, considering a number of functional areas, and allocating more time to planning are all related to firm success. Several studies have examined the relationship between business planning and SMMEs performance and growth. The need for complicated planning in SMMEs is not as great as it is for larger firms. SMMEs are manageable, localized markets and usually have simple objectives (Rice 1983). O'Regan and Ghobadian (2002) argued that the approach taken to make a plan is less structured in SMMEs than in larger firms.

The literature suggests a positive relationship between planning and SMME growth and performance (Morrison, Breen and Ali 2003; Upton, Teal and Felan 2001). Orser et al. (2000) found a positive influence of planning on SMME growth. On the other hand, some studies have found no significant relationship between budgeting and planning and SMME growth (Greenley 1986; Robinson, Logan and Salem 1986). Furthermore, Higgins (1980) added that some companies achieve success without doing any planning.

However, there are some internal factors considered as constraints to implementation of plans in SMMEs. They are inadequate communication, failure to implement plans on schedule, insufficient employee capabilities, ineffective coordination of implementation process, and poor employee understanding of the overall goals of planning (Beer and Eisenstat 2000; O'Regan and Ghobadian 2002).

A lack of clear business plans was also listed as a cause of businesses failure during their start-up phases (Tushabomwe-Kazooba 2006). In his study in Uganda, Tushabomwe-Kazooba (2006) discovered that less than a third of SMME drew a business plan prior to starting up of the business and 37% do not plan at all. In continuation, Tushabomwe-Kazooba (2006) also found that most SMMEs start without plans, therefore the business end up with no set goals or targets to meet. He also added that that the cost for preparation of a simple business plans is very high for SMMEs.

2.5.2.3   Lack of government support

Governments all over the world establish agencies and institutions to support and assist SMMEs (Naicker 2006). The overall objective of these agencies and institutions is to create an enabling environment for SMMEs development (Mahembe et al. 2011). The establishment of a good relationship between government agencies and SMMEs is one of the first steps in developing an environment which enables SMMEs to discover opportunities and grow (Studer, Welford and Hills 2006).

For SMMEs to grow, it is often important to have a stable, enabling environment and a supportive government. A lack of such a supportive environment can form an important constraint. Issues related to the failure of government to support SMMEs have been considered as constraints to growth (Madrid-guijarro et al. 2009). Some scholars also argue that underdeveloped, undeveloped and failed SMMEs may be the result of lack of government support (Madrid-guijarro et al. 2009; Mutula and Brakel 2006; Okpara 2011; Peters and Naicker 2013; Studer et al. 2006).

2.5.2.4   Government regulations

SMMEs are a central part of any country's economic policy. Accordingly, the government of each country can introduce a number of policies, rules and regulations. However, these regulations can also constrain SMMEs. For instance, Mahadea and Pillay (2008) argue that government regulations place serious constraints on SMMEs. While SMME-owners need to conduct their businesses and be their own bosses, conformation to government rules and regulations erodes SMME freedom as they become subject to numerous laws and regulations.

Mahadea and Pillay (2008) also found that regulations and taxation were significant constraints to the development of SMMEs. The impact of government regulations, industrial legislation and red-tape negatively impact SMME growth. This has been extensively investigated and was found to have an adverse effect on SMME growth (Kozan et al. 2006; Mahadea and Pillay 2008; Olawale and Garwe 2010; Rankhumise and Rugimbana 2010). Krasniqi (2007) also found that the need to comply with government regulations is a major constraint to SMME growth, because it increases cost to SMMEs. Mahadea and Pillay (2008) added that the costs of doing business in Africa are very high because of bur-

densome laws and regulations, difficulties in securing property rights, ineffective courts and weak institutions and infrastructure.

2.5.2.5   Competition

Soto-Acosta, Popa and Colomo-Palacios (2013) define competition as the market environment where business operates. There are different types of competition as introduced by Ibidunni and Ogundele (2013). First, pure competition means that every firm in the market industry sells comparable products. Second is monopolistic competition, monopolistic means that many firms sell substitutable products. The third type is oligopoly, which is when few firms control the bulk of the market. Pure monopoly forms the fourth type, in which only one firm controls the selling of the main product in the market. The final type is multi-market competition.

This is a situation whereby some firms compete against each other in different markets. Fair competition is a main part of any business development. If fair competition is allowed to be implemented, SMMEs in developing countries would be better off (Ibidunni and Ogundele 2013). Moreover, to survive and achieve growth, SMMEs need to understand the dynamics of competition in their industry and increase skills and competencies that provide them with a competitive advantage. By entering into competition a firm is searching for competitive advantage which has a great impact on the success and growth of the business (Poblete and Leon 2010).

Competition drives business to adopt good strategies and employ new technologies in order to survive (Soto-Acosta et al. 2013). Bartlett and Rangelova (1997) surveyed 394 SMMEs in Bulgaria and they reported that SMMEs do not consider competition as a major constraint to their growth. However, Klapper, Laeven and Rajan (2006) presented some evidence to suggest that firms tend to grow more quickly and more efficiently in those countries where competition is high.

Furthermore, strong or unfair competition is negatively related to business growth because it prevents business from expanding. Ibidunni and Ogundele (2013) highlighted that competition exists in any industry and it affects business in terms of reduction of turnover and profits. Furthermore, they found that the

majority of SMMEs less than two years in operation fail to survive due to failure to stand up to competition. Higher competition reduces the growth opportunity of new SMMEs.

On the other hand, as suggested by Krasniqi (2007); Omer, Van Burg, Peters and Visser (2015), unfair competition due to high levels of corruption prevents SMMEs from growing because it increases the cost of doing business. Competition in some studies has been mentioned by SMMEs also as a constraint to growth. Barkham, Gudgin, Hart and Havney (1996) in their study on 174 SMMEs in UK identified heavy competition as a possible market-related constraint.

2.5.2.6   Corruption

Today's business environment in developing economies, according to Krasniqi (2007), is characterized mainly by the informal economy, corruption and unfair competition that often jointly hinder SMME growth. This is because excessive regulations for example provide the incentive for entrepreneurs to seek ways of evading regulations, resulting in the growth of what Krasniqi (2007) term as 'the grey economy'. Krasniqi (2007) argues that high taxes, complex official regulations, the inadequacy of institutional environment, and the predatory behaviour by government officials seeking bribes from entrepreneurs operating officially are some of the main causes of corruption.

Corruption increases expenditures or investing in security measures to eliminate or minimize the likelihood of crime. Gaviria (2002) claimed that SMMEs engage in corruption because they often faced problems linked to regulatory compliance and bureaucracy. Cronje (2003) argues that SMMEs are characterized by weakening of the bargaining power, as a result they cannot oppose the requests for "under the table" payments. Further, they noticed that about 70% of the SMMEs perceive corruption as a constraint to their business.

Corruption has been a serious problem for all business including SMMEs, it has been widespread, deeply rooted, well-organized and tolerated (Omer et al. 2015). Furthermore, Cronje (2003) argues that SMMEs consider corruption to be a large constraint along with hidden costs related to government, policy instability and inefficient government bureaucracy (Nkonoki 2010). In addition,

Nkonoki (2010) highlights that in the case of SMMEs, bribery is an even more problematic issue since they may feel powerless in the face of demands for bribes and are often unaware that bribery can be resisted.

As a constraint, corruption prevents fairness to prevail and therefore it is to a large extent a cost to SMMEs and the government as a whole. As corruption deprives people of their rights, this means SMMEs cannot be established by deserving individuals. Therefore growth of SMMEs is affected in a negative way.

2.5.3   Financial constraints

The primary objectives of this study are to examine the effect of constraint on SMME growth and to investigate the passable moderating effect of microfinance on the relationship between financial constraints and SMME grow. The Bolton report outlines two issues underlying the financial constraints for SMMEs, first the lack of awareness of appropriate sources, advantages and disadvantages of finance and second the unavailability of finance resources or cost of finance to SMMEs that exceeds the cost of finance for larger enterprises.

This study examines the effect of three types of financial constraints on SMME growth in South Africa namely: lack of professional financial advisors, lack of access to finance and lack of awareness of financial services and assistance. Subsequently, microfinance is considered as a potential way to avoid or overcome these constraints.

2.5.3.1   Lack of professional financial advisors

Professional advices include those from lawyers, financial consultants, tax experts and so on. The advices commonly sought are those in the areas of financial management, market research, business strategy, public relations and advertising, personnel and recruitment matters (Nkonoki 2010). Nkonoki (2010) has shown in his study that, the firms which sought advices from professionals were achieving higher growth rate than firms which never used advice from outside sources. Anderson and Dunkelberg (1990) found that more rapidly growing and large firms are more likely to have sought and used information and professional financial advisors from external sources than SMMEs. However, they suggested that it is difficult to infer how the provision of these advices caused the growth

of the firms.

The lack of access to appropriate and relevant professional financial advisors is one of the most important constraints to business growth. Such advice revolves around identifying the type of activity about necessary inputs and market information, regulation and legislation, accounting, managerial advice, referrals to appropriate bodies and interlink age information (Agaje 2004). According to Agaje (2004), a survey of SMMEs in Ethiopia in 2003 shows that the lack of advices and appropriate and relevant information were identified by 35.1% of the respondents as biggest constraints to growth.

2.5.3.2   Lack of access to finance

Financial resources have been identified as one of the most important challenges that SMMEs face. Access to finance is a key factor that governs the capability of SMMEs to expand, grow and to employ the latest technologies (Abor and Quartey 2010; Krasniqi 2007). SMMEs have always faced challenges in accessing loans and capital. Limited access to finance is a major constraint to SMME growth, regardless of its location, size, industry and the economic environment of the market (Hussain, Millman and Matlay 2006; Omer et al. 2015).

Similarly, other studies found the financing gap to be one of the greatest challenges that prevents SMME growth and expansion (Beck and Demirguc-Kunt 2006; Demirgüç-Kunt, Maksimovic and Beck 2005; Hutchinson and Xavier 2006; Mahadea and Pillay 2008; Robson and Bennett 2000). The study will discuss lack of access to finance in much more detail in the next chapter.

2.5.3.3   Lack of awareness of financial services and assistance

In the study conducted by Magesa et al. (2013), the authors conclude that entrepreneurs normally hear of different financial intuitions but they actually do not have information on what these intuitions offer since the cost of getting this information may be high. The lack of awareness of financial services availability can help explain why business constrained by limit access to financial markets (Guiso and Jappelli 2005). The lack of awareness of financial services or conditions under which they are available, and general financial illiteracy have to be overcome (Batz, Lorek, Majewski and Lassenberger 2010). It is, therefore, essential to ensure that procedures are simple, financial products are demand-

driven, and clear and concise financial information is provided (Batz et al. 2010).

Among SMMEs in South Africa only 9.3% benefit from sources of financial services offered by government agencies such as Khula (Richards 2006). One of the reasons for the lack of impact by financial intuitions on small business development is possibly the lack of awareness of the resources and supports available from these intuitions. It is indeed this lack of information on the types of financial products available to the SMMEs which requires a coordinated marketing strategy from financial intuitions (Richards 2006). Therefore the lack of awareness of financial services availability is a major financial constraint to SMME.

2.6   Summary

The aim of this chapter was to investigate the current understanding of constraints, and their impact on SMME growth. The chapter laid the foundation for understanding the concept of SMME growth. SMME growth was discussed in detail, and found to be heterogeneous in nature. The variation in measures used in SMME growth studies, the variation in growth indicators, the variation in the measurement of growth over time, and the variation in the characteristics of the SMMEs are all important features of SMME growth as a phenomenon. SMME growth models were examined to understand how some firms survive and grow, and others fail.

These models examined the problems SMMEs experience at different stages of growth, and the actions to be taken to overcome them as they progress from one stage to the next. Four growth models were identified in the literature and discussed: stochastic models of firm growth, the resource-based view of firm growth, the motivation view on organisational growth, and the life cycle view of firm growth.

Stochastic models suggested that there are a large number of factors which affect firm growth. The resource-based theory suggested that SMME growth depends on the managerial resources available over time, to plan and manage growth in addition to maintaining current operations. While the motivation theory suggested that intentions of the entrepreneur is a driver of SMME growth. The life cycle model is based on the cycle of life drawn from the biological sciences, the progression of a firm as a life can be compared to living organisms that progress through a number of life stages, each with discernible characteristics.

This model suggested that the SMME life cycle is based on the size of the business and its maturity, where the chronological stages in the model represent the growth phases in the firm's development.

This was followed by an investigation on the factors that predict SMMEs growth. The chapter also discussed the concept of constraints to growth, and examined the effect of some factors that act as constraints on SMME growth in South Africa. It was concluded that constraints have a negative effect on SMME growth. Among those constraints, financial constraints were identified as major constraint to SMMEs growth.

The next chapter looks at the financing sources, and capital structure of SMMEs. SMMEs need access to financial resources to finance their operations and investments. In addition, the types of financial resources available to SMMEs will be discussed. The role of microfinance in overcoming financial constraints to SMME growth will also be examined.

Chapter 3

Financial structure and sources of finance for SMMEs

3.1 Introduction

In the previous chapter, the lack of access to finance was identified as one of the major constraints to SMMEs growth. The lack of access to finance limits the ability of SMMEs to survive and grow. Therefore, the financing decision and capital structure (the use of equity and debt) of SMMEs have important implications for the economy, given the role that SMMEs play in employment growth, competition and innovation.

This chapter looks at the capital structure, and financing sources for SMMEs. SMMEs need funds to finance their non-current assets, working capital, product development and initial losses. Capital structure theories and how they affect the financing decisions of SMMEs is discussed. The sources of finance for SMMEs and the role of microfinance is discussed.

3.2 The financial needs of SMMEs

Finance is essential to the success of SMMEs as it forms the foundation of the business (Boateng 2004). Without enough money to develop products, hire employees, establish markets and attract customers, no firm can survive and grow. Once the market opportunity and the strategy for seizing the opportunity

have been well defined, a firm may begin to examine the financial requirements in terms of asset needs and operating needs (Winton and Yerramilli 2008).

3.2.1 Non-current assets

Non-current assets involve expenditure on buildings, machinery, fixtures, fittings and vehicles. These are long-term tangible assets held for business use and not expected to be converted into cash in a short term period. SMMEs need non-current assets to survive, innovate and grow. While it may be possible for the owners of SMMEs to fund its initial activities, it becomes increasingly difficult for them to do so when it comes to non-current assets (Leroy 2012). Berger and Udell (2006) note that one advantage SMME can obtain from having fixed assets is that it can be used as collateral. Furthermore, the value of non-current assets is relatively more stable compared to current assets such as inventories and accounts receivable. Therefore, lenders prefer to take non-current assets rather than current assets as collateral.

Non-current assets are essential for SMMEs. However, investment in non-current assets by SMMEs is low in South Africa. SMMEs in South Africa have a low propensity to invest in non-current assets. According to Falkena, Abedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela and Rees (2002), the reason for this may be attributed to the huge financial expenditure that is required for investment in these assets. In addition, SMMEs are also faced with lack of access to finance which further inhibits their ability to invest in non-current asset acquisition.

3.2.2 Working capital and cash flow

The cash flow is essential to maintain and grow a business. Padachi, Narasimhan, Durbarry and Howorth (2008) point out that if the working capital of a firm becomes weak, the firm can hardly survive. Working capital refers to a firm's short-term/current assets and liabilities. Current assets include cash, inventory, account receivable and prepayments, while current liabilities include overdrafts, accounts payable and accruals. The difference between current assets and current liabilities called net working capital. Positive working capital means the firm current assets is more than current liabilities. While negative working capital means that a firm currently is unable to meet its current liabilities with its

current assets (Firer, Ross, Westerfield and Jordan 2004).

Therefore, the failure to plan for increasing working capital needs can lead to difficulties in cash flow. Firer et al. (2004) suggest that working capital is needed to pay wages, suppliers and other expenses before sales revenue received from sales. Martínez-Solano and García-Teruel (2006) found that the negative working capital is a major constraint to the survival and growth of SMMEs. SMMEs that have limited working capital are more likely to fail than those SMMEs that have positive working capital. Thus the success of an SMME depends also on its ability to generate cash receipts in excess of the financial obligations and expenses. Therefore, even if a business is enjoying success in other areas, a shortage of cash can result in technical insolvency, which will lead to bankruptcy and possible liquidation (Gimede 2004).

However, on the other hand, working capital is often unacceptable as collateral. This could affect the availability of external finance to SMMEs (Nguyen and Ramachandran 2006). Thus asset and capital structure is an important determinant of a firm's ability to obtain external finance. Firms that have relatively higher levels of non-current assets compared to current assets in their asset structures are better able to get access to finance (Nguyen and Ramachandran 2006). This also suggests that SMMEs will have lack of access to finance because of their weak capitalisation.

3.2.3 Product development and initial loses

SMMEs need to raise funds to pay for the upfront costs of extended product development cycles. Product development often takes years and requires adequate funding to bring it to fruition (Leroy 2012). According to Leroy (2012),product development is defined as the process of acquiring knowledge to create a new product to serve the needs and wants of customers who are already buying the firm's products. Product development also refers to improving an existing product. Thus, product development has become a key determinant in gaining competitive advantage. However, not all SMMEs develop new products.

Baron and Shane (2007) argue that while some SMMEs show profitability during the start-up phase, it is more common to have income statement losses until the venture generates adequate revenues to cover expenses. This implies that

most SMMEs have initial losses and negative cash flow in the early phases of the business and this may result in failure if additional cash flow is not available.

3.2.4 Other reasons

According to Wennberg, Wiklund, DeTienne and Cardon (2010), SMMEs also require financing in order to develop their human capital. Human capital refers to the employees of the firm. Employees contribute positively to the growth of SMMEs by helping entrepreneurs execute their objectives. An SMME may require more specific expertise and highly skilled workers than a mature firm. As the SMME enters into the expansion stage, it may be able to use less skilled workers to meet production demands. In addition, while the founders are able to assume some of the responsibilities of managing the business, other activities will have to be managed by hiring some key and non-founder employees who have the knowledge and skills to help the firm grow.

3.3 SMME financial structure

SMMEs require significant financial outlays especially in the start-up phase of the firm. Thus SMMEs need some additional capital; either in the form of debt or equity, in order to remain operational, more especially in the start-up phase. This is known as the capital structure of a firm. This section discusses the definition of capital structure and also the theories of capital structure.

Making decision on acquisition of resources is a central element in starting and running business (Landström and Johannisson 2001). The entrepreneur's ability to collect the necessary resources and combine these in a new business may be crucial for whether the new firm will come into existence, and whether the degree of subsequent growth will be achieved (Alsos, Isaksen and Ljunggren 2006).

The way of financing the business resources is vital in this respect. Financial resources are the most basic and flexible type of resources as it can be transferred into other resources when needed. Financial resources can also act as a buffer to possible challenges due to changing environments, wrong decisions, and so forth (Migiro 2005). Sufficient access to funding is associated with growth in SMMEs (Leroy 2012).

3.4   Theories on SMME financial structure

There are various theoretical models on the financing of firms, starting from the traditional concept of Modigliani and Miller (1958) regarding the financial behaviour of firms. Since then a numbers of theories have been postulated regarding the financial behaviour of firms. These theories explain the financial behaviour of enterprises, taking into account their different characteristics and problems. However, most of the existing theoretical frameworks address the needs of large firms. Thus, the main ground upon which capital structure theory was initially developed concerned the large listed firms (Zingales 2000).

Concerning the extent to which extant theories of financing appear to explain the financial structure of business concerns. Padachi, Howorth, Narasimhan and Durbarry (2010) argue business firms of all sizes select their financial structure in view of the cost, nature, and availability of financial alternatives. In addition, the level of debt and equity in SMMEs is more than likely a function of the characteristics of the firm and its managers (Padachi et al. 2010). Zoppa and McMahon (2002) provide support for the same view, suggesting, in the private corporation, leverage theory does not always apply. The continued absence of a widely accepted normative theory of financial structure for business enterprises specially SMMEs thus underscores the importance of developing and testing the veracity of positive theories of SMMEs financing (Migiro 2005).

Good theoretical reasons to expect the financing decisions of SMMEs to be different from that of large enterprises. Hence, there has been increasing recognition that SMMEs are different from large ones and that these differences affect numerous aspects of SMMEs including their financing decisions and capital structure (Ang 1991; 1992). As a result, various theories have been suggested to explain variations in financing decisions and capital structure among firms.

Furthermore, there are some specific capital structure considerations that cannot fit into the SMMEs context. For example, Migiro (2005) pointed out that tax considerations in corporate capital structures are of little importance for SMMEs because these firms are less likely to generate high profits, leave alone filing tax returns and therefore are less likely to use debt for tax shields. It then follows that, there is no specific theory addressing the financing structure of SMMEs.

Predicting the differences between small and large firms' financing should be

developed from the same body of financial theory. However, this theory must be general enough to address the financial needs of the SMMEs. At the earliest development stages, the finance of SMMEs is critically dependent on the owners and individuals close to them. As successful SMMEs develop, they soon outgrow sources of internal equity and graduate to external capital, including venture capital, corporate investment and bank debt. Therefore the capital of the business is vital since it forms the foundation of the firm (Boateng 2004).

The theoretical principles underlying financial structure can generally be described in terms of the trade-off theory by Modigliani and Miller (1958; 1963), the agency theory by Jensen and Meckling (1976) and the pecking order theory by Myers (1984). It must be noted that financial structure theories are not restricted to these three. For a more complete analysis of financial structure and capital structure theories, see Harris and Raviv (1991).

According to Sogorb-Mira (2002), the most relevant capital structure theories that explain the capital structure of SMMEs are those related to trade-off, agency theory and the pecking order theory. Whilst these theories were developed in the field of corporate finance, they have been profitably employed in SMME studies. Hence, this study adopts a meta-theoretical framework of the finance theory that focuses on the special financing decisions of SMMEs. The framework is based on a combination of theories. These are trade-off theory, agency theory and the pecking order theory.

3.4.1 Trade-off theory

According to Andree and Kallberg (2008), the genesis of modern capital structure theory lies in the work of Modigliani and Miller (1958). The theory proposed by Modigliani and Miller (1958) was revised in 1963 to represent a real life scenario. Modigliani and Miller (1963) introduced the effect of tax and interest deductibility of debt.

Modigliani and Miller (1963) showed the effect of tax rates and interest rate deductibility on the capital structure and expected return of the firm's shares. Firms could, through interest rate deductibility of debt, shift payments from going to the government and instead direct them to the firm's shareholders and creditors by increasing leverage. The tax deductible effect of interest on debt creates tax savings for the firm and makes debt financing cheaper than equity

finance.

Modigliani and Miller (1963) therefore, suggest that a firm should have 100% debt in its capital structure and this enables the firm to take absolute advantage of the tax-shield. However, Scott (1977) argues that, theoretically, 100% tax shield does not exist in reality because of the interest repayment obligations of debt. Debt leads to a legal obligation to pay interests and principal. If a firm cannot meet its debt obligations, it is forced into bankruptcy.

Berger and Udell (2006) point out that many years have passed since the seminal work of Modigliani and Miller (1963; 1958) on the importance of capital structure, yet the seemingly simple question of how firms should best finance their assets remains a contentious issue. The empirical evidence regarding a firm's optimal mixture of financing is both voluminous and mixed in aggregate.

According to the trade-off theory, companies seek to obtain optimum capital structure and weigh up the advantages and disadvantages of an additional monetary unit of debt. The advantages of this approach include interest payments being deductible from company (López-Gracia and Sogorb-Mira 2008).

The disadvantages of debt include the potential cost of financial distress and agency costs arising between owners and financial creditors (López-Gracia and Sogorb-Mira 2008). If optimal capital structure is reached, the benefits and shortfalls of debt offset each other and equilibrium is achieved. Frank and Goyal (2007) divided the trade-off into two parts namely the static trade-off theory (the firm's leverage is determined by a single period trade-off) and target-adjustment behaviour (the firm's leverage gradually reverts to the target over time).

3.4.1.1   The static trade-off theory

Frank and Goyal (2007) argue in their paper that "a firm is said to follow the static trade-off theory if the firm's leverage is determined by a single period trade-off between the tax benefits of debt and the deadweight costs of bankruptcy".

The introduction of taxation effects implies that firms should, theoretically, seek to increase their debt levels as far as possible (Miller 1988). The static trade-off theory, which proposes that firms attempt to achieve an optimal capital structure that maximises the value of the firm by balancing the tax benefits, with the bankruptcy costs, associated with increasing levels of debt (Frank and Goyal

2007).

Allen, Myers and Brealey (2006) argue that the debt-equity decision should be based on observable firm characteristics such as business risk and asset structure. Especially firms with large intangible assets often face higher bankruptcy costs than companies with tangible assets, which can be used as collateral. Hence, according to the static-trade off theory, firms with large intangible assets should make use of less leverage.

Some researchers have identified problem areas in the ability of static trade-off theory to explain actual firm behaviour (Ezeoha 2011; Frank and Goyal 2009; Frielinghaus, Mostert and Firer 2005; López-Gracia and Sogorb-Mira 2008; Olawale and Garwe 2010). For example, Frielinghaus et al. (2005) argued that static trade-off theory implies that highly profitable firms should have high debt ratios in order to shield their large profits from taxation, whereas in reality, highly profitable firms tend to have less debt than less profitable firms. They also pointed that bankruptcy costs are much lower than the tax advantages of debt, implying much higher debt levels than predicted by the theory. The limitations of static trade off theory suggest the reliance on internal equity by SMMEs. Yet, the reality for growing SMMEs is a reliance on external debt because of the inadequacy of internal equity (Olawale and Garwe 2010).

In summary, static trade-off theory suggests that SMMEs in infancy cannot afford debt as their bankruptcy costs are high, and their earnings are too low to use the tax benefit of increasing interest payments. In the prime and stable stages of SMMEs, the more predictable earnings make, the tax shield advantage of debt is more beneficial. Static trade-off theory thus suggests that the proportion of debt in a SMME's capital structure should follow a low-high- low pattern over the SMME's life stages.

3.4.2   The dynamic trade-off theory

Frank and Goyal (2007) argue also that "a firm is said to exhibit target adjustment behaviour if the firm has a target level of leverage and if deviations from that target are gradually removed over time". According to Frank and Goyal (2007), a dynamic trade-off theory is characterized by the fact that firms set a debt-equity target and gradually adjust their capital structure to that target when shocks occur.

In case of adverse shocks, this model enables firms to rebalance their capital structure towards their debt-equity target without considering transaction costs. Instead of reacting immediately to adverse shocks due to the absence of transaction costs, firms allow its capital structure to drift over a long period of time. Firms wait to rebalance as long as the adjustment costs exceed the value lost due to sub-optimal capital structure (Weigl 2012).

Such behaviour may account for the empirical observation that a negative relation between profitability and leverage exists. For example, Hovakimian, Opler and Titman (2001) claim that high profitability is associated with low leverage and with a higher likelihood of issuing debt rather than issuing equity. Frank and Goyal (2009) analyse large panel of data and find that most of the data depicts a drift rather than active rebalancing. This finding can be mainly explained by the existence of transaction costs in the real world.

In a dynamic model, the correct financing decision typically depends on the financing margin that the firm anticipates in the next period. Some firms expect to pay out funds in the next period, whereas others expect to raise funds. If funds are to be raised, they may take the form of debt or equity. More generally, a firm undertakes a combination of these actions (Frank and Goyal 2007).

Several authors have also developed dynamic trade-off models in an attempt to provide a unified framework to understand the capital structure of the firms e.g. (Hennessy and Whited 2005; Leary and Roberts 2005).

3.4.3 The agency theory

The idea that managers prefer internal financing to external financing is, of course, old. Traditionally, the argument was that outside financing required managers to explain the project details to outside investors and therefore expose themselves to investor monitoring (Frank and Goyal 2007). Managers dislike this process and prefer retained earnings to external financing. But there is no direct prediction about the relative use of debt versus equity when seeking external financing.

These ideas were subsequently developed into agency theories, with Jensen and Meckling (1976) being a prominent contributor. The agency theory focuses on transaction costs following the work of Jensen and Meckling (1976) and Stiglitz and Weiss (1981).

The agency theory analyses the financial structure of the enterprise by taking into account the agency costs, which are the costs of having conflict of interest between the different agents in the firm (Jensen and Meckling 1976). The use of debt in the capital structure of the firm leads to agency costs. Agency costs are the costs that arise as a result of a principle-stakeholder relationship, such as between the shareholders or managers of the firm and debt holders (Cassar and Holmes 2003).

The agency theory is, therefore, concerned with costs that arise due to conflicts of interest. In particular, given the incentive for the firm to benefit shareholders at the expense of debt holders creates a need for debt holders to restrict and monitor the firm's behaviour. Consequently contractual covenants are incorporated into the debt agreements, designed to protect the debt holders from this potential behaviour (Cardone, Casasola and Samartn 2005).

All these contracting behaviour increases the cost of capital offered to the firm. Therefore firms with relatively high agency costs due to the inherent conflict between the firm and the debt holders should have lower levels of outside debt financing and leverage (Migiro 2005).

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders (Yartey 2011).

Transactions cost broadly refer to the cost involved in exchange transactions. These are costs that prevent markets operating efficiently or factors that prevent markets from forming altogether. Transactions cost occur both on the lender's side as well as on the borrower's side. On the lender's side, transactions cost involves cost of information gathering, loan administration, enforcement, etc. Borrower transactions cost mainly involves various charges imposed by lenders such as interest payments, application fees and service fees (Migiro 2005).

Therefore, in attempting to identify borrowers with a high probability of repayment, banks are likely to use the interest rates that borrowers are willing to pay as a screening device. Interest rates are viewed as having an effect on credit rationing in an imperfect market characterised by information asymmetries. Interest rates are thus assumed to sort potential borrowers which lead to adverse

selection (Leroy 2012).

Stiglitz and Weiss (1981) suggest that riskier projects offer a higher return compared to safe projects. Thus risky borrowers are usually willing to pay a higher interest rate than safe borrowers. On the other hand, risky projects are more likely to fail than safe projects reducing the bank's profitability. Therefore, it would be advantageous to the bank to charge lower interest rates on the safe borrowers and higher interest rates on the riskier investors.

However, because banks lack intimate knowledge of the type of borrower or the riskiness of the project, banks set a common interest rate for both borrower classes. Stiglitz and Weiss (1981) suggest that because the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract.

This is done to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers. Thus in markets with incomplete information, banks set an equilibrium rate of interest at which the demand for credit will exceed the supply. There will be credit rationing in credit markets where among loan applicants, some will receive and others are denied. Furthermore, there are identifiable groups of individuals who at a given supply of credit are unable to obtain credit at any interest rate (Stiglitz and Weiss 1981).

The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations.

3.4.4 Problems with agency relationships

Jensen and Meckling (1976) identify two types of agency conflicts. The first focuses on the conflict between shareholders and managers and the second on the conflict between shareholders and debt holders. Conflicts between shareholders and managers arise because managers do not hold total residual claim thus they cannot capture the entire gain from their value-maximizing activities.

The second type of conflict arises between debt holders and shareholders because debt contracts give shareholders an incentive to invest sub optimally. The debt contract results in asymmetric distribution of the gains, meaning that, if an investment is profitable above the face value of debt, most of the gain is captured

by shareholders, while if investment fails, debt holders bear all the consequences because of the limited liability of the shareholders. Jensen and Meckling (1976) argue that the most significant problems that may arise from agency relationships are adverse selection, moral hazard and information asymmetry.

3.4.4.0.1 Information asymmetry

The asymmetric information comes from the discipline that is known as "economics of information". The basic teaching of this discipline is that in many markets such as labour, finance and insurance, information is asymmetrically distributed and is costly to acquire. These markets are not spot markets where buyers and sellers meet and decide on prices. On the contrary, in the credit market for instance, there is a time period between forwarding a loan and the repayment. Whether the lender gets his money plus interest back depends on the repayment probability of the borrower.

The asymmetric information, can be illustrated as a situation where the seller of a good knows more about its quality and hordes that superior knowledge advantageously over the prospective buyer (Ojah 2010)

3.4.4.0.2 Moral hazard

It is a situation in which agents deliberately take advantage of information asymmetry to redistribute wealth to them in an unseen manner which is ultimately to the detriment of principals. A case in point is the failure of the board of directors of Enron's compensation committee to ask any question about the award of salaries, perks, annuities, life insurance and rewards to the executive members at a critical point in the life of Enron. One executive on record was said to have received a share of ownership of a corporate as a reward and also a loan of $77 m to the CEO even though the Sarbanes-Oxley Act in the US bans loans by companies to their executives (John 2009).

3.4.4.0.3 Adverse selection

This concerns a situation in which agents misrepresent the skills or abilities they bring to an enterprise. As a result of that, the principal's wealth is not maximized. Adverse selection arises pre-contractually because the agent possesses

private or hidden information about the real quality of his service and the principal is unable to find out that information.

This leads to information asymmetry and puts the principal in a disadvantaged position since the principal is faced with a pool of bidders with often insufficient qualifications. The principal cannot easily distinguish the 'bad cars or lemons' from the good ones (Devos, Landeghem and Deschoolmeester 2008).

The key idea is that the owner-manager of the firm knows the true value of the firm's assets and growth opportunities. Outside investors can only guess these values. If the manager offers to sell equity, then the outside investor must ask why the manager is willing to do so (Frank and Goyal 2007).

Adverse selection also occurs because investors and loan holders prefer borrowers that are most likely to repay their loans since the investors and loan holders expected returns depend on the probability of repayment. In addition, there are also problems of moral hazard. This is the risk that the enterprise will not perform in a manner sufficient to meet the repayments or the borrower engages in risky projects after receiving the loan.

According to Stiglitz and Weiss (1981), agency problems such as asymmetric information and moral hazards can impact negatively on the availability of credit and also on the capital structure of SMMEs. Stiglitz and Weiss (1981) named this phenomenon as credit rationing. In the Stiglitz and Weiss (1981) formulation, a competitive market or a loan market may be characterised by credit rationing through interest rate manipulation by credit institutions.

This is because when faced with two borrower types, a bank does not know whether a safe or risky borrower is applying for credit. Because of imperfect information, Stiglitz and Weiss (1981) suggest that adverse selection will occur where some potential borrowers receive credit while others are denied.

The theory also emphasises the prevalence of imperfect information in financial markets. In particular, debt markets are generally characterised by asymmetric information since the borrower is better informed about the value of the project that will be undertaken. Asymmetric information leads to adverse selection and moral hazard in contractual arrangements between firms and external providers of finance (Myers 1977; Scott 1977). This means that the lender may restrict the borrower's use of debt because of problems of moral hazard and adverse selection.

The nature of the asymmetric information is that managers know more about their companies' prospects, risks and values than do outside investors. Moreover, if the firm has a financial slack, but the market does not know this, managers will not issue fresh equity, even though it may involve passing up a good investment opportunity, so that the interests of present shareholders are protected. If investors understand this point, then the market will assume that a decision not to issue shares is good news. If management does propose a new share issue, it will be interpreted as bad news, and the share issue will precipitate a fall in the firm's share price (Myers 1984).

Thus, the agency theory considers the conflicts of interest brought about on the one hand between shareholders and creditors, and on the other hand between shareholders and managers. SMMEs are likely not to suffer from the second problem due to the fact that their property identifies almost exactly with their management. Notwithstanding, the agency conflict between owners and lenders may be particularly severe for SMMEs.

3.4.4.1 Relevance of agency theory to SMME finance

The relevance and application of agency theory to the particular circumstances encountered in SMMEs have been considered most notably by Hand, Lloyd and Rogow (1982) and Ang (1991; 1992). Hand et al. (1982) express the opinion that agency relationships exist in all businesses and their effect is likely to be most significant if the businesses are small. Among the points made by Hand et al. (1982) which have a bearing on agency theory as it applies to SMMEs are:

(A) The primary agency contest is not between owners and managers, but between insiders and outside suppliers of funds.

(B) The many opportunities owner-mangers have to divert resources to themselves make monitoring costs high. Thus, outside suppliers of funds tend to be restricted to those who are particularly adept at monitoring the SMMEs to which they lend, such as trade creditors and banks.

(C) Because of the imperfect market for ownership stakes, owner-managers may not bear all agency costs and therefore have limited motivation for reducing them through monitoring or bonding.

(D) The most important means of averting agency conflicts between insiders and outside interests is an appropriately drawn-up agreement covering such

matters as managerial compensation and other employment terms, profit distribution policy, reorganizations, sale of ownership stakes to others, and relations with associated businesses.

By focusing on the risks faced by outside stakeholders on an SMME, Pettit and Singer (1985) point out that two factors may contribute to a greater level of uncertainty in the estimation of risk for SMMEs. First, the problem of asymmetric information is greater for SMMEs. For example, SMMEs generally find it expensive to supply audited financial statements, and may find it difficult to overcome this deficiency with other information. Second, the added flexibility those SMMEs may have made it easier to substitute one asset for another, potentially leading to a change in the risk of the firm.

Migiro (2005) indicate that because of these circumstances, conflicts between owner-managers and outsiders may have more serious consequences on the SMME. Hutchinson (1991) notices that the importance of agency theory is to understand the financial dimensions of SMMEs and it provides a new perspective which helps to explain what might otherwise appear to be an anomalous phenomenon in the area of SMMEs finance. Hutchinson (1991) expands on the broader significance of agency theory to the field as follows:

(A) Agency theory helps to explain why SMMEs exist at all.

(B) Given the existence of economies of size, it could be expected that all business activities would be conducted by large organizations.

(C) Agency theory provides counter-balancing arguments in favour of smallness.

(D) In some cases, the benefits of small size are not sufficient to outweigh the benefits of economies of size and in these cases large firms will predominate.

(E) In other cases, where economies of size are not great or where agency costs are very great, small size may be the optimum.

Hutchinson (1991) then goes on to suggest that agency theory specifically aids understanding of such diverse aspects of SMME finance as financial structure, the SMMEs effect, the valuation of initial public offerings, franchising, management buyouts, differential financial disclosure, and the relationship between venture capitalists and SMMEs. Ang (1991) believes that the unique characteristics of SMMEs extend agency theory in a number of significant ways:

(A) In many SMMEs, the agency relationship between owners and managers may be absent because the owners are also managers. Nevertheless, the

various legal structures which SMMEs could adopt create a wider range of agency relationships, with their attendant problems, than might typically be found in large concerns that are almost exclusively companies.

(B) Because of their predominantly fixed nature, the usual solutions to agency problems such as monitoring and bonding are likely to be more costly in relative terms in SMMEs. This will inevitably increase the cost of transactions between the various stakeholders unless alternative solutions are found.

(C) There is likely to be both the opportunity and the need for finding new solutions to agency problems in SMMEs. For example, reputation and good faith emerge as particularly important ways of securing commonality of interests in SMMEs.

The theory provides useful knowledge into many matters in SMMEs financial management and shows considerable avenues as to how SMMEs financial management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMMEs.

The theory attempts to explain why SMMEs have limited access to finance. According to the theory, information asymmetry that characterises most developing countries results in adverse selection as banks do not possess intricate knowledge about the enterprises. Thus banks, in an attempt to decrease the negative effects of defaulting customers, usually charge a uniform interest rate to all its customers (Leroy 2012). However, these interest rates are usually high and discriminate against SMMEs as they lack collateral and prove to be highly risky projects to finance.

3.4.5 The pecking order theory

The pecking order theory comes from Myers (1984), who in turn was influenced by the earlier institutional literature, including the book by Donaldson (1961). Myers (1984) argues that adverse selection implies that retained earnings are better than debt and debt is better than equity. This ranking was motivated with reference to the adverse selection model in Myers (1984). The ordering, however, stems from a variety of sources, including agency conflicts and taxes. Myers (1984) argues that a firm is said to follow a pecking order if it prefers internal to external financing and debt to equity if external financing is used.

Due to high agency costs, most businesses prefer internal finance to external finance. The pecking order theory explains this tendency. The theory reflects the motivations of the financial manager (or owner manager) to obtain control of the firm, reduce the agency costs of equity, and avoid the seemingly inevitable negative market reaction to an announcement of new equity issue (Migiro 2005). According to this theory, if internal funds are insufficient, debt finance is preferred to equity finance as a source of incremental funding for investment projects (Myers 1984). This preference reflects the relative costs of the various sources of finance.

Implicit in the pecking order theory are two key assumptions about financial managers, (owner managers). The first of these is asymmetric information, or the likelihood that a firm's manager knows more about the enterprise's current earnings and future growth opportunities than do outside investors. The second assumption is that managers will act in the best interests of the company's existing shareholders (Myers 1984). The use of internal funds precludes managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them.

The information asymmetry suggests that external finance would be more expensive than internal finance as financiers add a risk premium to cover financing risk. Agency problems also increase the costs of external financing as monitoring and bonding costs are not necessarily incurred. Additional equity also signals that the owners are not confident in the firm's future (Migiro 2005). That is to say that, additional equity signals impeding bankruptcy. The implications of this theory are that SMMEs will have a preference hierarchy for different types of finance in their financial policy.

3.4.5.1 Relevance of pecking order theory for SMMEs

This is another financial theory, which is to be considered in relation to SMMEs financial structure. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the financial structure policy of SMMEs (John 2009).

Initially, the pecking order theory sought mainly to explain the observed financ-

ing practices of large publicly traded corporations. However, it was soon recognised that the theory may also apply to the financing practices of non-publicly traded SMMEs that might not have the additional financing alternative of issuing external equity finance. Migiro (2005) considers the pecking order theory to be an appropriate description of SMMEs' financing practices, because the pecking order hypothesis is in keeping with the prior findings that debt is by far the largest source of external finance for SMMEs.

In addition, Holmes and Kent (1991) suggest that SMMEs managers tend to be the business owners and they do not normally want to dilute their ownership claim. Thus, the issue of external equity finance, and the consequential dilution of ownership interest, may be further down the pecking order. The theory's application to SMMEs implies that external equity finance issues may be inappropriate. In relation to the owner-manager's control over operations and assets, if the pecking order theory holds, then internal equity finance will be preferred, because this form of finance does not surrender control.

When external financing is required, obtaining debt rather than equity finance is favoured, because this places fewer restrictions on the owner-manager (Abor and Biekpe 2009). Hall, Hutchinson and Michaelas (2000) argue that the agency theory problems arising between owner-managers and outside investors providing external finance which give rise to the pecking order theory are more likely to arise in dealings with SMMEs because they are controlled by one person or a few, related people, and their having fewer disclosure requirements'.

The theory's assumption that managers act on behalf of existing shareholders is more relevant to SMMEs, because of their closely held nature, and because the managers are usually the existing shareholders. Since the pecking order theory is pertinent to both SMMEs and large enterprises, the theory may therefore explain the observed differences between SMMEs and large enterprises' financial structures (Migiro 2005). Holmes and Kent (1991) explain that the application of the pecking order theory to SMMEs is constrained by two factors. Firstly SMMEs usually do not have the option of issuing additional equity to the public. Secondly owner-managers are strongly averse to any dilution of their ownership interest and control. This is in contrast to the managers of large firms who usually only have a limited degree of control.

Ang (1991) provides an alternative to this constrained pecking order theory, proposing a modified pecking order of financing preferences for SMMEs. This

involves new capital contributions from owners ranking behind internal finance, but in front of debt finance. According to López-Gracia and Sogorb-Mira (2008), the pecking order theory, with its emphasis on the desirability of the use of funds generated within the business rather than funds raised externally, can readily be applied to SMMEs. The pecking order theory suggests that use of external funds is very much related to profitability on the basis that SMMEs, particularly if they are not stock exchange listed, will make use of internally generated funds as a first resort, i.e. those which make use of external funds will be those with a lower level of profit.

Growth is likely to lead SMMEs that do not have sufficient internal resources to borrow although if the pecking order is constrained by lack of external funding of any kind, SMMEs might restrict their growth to fit the availability of internal funds. Thus, López-Gracia and Sogorb-Mira (2008) argue that within an overall pecking order theory, SMMEs when compared to large enterprises would:

(A) Rely more on short-term debt including trade credit and overdrafts.

(B) Rely less on new shareholders' equity compared to 'internal' equity and to debt in raising new finance.

(C) Rely to a greater extent on hire purchase and leasing arrangements.

This is not strange considering the fact that in South Africa, according to empirical evidence, SMMEs funding is most likely to be from own equity as well as loans from family and friends (Gimede 2004; Mahembe et al. 2011; Underwood 2009).

3.5 Financing sources for SMMEs

The growing importance of SMMEs to the South African economy means that, despite the tough regulatory environment, they now account for approximately half of all people in formal employment in South Africa (Bezuidenhout and Nenungwi 2012). Many existing and potential SMMEs also feel it is still difficult to access the funding required to start or develop a business and, as importantly, to acquire the necessary business information and skills that they may need.

According to Smith (2011), there are various sources of business financing where the providers have different objectives, capabilities and constraints. Some like banks seek low-involvement, low-risk investments, usually of short duration.

Others, like business angels, seek high-risk, high involvement investments of moderate to long duration. Different financing sources protect the value of their investments in different ways. Some, like venture capitalists, engage in active monitoring to protect their investments. Others, like factoring companies and most lenders, rely heavily on collateral. There are a variety of possible sources of finance available to the SMME sector. These sources can be classified as follows:

3.5.1 Equity

The personal equity of the entrepreneur is an initial source of finance for SMMEs. Equity primarily constitutes owners' contributions, contributions from family and friends and retained earnings and is used more widely by SMMEs (Leroy 2012). Contribution from friends and family are another important source of SMME equity. Fatoki (2011) also defines equity as is any financing vehicle that has a residual claim on the firm, does not create a tax advantage from its payments and does not have priority in bankruptcy.

Equity implies that the equity holder has a management claim in the firm. In addition, equity holders are entitled to receive dividend payments but the equity issuer has full discretion over dividend payments. Equity holders are also known as residual owners because they receive what is left after all the claims on the firm's assets and incomes, such as debenture interests and preference share dividends, have been satisfied. Equity can also be divided into internal and external equity (Mutezo 2005). Equity capital provides long-term funding with minimal cash flow drains typically associated with debt financing. In addition, internal equity enhances the creditability of an SMME when sourcing for external finance (Leroy 2012).

Carpenter and Petersen (2002) highlight that SMMEs prefer equity over external sources of finance such as debt to reduce the cost of finance. This means it will cost SMME more to get external funds than to use equity of retained earnings and owner's funds. According to Carpenter and Petersen (2002), equity allows the firm's owners to retain control of the firm, avoid floatation costs such as legal, accounting and underwriting fees as well as allowing flexibility to the owners. Furthermore, credit providers and banks may be reluctant to grant credit to SMME if the owners do not have his or her own money at risk (Ou and Haynes 2006).

3.5.2   Retained earnings

Retained earnings are one of the central sources of finance in any firm. Retained is the net profit the firm has accumulated in the business since its establishment. SMMEs retained earnings are the most important financing source (Rungani 2009). When SMMEs have a profitable investment opportunity, managers usually find it convenient to use retained earnings as a funding source (Hamilton and Fox 1998).

Profitability of the firm increases as the firm grows meaning that there is a positive relationship between the use of retained earnings and the size and profitability of the SMMEs (Rungani 2009). This means profitable SMMEs will initially rely on retained earnings. However, profitable firms may have better access to other sources of finance than less profitable ones, the need for external finance may possibly be lower for highly profitable firms if the retained earnings are sufficient to fund new investments (Abor and Biekpe 2009).

Abor and Biekpe (2009) also found that growth is likely to put a pressure on retained earnings and push the SMME to borrow more long-term loans. Similarly, Hamilton and Fox (1998) noted that SMME that makes full use of its internal funds by carefully managing all of its assets and controlling its costs will find that it is much more attractive to external sources of funds.

3.5.3   Venture capitalists

Berger and Udell (2006) explain that venture capitalists are firms who make equity investments in other firms with an opportunity for growth. Venture capitalists are formal business entities that maintain strong oversight over the firms they invest in and that have clearly defined exit strategies for the firms (Berger and Udell 2006). Generally, venture capitalists seek high growth firms with a competitive advantage or niche in a growing or emerging market and will nurture the SMME in order to achieve high growth. This is because venture capitalists seek to maximise their investments and will be looking to recoup at least five times their investment in around five years (Rungani 2009). Similarly, Van Auken (2002) found that venture capital funding is an indicator of the quality of SMME financing structure and also provides information about the credibility of the firm.

Brealey, Myers and Allen (2006) argue that the using of venture capital has cer-

tain advantages as a fund from venture capitalists is committed to the SMME and the planned projects, investors only realise their investment if the SMME is doing well and the right venture capitalists bring valuable skills, contacts and experience to the SMME. Furthermore, venture capitalists have interest in the firm's success, in terms of growth, profitability or increase in value. However, Brealey et al. (2006) also note that the disadvantages of venture capital is that venture capitalists usually influence the control and decision making of the SMME in an attempt to protect their investments. In addition, SMME owners will lose total control when making important decisions with regards to the firm. Furthermore, external equity such as venture capital is not available to most SMMEs in South Africa (Leroy 2012). This implies that internal equity represents the most viable source of finance for SMMEs. However, internal equity is insufficient for SMMEs.

3.5.4 Business angels

Another source of SMME financing comes from business angels. Business angels represent a diverse group of high net-worth individuals who invest part of their assets in high risk high return firms (Leroy 2012). Business angels can also be referred to as individuals who invest their money, skills and time in newly created businesses in exchange for a share of their capital (Romano, Tanewski and Smyrnios 2000).

In addition, business angels are also called informal investors who invest in unquoted young SMMEs (Berger and Udell 2006). Brealey et al. (2006) suggest some advantages of business angels for SMMEs such as business angels usually invest in newly created SMMEs without requiring a positive track record giving a chance to SMMEs to survive. In addition, business angel contracts tend to follow informal relationships between the business angel and SMME owners allowing for autonomy in decision making as compared to venture capitalist contracts which tend to be formal.

Business angels are also geographically closer to SMMEs they sponsor thus benefiting the SMMEs through their personal networks and linkages. However, there are also disadvantages of business angel financing. Because most business angel contracts are informal, SMME owner will be subjected to the varying degrees of influence over the management of the business. In addition, there is also a dilution in the control of the firm (Rayna and Striukova 2009).

Business angel has a positive impact on SMME growth and performance. Leroy (2012) cited that there is a relationship between business angels financing and SMME performance, SMMEs with business angels financing are more likely to increase in sales. However, Bates and Bradford (2008) point out that external equity such as venture capital and business angels are the most expensive source of finance for SMMEs because of flotation and other costs associated with these sources of finance. According to Bates and Bradford (2008), venture capital and business angels should be the last capital resort for new SMMEs.

3.5.5 Banking finance

Banks are by far the most frequently used source of finance by the SMMEs when collateral is available. The funds provided by banks are in the form of debt financing as such require collateral. Collateral can be in the form of business assets or personal assets (Mutezo 2005). In general, banks have two main types of financing products, term loans and bank overdrafts:

3.5.5.1 Term loans

A term loan is a form of finance which has a fixed cost and requires the payment of interest for its use (Gitman 2003). Loan is, therefore, a form of finance which creates a fixed obligation to make cash payments and also provides insurance for loan holders with prior claims if the business enterprise fails (Leroy 2012). However, term loans are usually classified into two categories, namely short term and long term. Short term loans usually run for less than three years and are generally repaid in monthly instalments from a business's cash flow. On the other hand, long term loans are commonly set for between three and ten years while in some instances, for as long as twenty years (Leroy 2012).

The using of bank loans have some disadvantages for SMMEs such as the risk of bankruptcy if the SMME returns fail to cover interest and loan repayments in addition to the loss of flexibility, however, the argument in the literature is that loans also have certain advantages. As the use of debt finance results in a tax advantage for SMMEs, because of the deductibility of interest payments on loan from profits or earnings (Leroy 2012).

Rwigema and Venter (2004) argue that, there are some difficulties facing SMMEs

to access banking finance, banks in most cases repudiate to grant loans to SMMEs. The reasons for this according to the authors include the following:

(A) There is a higher risk that entrepreneurs in the SMME sector will default on loan repayments, due to insufficient cash flow.

(B) As a result of the general conditions of poverty and limited resources, entrepreneurs do not have adequate collateral to secure their loans.

(C) The administrative costs involved in screening loan applications from entrepreneurs are high.

(D) Banks face low returns when investing in the SMME sector.

(E) Entrepreneurs experience language and cultural barriers when accessing banks.

Moreover, Ntsika (2002) in their annual review identifies other factors that act as constraints to SMMEs to access banks loan to include:

(A) The lack of clear business plans and ideas

(B) The lack of preceding market research

(C) The risk of under-capitalisation and/or delays in reaching break-even points.

Rwigema and Venter (2004) also added that these factors can unfavourably affect profitability, cash flow and the SMME solvency over the first two years.

3.5.5.2 Bank overdrafts

A bank overdraft is a useful tool to bridge financing gap between a long-term debt and the long-term source of finance (Leroy 2012). Overdrafts also assist an enterprise with short term working capital enabling SMMEs to meet their day to day expenses. According to the author, the bank enables SMMEs to use funds which are over and above the funds available in the enterprise's account. In addition, an overdraft allows SMMEs to overdraw the amount available in the enterprise's bank account.

However, bank overdraft is a very expensive source of finance for SMMEs in South Africa and it increases SMME risk. Overdrafts range between 26% - 28% banking products in South Africa, which is a high rate as compared to other product such as credit cards (Rungani 2009). SMMEs with lack of equity funds

and fewer fixed assets available for collateral benefit more depending on overdrafts as a source of finance Beck, Demirgüç-Kunt and Singer (2013); Olawale and Garwe (2010). Therefore, because overdrafts are relatively expensive, they are not a highly recommended source of debt finance for SMMEs.

3.5.6   3.5.6 Trade credit

Trade credit exists when one enterprise provides goods or services to a customer with an agreement of deferred payment, or to receive a shipment or service from a supplier under a similar agreement. The time between the reception of the goods or services and payment for the goods and services allows an enterprise to generate income before the payment is due (Leroy 2012). Trade credit is an important source of funds for SMMEs and it is a substantial portion of an enterprise's working capital without demanding collateral (Harvie 2011; Ojah 2010).

Trade credit builds a kind relationship between the suppliers and the SMMEs. With such a relationship working capital can be funded without involving high cost such as financing interest (Ojah 2010). Trade credit can provide significant source of finance for SMMEs in South Africa. Harvie (2011) argues that without the provision of trade credit, the development of the SMME sector would have been severely constrained (Harvie 2011). There is no cost involved on trade credit except when an enterprise does not utilise the discount period and only pays in accordance with the agreement (Berger and Udell 2006).

3.5.7   Asset-based lending

SMMEs may be able to overcome information asymmetry by using this lending type, where the SMME underlying assets are acceptable as collateral and considered the primary source of repayment (Migiro 2005). According to Migiro (2005), when providing working capital financing, the suppliers of the finance focus on short-term assets such as accounts receivable and inventory, and to equipment. The pledging of collateral does not, by itself, distinguish asset-based lending from the three previous lending approaches. Similarly, Berger and Udell (2006) illustrate that asset-based lending is a lending approach in which financial institutions address the opacity problem by focusing on a subset of the firm's assets, which are pledged as collateral, as the primary source of

repayment, this technology provides working capital financing secured primarily by accounts receivable and inventory.

The value of collateral is assessed daily in the case of accounts receivable, and typically weekly or monthly for inventory, and linked to the size of the credit available, so that the liquidation value of the collateral always exceeds the credit exposure (Udell 2004).

The collateral does not distinguish asset-based lending from the other lending technologies. The pledging of accounts receivable and inventory is often associated with financial statement lending, relationship lending, and credit scoring, where collateral is used as a secondary source of repayment. Under asset-based lending, in contrast, the extension of credit is primarily based on the value of the collateral, rather than the overall credit worthiness of the firm (Berger and Udell 2006).

3.5.8 Factoring

Many firms with long production cycle find it difficult to finance their working capital, since after delivering goods and services by the suppliers it sometimes takes up to 90 days for suppliers get paid. Suppliers record such transaction as account receivable which is an asset for the supplier until payment is received. Factoring is a type of finance in which a firm "supplier" sells its accounts receivable and receives immediate cash. Factoring involves the purchase of accounts receivable by a financier, known as the factor, as the factor enters into an agreement with a firm to finance accounts receivable from its small suppliers (Beck and Demirguc-Kunt 2006).

Factoring is a comprehensive financial service that includes credit protection, accounts receivable, bookkeeping, collection services and financing (Berger and Udell 2006). Factoring focuses on the value of an underlying asset "accounts receivable", rather than the overall value and risk of the firm. Factoring does not rely on information about the firm which is selling its accounts receivable, but rather on the obligor, which makes it an attractive financing instrument for SMMEs (Beck and Demirguc-Kunt 2006). Factoring is a transactions technology because the funding process is based on hard information about the value of the accounts receivable.

Factoring is similar to asset-based lending. However, Beck and Demirguc-Kunt

(2006) explain that an important distinction between factoring and asset-based lending is that, factoring only involves the financing of accounts receivable, unlike asset-based lending which involves financing inventory and other assets. Under most factoring arrangements, the firm outsources its credit and collections activities in addition to obtaining financing. Factoring addresses the opacity problem by focusing primarily on the quality of the obligor, rather than the borrower. The use of factoring varies widely across SMMEs (Migiro 2005).

3.5.9 Leasing

Leasing is defined as sale of right to utilise the assets for a specific period (Ahmad and Ahmad 2009). This means leasing is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time. The lease contract may include several types of contracts. Regardless of the type of contract; the lessor has the legal title of ownership of the leased asset during the entire period of the lease (Mutesasira, Osinde and Mule 2001). This makes lease exposure relatively low risk as compared with other financing modes and thus readily available as an external source of financing for SMMEs.

Leasing is a very common technique of financing a firm's assets in many countries. The lessor purchases the assets and then instantaneously enters into a rental contract with the lessee that specifies the payment schedule (Berger and Udell 2006). The contract usually contains an option whereby the lessee can buy the assets at the end of the contract at a pre-specified price.

Leasing is a transactions technology because the financing decision is substantially based on hard information about the assessment of the asset funded, similar to asset-based lending and factoring. Leasing can be used to provide financing to SMMEs because the financing decision is primarily based on the value of the asset being funded (Berger and Udell 2006). Gilligan (2004) argue that leasing can overcome the adverse selection that constrain SMMEs to access to loan finance, either in the used equipment market by encouraging a higher quality of product sold or in the new product market.

3.6 Access to finance for SMMEs

Financial resources have been identified as one of the most important challenges that SMMEs face. Access to finance is a key factor that governs the capability of SMMEs to expand, grow and to employ the latest technologies (Abor and Quartey 2010; Krasniqi 2007). SMMEs have always faced challenges in accessing loans and capital. Limited access to finance is a major constraint to SMME growth, regardless of its location, size, industry and the economic environment of the market (Hussain et al. 2006).

Similarly, other studies found the financing gap to be one of the greatest challenges that prevent SMME growth and expansion (Beck and Demirguc-Kunt 2006; Demirgüç-Kunt et al. 2005; Hutchinson and Xavier 2006; Mahadea and Pillay 2008; Robson and Bennett 2000). All businesses require financial resources in order to start trading and to fund growth and so the financing gap can be an important constraint impacting SMME growth (Cassar 2004).

This financing gap exists in SMME financing because of mismatches between supply and demand. This lack also has been attributed to several reasons, including the attitudes of financial institutions towards SMMEs, attitudes which may be negative or to information asymmetry (Binks and Ennew 1996). Information asymmetry occurs when firms and lenders do not have access to the same information and as result there will be a gap in the demand and supply of finance.

Therefore, information asymmetry has been used to explain why lending SMMEs sometimes can be accepted despite very high interest rates or collateral requirements (Tucker and Lean 2003). Financial institutions use the availability of collateral as a criterion when assessing applications for fund and loans. The collateral-based lending method limits the access of finance to SMMEs. It discriminates against those SMMEs that have the potential to be successful.

The discussion on accessing to finance for SMMEs is often directed to financial resources that have impact on the operational activities of a business (Tseng, Tansuhaj and Rose 2004). Some SMMEs use personal savings and loans from family and friends as the main source of funds for investment. While others rely on different sources such as banks and financial institutions for funding support. Several SMMEs depend on venture capital or on retained earnings, which are usually insufficient.

There is a wide classification of financing sources used by firms for investment. Whereas all types of firms mostly rely on retained earnings, SMMEs are more dependent on these funds than large firms. However, Westhead and Birley (1995) found that SMMEs that avoided the use of personal savings and funding from family and friends achieved higher growth rates than those that used such sources. Furthermore, they argued that those who used personal savings and funds from family and friends had lower growth rates because they were more cautious and risk averse than those that used funds from other sources.

It has been argued that collateral-based lending and the interest rate forces SMMEs to depend on internal sources of finance such as personal saving and retain earning or to borrow for short-term small amounts resulting in limited possibilities for SMMEs to achieve their growth objectives (Casson 2003). Furthermore, Casson (2003) highlighted that as firms grow, their needs for funds exceed the lending capabilities of personal savings and retained earnings, and external funds become more attractive.

Compared with larger enterprises, SMMEs are restricted in their access to banks and government funds. As a result of their disadvantaged status, SMMEs, seek recourse for finance in informal markets (Udell 2004). SMMEs are often unable to fulfil their financing needs.

The limited amounts of fund during the development stages may have negative effects on firm growth in later stages, which include reducing resources available to the firm for a variety of activities, in particularly, marketing activities and the acquisition of suitable assets (Fielden, Davidson and Makin 2000). The fact that SMMEs receive less finance or face worse conditions in secure their financial needs than larger firms puts them at a situation of competitive disadvantage. Without adequate long-term finance, SMMEs are unable to expand their businesses and achieve their growth objectives.

Some studies have found the lack of access to finance to be one of the greatest challenges that prevent SMMEs growth and expansion (Hussain et al. 2006; Smallbone and Wyer 2000; Terpstra and Olson 1993). According to Lizano and Mesalles (1995), the limited access to formal sources of finance in developing countries compared to developed countries is largely due to the lack of liquidity, the underdeveloped nature of the financial system and inexperience in small-scale lending According to Fatoki (2011), the financing gap is a major problem for the SMMEs in South Africa, as a lack of access to finance is the second

most cited contributor to slowdown amongst new SMME creation process and increases failure, together with low levels of education and training. (FinMark Trust 2008) found out that only 2% of SMMEs in South Africa are able to access bank loans.

Turton and Herrington (2012) found that 75% of applications for bank credit by SMMEs in South Africa are rejected. This suggests that SMMEs without finance may not be able to survive and grow. Demirgüç-Kunt et al. (2005) suggest that bridging the finance gap is important for exciting entrepreneurship. In most countries, microenterprises are even less likely than small and medium-size firms to have access to finance from formal channels.

Informal sources of finance can overcome the finance gap that exists in SMME sector in South Africa. Nevertheless, bank financing is set to remain an important factor for start-up of SMMEs. Importantly, the extent of and reliance on, informal networks of finance tend to be underdeveloped for SMMEs sector (Siyongwana 2004).

A finance gap therefore exists for firms starting up or wishing to grow. Notwithstanding, many firms within SMMEs sector are growing beyond the size of that informal sources of finance can support and institutional credit is the only feasible option for financing growth (Migiro 2005).

3.7 Cconstraints to access external sources of finance

The financial structure refers to the mix of sources of fund used to finance the assets and operation activities. The determinants of financial structure of the firm comprise of those factors that influence its financing decisions.

3.7.1 Asset structure

The lenders take actions to protect themselves, by requiring tangible assets as collateral. The tangibility of firm's assets is measured as a ratio of non-current assets over total assets. As such, collateral may be a major determinant of the level of debt finance available to firms and drives the financial structure decisions

(Basu and Goswami 1999; Dobbs and Hamilton 2007; Gumede and Rasmussen 2002).

3.7.2 Profitability

Modigliani and Miller (1963) argue that, due to the tax deductibility of interest payments, firms prefer debt to equity. This would suggest that highly profitable firms would choose to have high levels of debt in order to obtain attractive tax shields. Myers (1984) predicts that, firms will prefer internal to external capital sources. Profitability is measured as the ratio of earnings before interest and taxes (EBIT) to total assets. This gives rise to the assumption that unprofitable SMMEs' do not have much internal sources such as profit. So, they only can access bank finance.

3.7.3 Firm size

Empirical evidence on the relationship between firm sizes and their financial structure suggested a positive relationship between firm size and financial leverage (Ezeoha 2011; Francisco, Mascar, Mendoza and Yaron 2008; Riportella and Papis 2006). Size has been viewed as a proxy for business risk and significant influence on financial structure.

3.7.4 Growth opportunities

Michaelas et al. (1999) argue that firms may choose a financing option based on their beliefs for future use of financing. They also added that if the firm is more likely to need capital in the future, it has greater incentives to establish credit relationships with outside financiers such as banks. The evidence on the impact of growth opportunities on the financial leverage is mixed. Michaelas et al. (1999) also found that future growth is positively related to leverage and long-term debt, while Nguyen (2001) found that growth enterprises had a higher use of internal financing than other enterprises.

3.7.5   The rate of growth of rates

There is sufficient evidence that managers have a preference for internal funds over external sources of capital. The main determinant of internal funds is the growth rates of the firm. A high earnings growth rate enables management to have more funds from retained earnings, so that less external finance will be required (Migiro 2005). Thus one might expect a negative relationship between the rate of growth and the debt-equity ratio. The effect of growth rates on the debt-equity ratio should be absorbed by the stock price, which is also a separate determinant of financial structure.

3.7.6   Business risk

The higher variability in earnings indicates that the probability of business risk increases. Therefore firms with higher income variability have lower leverage. However, there is some empirical evidence between risk and leverage for SMMEs, which suggests a positive rather than negative relationship (Jordan, Lowe and Taylor 1998; Michaelas et al. 1999).

3.7.7   Availability of internal funds

The amount of internal funds does not depend only on the growth of total earnings but also on proportion of earnings retained. This in turn depends on the growth potential of the firm and the ability of managers to motivate shareholders that the available investment opportunities are profitable. This is expected to be negatively related to the debt/equity ratio, since a high proportion of retained earnings reduce the need for debt financing (Migiro 2005).

3.7.8   The cost of debt

Each type of fund has a different cost. The overall cost of capital to the firm is the weighted average of the costs of each sources of finance (Ross, Westerfield and Jaffe 1999). The determination of the cost of capital is important, it defines the supply of investable funds to the firm and it is widely used as a criterion for investment decisions of the firm, Thus cost may influence use of available sources affiance.

3.8 Microfinance as smart sources of finance

Microfinance is commonly associated with small, working capital loans that are invested in SMMEs (Churchill and Frankiewicz 2006). Today however, microfinance is referred to more generally as the provision of financial services to those excluded from the formal financial system (Clark 2002). Nevertheless, microcredits remain the most important financial services out of the entire range of financial products in microfinance business. The average microfinance loan size varies geographically and has maturities of less than one year in general. The typical users of microfinance services are SMMEs, such as traders, street vendors, small farmers, service providers, artisans and small producers (Guntz 2011).

Banks and other financial institutions have failed to meet the financing needs of the poor in developing countries. The reasons for the neglect of this large group lie in the nature of traditional banking practices. Traditional banking is based on guarantees, reputation, and collateral. Bankers have intimate knowledge of market conditions, which helps them to assess the initial loan applications and then continuously monitor the borrowers. Collateral provides a guarantee against loans, and helps align borrowers' incentives with those of the bank. Underpinning banking is the need for timely and accurate information and continued maintenance of records (Koveos and Randhawa 2004).

An organization engaged in lending to these economic groups would thus be deemed considerably more risky than commercial banks. Their loan portfolios are likely to be more volatile, the potential for a loss of capital significant. There is a need for close and continuous monitoring, and for establishment of mechanisms to assess, continuously monitor creditworthiness, and for early detection of problem loans. The need for timely action is accentuated as MFIs cannot tap capital markets or obtain bank loans to replenish capital in the event of loan defaults. The evolution of MFIs over the past two decades represents a move back to traditional banking because of the similarity in philosophy and practices (Koveos and Randhawa 2004). The intent behind microfinance is self-help and empowerment, not charity.

3.8.1 Objectives of MFIs

The goal of MFIs as development organizations as described by Ledgerwood (1998) is to service the financial needs of unserved or underserved markets as a

means of meeting development objectives. These development objectives generally include one or more of the following:

(A) To reduce poverty

(B) To empower women or other disadvantaged population groups

(C) To create employment

(D) To help existing small businesses grow or diversify their activities

(E) To encourage the development of new small businesses.

In a World Bank report of lending for SMMEs projects, three objectives were most frequently cited (Ledgerwood 1998):

(A) To create employment and income opportunities through the creation and expansion of SMMEs

(B) To increase the productivity and incomes of vulnerable groups, especially women and the poor

(C) To reduce rural families' dependence on drought- prone crops through diversification of their income- generating activities.
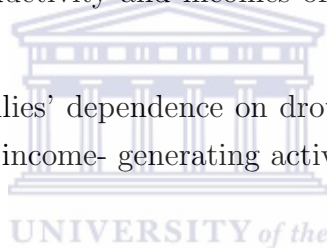
3.8.2 Products and services offer by microfinance

MFIs are beginning to experiment loans with other financial products and services such as savings, insurance, credit cards and payment services.

3.8.2.1 Savings

Savings has long been a controversial issue in microfinance. In recent years there has been increasing awareness among policymakers and practitioners that there are a vast number of informal savings schemes and MFIs around the world have been very successful in mobilizing savings. These developments confirm to the fact that SMMEs can and do save. Many of SMMEs are constrained by a lack of available deposit services. Savings is a critical financial service for SMMEs. SMMEs want secure, convenient deposit services that allow for small balances and transactions and offer easy access to their funds (Ledgerwood 1998).

The consequence of the lack of appropriate savings services is that many SMMEs may save in informal ways by assets that can be sold off later, joining village

savings circles, or giving money to neighbours for safekeeping. The problem with these methods of saving is that they are risky.

In contrast, those with safer, more formal options to save benefit both themselves and the larger economy. In Uganda, one study revealed that those with access to formal savings in banks saved three times as much as those who had only informal savings mechanisms available (Helms 2006). In Rwanda, more than half a million small savings accounts drew $40 million into circulation in 2001, money that would otherwise have stayed underneath mattresses. The national impact of offering secure and accessible savings can be critical to bolster domestic economies (Helms 2006).

3.8.2.2 Micro-insurance

Few entrepreneurs have access to formal insurance. Micro-insurance is the protection of low-income people against specific perils in exchange for regular monetary payments proportionate to the likelihood and cost of the risk involved. As with all insurance, risk pooling allows many individuals or groups to share the costs of a risky event. To serve entrepreneurs well, micro-insurance must be responsive to priority needs for risk protection, easy to understand, and affordable (Helms 2006).

Micro-insurance is a new product and still at the experimental stage. There is much interest among MFIs to provide micro-insurance in partnership with insurance companies. Existing micro-insurance schemes that attempt to deliver life or health insurance find it difficult to become sustainable. The big challenge is finding the right balance between offering adequate protection with affordability for entrepreneurs (Helms 2006).

3.8.2.3 Credit cards and smart cards

Among the other services that some MFIs are beginning to offer are credit cards and smart cards. These cards allow borrowers to access a line of credit when they need it. Credit and smart cards are used when a purchase is made or when access to cash is desired. These cards can minimize administrative and operating costs (Ledgerwood 1998).

3.8.2.4   Payment services

In traditional banks payment services include cheque cashing and cheque writing privileges for customers who maintain deposits (Ledgerwood 1998). In this sense the banks' payment services are linked with their savings services. MFIs offer similar payment services either with their savings services or separately for a fee. If payment services are linked with savings services, MFI pays an artificially low interest rate on customer deposit accounts to cover the cost of those services. Otherwise, a fee is charged (Ledgerwood 1998).

Payment services also include the transfer and remittance of funds from one area to another. Microfinance clients often need transfer services. However, the amount that formal financial institutions require to make a transfer may be beyond the limits of the microfinance client. Without transfer services, clients may be forced to carry large amounts of money with them, thus incurring unnecessary risks. To offer payment services, MFIs must have an extensive branch network or relationships with one or more banks and other MFIs (Ledgerwood 1998).
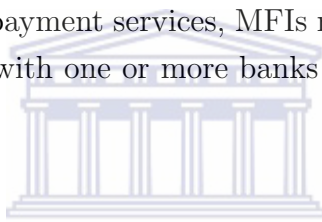
3.9   Microfinance and access to finance for SMMEs

Entrepreneurs are not determined by the constraints they face. They can take actions to avoid them or move away from them (Van Burg et al. 2012). One way, that both grows a firm and allows it to avoid financial constraints, is using microfinance institutions services (Bauchet and Morduch 2013). Microfinance is a strategy aimed at the development and technical assistance of the poor and small entrepreneurs through training, funding and consulting to create self-employment and income generating activities (Brau et al. 2009).

In the past decade, microfinance institutions (MFIs) have experienced major development in the field of financial services and lending, such as mixing small loans with insurance, health, education or savings to allow SMMEs access to financing products, and reduce the risks to their clients (Karlan, Harigaya and Nadel 2006). Therefore, microfinance is often considered as a double bottom line (DBL); an organization that takes care of their financial and social responsibility, in order to give maximum attention to both (Gutierrez and Goitisolo 2011).

The microfinance "revolution" has been marked by the introduction of credit methodologies that prove that microfinance clients are bankable. They can take out loans and pay them back, and repay their loans more reliably than customers in the commercial banking sector. They are also willing and able, to pay the typically high interest rates that are necessary for providers to cover the cost of offering very small loans. Traditionally, the core of successful microfinance is the promise of permanent access to future credit, which motivates clients to repay to ensure their access to this service. Another key success factor is the use of collateral substitutes to reduce risk. SMMEs do not have collateral, and it is that characteristic that primarily excludes them from formal credit sources (Helms 2006).

To address this, some microfinance pioneers introduced group-based joint liability schemes, in which individuals in a group guarantee each other's loans. Other programs rely on local knowledge through loan officers and non-traditional forms of collateral, such as animals or refrigerators, rather than group schemes (Helms 2006). According to Helms (2006), another critical element of successful microfinance is ensuring that SMMEs currently have sufficient cash flow rather than the projected cash flow assumed to emerge from the financed activity, to cover their interest and principal repayments. One method for making sure SMMEs can service loans is to collect small and frequent repayment installments that can be comfortably met from ordinary cash flow.

SMMEs with rapid turnover growth can cope with frequent repayments, whereas SMMEs with low turnover growth might find them more difficult to manage. Regular loan repayments also increase the costs of doing business for SMMEs, as they spend time in regular meetings with the loan officers. Despite the significant progress made to microfinance in delivering loans to many small businesses, the majority of SMMEs still lack access to formal credit (Helms 2006).

3.10 Microfinance in South Africa

Microfinance in South Africa was established with the help of the bank supervision department of the country's Reserve Bank, as part of the formal banking system in the 1980s with the creation of a number of institutions in the commercial and not-for-profit categories (Ojah 2010). With the achievement of a non-racial South Africa in 1994, different strategies were created to address the

disparities in the provision of financial services. The Usury Act, (Act no.73 of 1968), as amended until 2003, still remains one of the pieces of legislation in South Africa that directly controls the lending rates (The Usury Act 2005). The Act protects individuals from money-lenders who charge excessive rates of interest by placing a ceiling on the rates that may be charged by lenders of personal loans to natural persons (Siyongwana 2004).

According to Porteous and Hazelhurst (2004), the effect of the 1996 exemption was to basically re-regulate the sector which had largely gone awry following the 1993 deregulation. The moneylenders under the Act have to comply with a limitation of 23% per year on amounts less than R10 000 and 20% per year on amounts above R10 000.

With the growing complexities about microfinance, the South Africa government also established the Microfinance Regulatory Council (MFRC) in 1999 to regulate microfinance in South Africa. The MFRC operates based on the principle of self-regulation. MFIs have to register with MFRC to be accredited and officially allowed to "conduct the business of a bank" (Micro Finance in South Africa (MFRC) 2014).

The MFRC regulatory regime has created an environment in which large financial institutions and MFIs have a real interest in extending finance to the low-income market, since the registration with the MFRC enables MFIs to charge more interest than the interest limit set in the Usury Act. This has led to product innovation across a broad front, including housing and SMMEs finance, better savings products, and an expanding network of financial institutions accessible to low-income groups (Meagher 2002).

3.10.1   Forms of microfinance in South Africa

Forms of microfinance in South Africa include; micro-lenders, community or group savings, and non-governmental organisations informal money lenders.

3.10.1.1   Micro lenders

Micro lenders provide small loans averaging R1 600, which does not require any form of collateral, over a period of one month. These suppliers concentrate on personal, relatively short-term loans to regular salary earners. This limits the

availability of loans only to those who are gainfully employed. The bulk of the loans are for household needs, and the balancing of income fluctuations. An insignificant share of five to ten per cent of these funds are utilised for business purposes (Ntsika 2002).

3.10.1.2 Community or group savings

Community or group savings, and loan schemes are an important source of microfinance for the SMME in South Africa. Group savings occur when a group of individuals contribute a specified amount each month and on a rotational basis, members get a chance to take home the month's collected cash. This cash can be used to buy stock or finance new equipment (Mutezo 2005). During recent years, many of these schemes have linked up with banks for the safe-keeping and handling of their funds. This creates an important link through which these schemes might gradually evolve into specialised banking and loan facilities (Ntsika 2002).

3.10.1.3 Non-governmental organisations

Non-governmental organisations (NGOs) serve as a network for donor funding. These organisations provide a limited range of products and services, and do not have the infrastructure to reach a significant number of SMMEs; hence each is sporadic (Mutezo 2005). According to Mutezo (2005), it is estimated that NGOs currently serve 6% of the SMME sector. However, SMMEs do not pay attention to the role of NGOs, and SMMEs owners are often not aware that they can gain access to finance through NGOs.

3.10.1.4 Informal money lenders

Informal money lenders in the townships of South Africa are known as Matshonisa; personal loans for poor, and blacklisted individuals. The term Matshonisa loosely means "making you poorer" and is a reference to the interest payments attached to the loans, or to the debt trap into which the borrowers often fall. Loans of up to a maximum of about R5 000 are made available to individuals. As soon as borrowers receive their monthly income, they are expected to repay their loans and the interest (Rwigema and Venter 2004).

3.11   Microfinance as a moderator variable

The purpose of this study is to empirically examine the moderating effect of microfinance on overcoming, avoiding or mitigating the constraints to SMME growth. This section presents a brief review on the concept of the moderating effects, the conceptual framework of the study and the development of the sub-hypotheses.

3.11.1   An overview of the moderating effects

The detection and estimation of the direct effects is a central domain of most regression models. Besides the examination of the direct effects, researchers are becoming more and more interested in the moderating effects. Moderating effects are evoked by variables whose variation influences the strength or the direction of a relationship between an exogenous and an endogenous variable. The causes of moderating effects are called "moderator variables" (Vinzi, Chin, Henseler and Wang 2010).

Psychological theories often assume that a relationship between two variables will depend on a third variable. The third variable is referred to as a moderator (Cohen, Cohen, West and Aiken 2003). A moderating effect occurs when a third variable alters the relationship between two related variables (Hair, Black, Babin and Anderson 2009). In a linear causal relationship in which an independent variable, X ,is assumed to cause a dependent variable, Y, a moderator variable, Z, is a variable that alters the strength of the causal relationship (Kenny 2013).

As Kenny (2013) explains that, it would say that a statistical relationship between two variables (say X and Y) is moderated by a third variable Z (e.g. gender), if the relationship between X and Y differed significantly between males and females. The relationship between X and Y may be negative for males and positive for females or significant in one group and not the other. In this type of situation, we would need to know whether the respondents were male or female before we could accurately estimate and interpret the relationship. Moderator variables can either be metric or categorical in nature (Fassott 2010). Cohen et al. (2003) added that the moderator variable is characterized statistically in terms of interactions.

According to Cohen et al. (2003), if a theory predicts that a variable, Z, is

expected to moderate the relationship of another variable, X, to the criterion Y, then it is appropriate to plot regression of Y on X at meaningful values of the moderator Z. Accordingly, this study investigates the expected moderating effect of microfinance on the relationship between some important growth constraints and SMME growth. The study examines the effect of using or not using microfinance sources by a SMME on altering the relationship between financial constraints and SMME growth. Therefore, this study considers microfinance as a moderator variable in the framework, as it affects the direction and/or strength of the negative effect of financial constraints on SMME growth.

3.12   Summary

This chapter examined the capital structure of SMMEs. SMMEs require capital in order to finance their operations, investments, working capital and product development, and cover other costs and losses. Literature revealed that investments in non-current assets by SMMEs are low as compared to investments in working capital. This has a negative influence on SMMEs when it comes to debt finance as it leads to lack collateral.

Various theoretical models on the financing of firms, starting from the traditional concept of Modigliani and Miller (1958) regarding the financial behaviour of firms were also discussed. The chapter also examined the relevancy of trade-off theory, agency theory and the pecking order theory to SMME finance and capital structure. Those theories explain the financial behaviour of enterprises, taking into account their different characteristics and problems. The theories suggest that an internal source of finance such as equity, retained earnings and venture capitalists represent the cheapest and best source for SMMEs capital structure. However, an internal source of finance is very limited for SMMEs. Thus getting an external source of finance is essential to fund SMME growth.

The chapter also discussed possible sources of finance that can be utilised by SMMEs when faced with the option of obtaining external finance. Banking finance is the most common source of finance available to SMMEs. However, banks resist granting loans to SMMEs. This could constrain the growth of SMMEs, leading to their weak performance and high failure rate. Following that, the chapter examined other sources of finance; trade credit, asset-based lending, factoring and leasing. Trade credit builds a kind relationship between the sup-

plier and the SMME. With such a relationship working capital can be funded without involving a high cost such as financing interest. While asset-based lending, factoring and leasing can be used to provide financing to SMMEs, under those lending approaches the financial institutions address the opacity problem by focusing on a subset of the SMME assets, which are pledged as collateral, as the primary source of repayment. Thus, access to finance is an essential factor for SMME growth.

A lack of access to finance is a one of the greatest challenges to SMME growth and expansion. The chapter illustrated that very few SMMEs in South Africa are able to access bank loans. However, microfinance was identified as one of the ways to overcome financial constraints to poor households and small businesses. The role of MFIs in bridging the gap in SMME financing was discussed in this chapter.

The chapter concluded with an overview of the moderating effects of microfinance on the relationship between some important growth constraints and SMME growth.

The next chapter focuses on the research methodology used to carry out the empirical study.
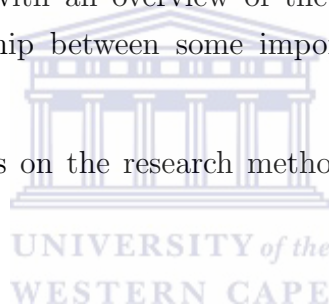
Chapter 4

Research Methodology

4.1   Introduction

This chapter explains the methodological approach used in this study. The study involves a quantitative analysis approach. In the following, we highlight the study's research design, data and sample selection, variables, and data analysis techniques used to address the research problem through the testing of the previously developed hypotheses.
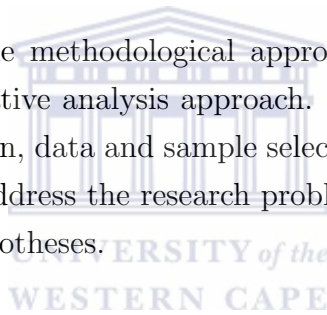
4.2   Research design

Once the researcher has determined the specific question to be answered and has operationalized the variables and research question into a clear, measurable hypothesis, it is time to consider a suitable research design. A research design is a general plan which can be used to answer the research question (Saunders, Lewis and Thornhill 2007). Furthermore, the authors added that the research design contain clear objectives obtained from the research question. Research design is a plan that details all the procedures and processes that will be used to collect the data needed in order to reach the research objectives. A research design is different from research methodology because it is a plan or blueprint of how a research study is intended to be conducted while research methodology is the actual research process (Babbie and Mouton 2001).

A research methodology is the science and philosophy behind all research. It goes into the heart of how we know what we know and allows us to understand

the very strict constraints placed upon our concept of what knowledge actually is. Moreover, it allows us to understand the different ways in which knowledge can be created (Adams, Khan, Raeside and White 2007). Taking note of the terminologies mentioned (research design and research methodology), distinction has to be made between these two terms. Babbie and Mouton (2001) highlighted more distinctions between these two terms in the table 4.1:

The research design serves as an overall plan of the methods used to collect and analyse the data. Determining the most appropriate research design is a function of the research objectives and information requirements (Hair, Wolfinbarger, Ortinau and Bush 2010). There are three broad categories of research designs which can be used in conducting a research, depending on the kind of information required by the research problem. The three types of research are exploratory, descriptive and causal.

Table 4.1: Differences between research design and research methodology

Research design	Research methodology
Focuses on the end-product: what kind of study is being planned and what kind of results are aimed at.	Focuses on the research process and the kind of tools and procedures to be used.
Point of departure is the research problem or research question	Point of departure is specific tasks (data collection or sampling) at hand.
Focuses on the logic of the research: what kind of evidence is required to address the research question adequately?	Focuses on the individual steps in the research process and the most objective procedures to be employed.

Source: Babbie, E. & Mouton, J. (2001). The practice of social research. Cape Town: Oxford University Press

4.2.1   Exploratory research

Exploratory research may involve the use interviews, observation, documents and so on. However, interviewing is the most commonly used method as it has been used to provide examples of good practice in open and semi-structured research (Fisher, Buglear, Lowry, Mutch and Tansley 2010). Qualitative research is exploratory and is useful when the researcher does not know the important variable to examine (Creswell 2002). According to Hair et al. (2010), exploratory research has one of two objectives:

(A) Generating insights that will help define the problem situation confronting the researcher or

(B) Deepening the understanding of consumer motivations, attitudes, and behaviour that are not easy to access using other research methods.

Examples of exploratory research methods include literature reviews of already available information; qualitative approaches such as focus groups and in-depth interviews or pilot studies.

4.2.2   Descriptive research

Descriptive research is a research method used to describe certain events or phenomena (Saunders, Lewis and Thornhill 2009). This type of research is usually used to establish the relationship between variables. Descriptive research involves collecting quantitative data to answer research questions. Descriptive information provides answers to who, what, when, where, and how questions (Hair et al. 2010). Descriptive is a kind of research where the researcher can develop a conceptual or theoretical framework by examining literature and then testing those theories using data (Saunders et al. 2009). To conduct this kind of research, there are five stages that have to be followed as suggested by Robson (2002),these stages are:

(A) Deducing a hypothesis by examining theories;

(B) Expressing the hypothesis in terms of the relationship between the variables;

(C) Testing the hypothesis;

(D) Interpreting the results relating to the hypothesis testing; and

(E) Where applicable or necessary modifying the theory on the grounds of the findings.

The five stages listed above will be followed in this study, alongside the research method in order to meet the research objectives and test the hypotheses.

4.2.3   Causal research

Causal research designs traditionally involve an experiment with some controlled manipulation (Hair et al. 2009). The causal research examines whether one vari-

able causes or determines the value of another variable (Cooper and Schindler 2010). Causal research reveals a cause-and-effect relationship between dependent and independent variables. A dependent variable is a symbol or concept that may be explained or caused by an independent variable. An independent variable is a symbol or concept over which the researcher has some control (McKenzie and Danforth 2009). It is hypothesized that an independent variable causes or influences a dependent variable. A researcher can also use causal research to test a hypothesis. To test the hypotheses, the present study used chi square analysis, factor analysis and regression analysis, which were sufficient to explain the findings. A causal approach was therefore not employed in this study (McKenzie and Danforth 2009).

4.3   Research method

One of the major elements that go into a research approach is the specific methods of data collection and analysis. The two very fundamental aims of research methods are (Adams et al. 2007):

(A) to enable you to acquire knowledge and skills in the field of research methods; and

(B) to prepare you to undertake research on your own applying the knowledge and skills of research methods on a research topic relevant to your area of study.

There are three basic types of research methods: qualitative, quantitative, and a mix of the two designs (Creswell 2002). The choice of a research design centres on the nature of the research, the setting, the possible limitations, and the underlying paradigm which informs the project.

4.3.1   Qualitative research

A qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives or participatory perspectives or both (Creswell 2002). It also sues strategies of inquiry such as narratives, phenomenologist, ethnographies, grounded theory studies, or case studies. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data (Creswell 2002). Qualitative research involves stud-

ies that do not attempt to quantify their results through statistical summary or analysis. Qualitative studies typically involve interviews and observations without formal measurement. A case study, which is an in-depth examination of one person, is a form of qualitative research. Qualitative research is often used as a source of hypotheses for later testing in quantitative research (Marczyk, DeMatteo and Festinger 2005). Qualitative procedures rely on text and image data, have unique steps in data analysis, and draw on diverse strategies of inquiry. In fact, the strategies of inquiry chosen in a qualitative project will have a dramatic influence on the procedures (Creswell 2002).

Table 4.2: Differences between qualitative and quantitative methods

	Qualitative Methods	Quantitative Methods
Goals/Objectives	Discovery/identification of new ideas thoughts, feelings; preliminary understanding of relationships; understanding of hidden psychological and social processes	Validation of facts, estimates, relationships
Type of Research	Exploratory	Descriptive and causal
Type of Questions	Open-ended, unstructured, probing	Mostly structured
Time of Execution	Relatively short time frame	Typically significantly longer time frame
Representativeness	Small samples, only the sampled individuals	Large samples, with proper sampling can represent population
Type of Analysis	Debriefing, subjective, content analysis, interpretative	Statistical, descriptive, causal predictions
Researcher Skills	Interpersonal communications, observation, interpretation of text or visual data	Statistical analysis, interpretation of numbers
Generalizability	Limited	Generally very good, can infer facts and relationships

Source: Hair, J. F., Wolfinbarger, M. F., Ortinau, D. J., & Bush, R. P. (2010). Essentials of Marketing Research. McGraw-Hill/Irwin.

4.3.2 Quantitative research

A quantitative approach is one in which the investigator primarily uses post-positive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collect data on pre-determined instruments that yield statistics data (Creswell 2002) Quantitative technique involves analysis of numerical data. A questionnaire is a measurement instrument that is commonly

used to collect numerical data. The data collected using quantitative techniques is useful to test hypotheses (Adams et al. 2007). A quantitative approach suits this study because the attainment of many of the stated research objectives centres on the testing of hypotheses. This requires the measurement of opinions of many SMMEs in order to determine any associations or differences that exist in their responses and to make comparisons. Quantitative methods require the use of standardized measures so that the varying perspectives and experiences of people can be fitted into a limited number of categories to which numbers are assigned (Hair et al. 2009).

These methods have the ability to involve a large number of participants to respond to a set of questions and produce large volumes of numerical data upon which to conduct statistical analysis and test hypotheses. Usually these methods have the advantage of speed and the large sample provides valid information about the prevalence of certain characteristics in the population of interest. This provides a basis for making generalisations. A standardised instrument such as a written questionnaire is the preferred method used in gathering information and there is considerable attention given to the development of the questionnaire (Brace 2004). The main goals of quantitative research according to Hair et al. (2010) are to obtain information to:

(A) Make accurate predictions about relationships between market factors and behaviours,

(B) Gain meaningful insights into those relationships,

(C) Validate relationships, and

(D) Test hypotheses. Quantitative researchers are well trained in construct development, scale measurement, questionnaire design, sampling, and statistical data analysis.

In addition, quantitative researchers must be able to translate numerical data into meaningful narrative information, ultimately telling a compelling story that is supported by data (Hair et al. 2010). Quantitative methods are statistically projectable to the target population of interest and relatively more reliable because every question is asked of all respondents in precisely the same way.

4.3.3 Mixed methods research

A mixed methods approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (Creswell 2002). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem. The data collection also involves gathering both numeric information as well as text information so that the final database represents both quantitative and qualitative information (Creswell 2002).

4.4 Basic approaches and methods of research

A research design, either descriptive or causal, is chosen based on a project's objectives. Then next step is to select a means of gathering data. There are six basic research methods. A brief description of these methods as explained by McKenzie and Danforth (2009) is as follows:

4.4.1 Observations research

Observation research is examining patterns of behaviour as opposed to asking respondents why they do what they do. Observation is a process through which primary data is obtained by observers (humans or machines) about the behaviour (Leroy 2012).

4.4.2 Experiments research

Experiments are the method researchers use to gather data. Experiment research is distinguished by the researcher's changing one or more independent variables and observing the effects of those changes on a dependent variable. The objective of experiments is to measure causality. The best experiments are those in which all factors other than the ones being manipulated are held constant. This enables the researcher to infer with confidence that changes in sales, for example, are caused by changes in the amount of money spent on advertising McKenzie and Danforth (2009).

4.4.3   Literature review method

The literature review in a research study accomplishes several purposes. It shares with the reader the results of other studies that are closely related to the study being reported. it relates a study to the larger on-going dialogue in the literature about a topic, filling in gaps and extending prior studies (Creswell 2002). In any research project it is essential for the researchers to understand what has already been done in that specific domain and what has been done in the wider subject area of that topic (Adams et al. 2007).

The importance of a literature review can only be appreciated when researcher ask themselves a number of specific questions. As proposed by (Adams et al. 2007), when conducting a literature review a researcher need to know the answers to the following questions:

(A) Has the work already been done?

(B) Who are the experts in the field?

(C) What are the main theoretical perspectives?

(D) What are the common research methods in the topic?

(E) What are the main problems in researching the topic?

(F) Are there any major controversies in this topic area?

(G) Is the topic open to hypothesis testing?

(H) Is the topic a trivial one?

The only way of answering these questions is by reading as much as the researcher can on research which is directly related to the research topic and research which is indirectly related to it and research which may be related to it.

4.4.4   Case study

Case studies are used to study particular phenomena in particular settings. The case study method is very common in business research and is particularly useful for the analysis of organisations (Adams et al. 2007). However, it can be narrow in scope and a generalisation can be very difficult. It is often used to determine if a certain approach works in a particular setting. Nevertheless, the case study can be a very powerful research tool in terms of questioning accepted

theory. A case study uses a variety of research methods and can happily accommodate quantitative data and qualitative material (Fisher et al. 2010). In case studies, researchers typically use a mixed data collection approach, utilising a combination of observation, surveys and interviews (Adams et al. 2007).

4.4.5 Applied research

Applied research is research that is intended to answer practical questions or solve practical problems (Gravetter and Forzano 2012). The principal aim of scientists conducting applied research is to improve human conditions, although the results can have commercial value. It is directly related to social and policy issues (Adams et al. 2007). Applied research is used either to find solutions to specific problems or help practitioners in the accomplishment of tasks. Unlike basic research, applied research emphasizes solution-seeking than theory formulation (Neuman 2009).

4.4.6 Survey research

Survey studies ask large numbers of people questions about their behaviours, attitudes, and opinions. Some surveys merely describe what people say they think and do. Other survey studies attempt to find relationships between the characteristics of the respondents and their reported behaviours and opinions (Marczyk et al. 2005). Campbell and Katona (1953) delineated nine general steps for conducting a survey. These steps are as follows:

(A) General objectives: This step involves defining the general purpose and goal of the survey.

(B) Specific objectives: This step involves developing more specificity regarding the types of data that will be collected, and specifying the hypothesis to be tested.

(C) Sample: The major foci of this step are to determine the specific population that will be surveyed, to decide on an appropriate sample, and to determine the criteria that will be used to select the sample.

(D) Questionnaire: The focus of this step is deciding how the sample is to be surveyed and developing the specific questions that will be used.

(E) Fieldwork: This step involves making decisions about the individuals who will actually administer the surveys, and about their qualifications, hiring, and training.

(F) Content analysis: This involves transforming the often qualitative, open-ended survey responses into quantitative data. This may involve developing coding procedures, establishing the reliability of the coding procedures, and developing careful data screening and cleaning procedures.

(G) Analysis plan: In general, these procedures are fairly straightforward because the analysis of survey data is typically confined to descriptive and correlational statistics.

(H) Tabulation: This step involves decisions about data entry.

(I) Analysis and reporting: As with all studies, the final steps are to conduct the data analyses, prepare a final report or manuscript, and disseminate the study's findings. Although a range of methods for conducting surveys are available, the most popular are face-to-face, telephone, and mail. In general, each of these methods has its own advantages and disadvantages. The principal advantage of survey studies is that they provide information on large groups of people, with very little effort, and in a cost-effective manner (Marczyk et al. 2005). Surveys allow researchers to assess a wider variety of behaviours and other phenomena than can be studied in a typical naturalistic observation study.

4.5   The questionnaire instrument

Most surveys are designed to be descriptive or predictive. Descriptive research designs use questionnaires to collect data that can be turned into knowledge about a person, object, or issue (Hair et al. 2010). The questionnaire is a structured interview in which each subject or respondent is asked a series of questions according to a prepared and fixed interviewing schedule (Brace 2004). The broad aim of the questionnaire was to gather information on factors that act as constraints to SMMEs growth.

The questionnaire is the medium of communication between the researcher and the subject. In the questionnaire, the researcher articulates the questions to which he or she wants to know the answers and, through the questionnaire, the

Table 4.3: Major types of survey research methods

Type of Survey Research	Description
Person-Administered	
In-home interview	An interview takes place in the respondent's home or, in special situations, within the respondent's work environment (in-office).
Mall-intercept Interview	Shopping patrons are stopped and asked for feedback during their visit to a shopping mall.
Telephone-Administered	
Traditional telephone interview	An interview takes place over the telephone. Interviews may be conducted from a central telephone location or the interviewer's home.
Computer-assisted telephone interview (CATI)	A computer is used to assist in a telephone interview.
Wireless phone surveys	Wireless phones are used to collect data. The surveys may be text-based or Web-based.
Self-Administered	
Mail survey	Questionnaires are distributed to and returned from respondents via the postal service or overnight delivery.
Online surveys	The Internet is used to ask questions and record responses from respondents.
Mail panel survey	Surveys are mailed to a representative sample of individuals who have agreed in advance to participate.
Drop-off survey	Questionnaires are left with the respondent to be completed at a later time. The surveys may be picked up by the researcher or returned via mail.

Source: Hair, J. F., Wolfinbarger, M. F., Ortinau, D. J., & Bush, R. P. (2010). Essentials of Marketing Research. McGraw-Hill/Irwin.

subjects' answers are conveyed back to the researcher. The questionnaire can thus be described as the medium of conversation between two people, although they are remote from each other and never communicate directly (Brace 2004).

As cited by Brace (2004), there are a number of different stakeholders in the questionnaire, on each of whom the way in which it is written and laid out will have an effect. There can be up to five different groups of people who have an interest in the questionnaire, and each one has a different requirement of it:

(A) The clients, or people commissioning the survey, require the questionnaire to collect the information that will enable them to answer their business objectives.

(B) The interviewers, where used, want a questionnaire that is straight- forward to administer, has questions that are easily understood by respondents, and has somewhere where they can easily record those responses.

(C) Respondents want a questionnaire that poses them questions that they can answer without too much effort, and that maintains their interest, without taking up too much of their time.

(D) The data processors want a questionnaire layout that allows for uncomplicated data entry, where necessary, and for the straightforward production of data tables or other required analyses.

(E) The researcher or questionnaire writer has to strive to meet all of these people's needs, and to do so whilst working within the parameters of a budget that has usually been agreed with the client, which in turn means working within an agreed interview length and survey structure.

It is not always possible to meet all of these needs at the same time. However, the first logical step in questionnaire design is the determination of the information needed to achieve the above aim. Even though there are many guidelines on how to design effective questionnaires there appears to be no specific scientific process that helps the preparation of a perfect or an ideal questionnaire.

4.5.1   Types of questionnaire

According to Saunders et al. (2007), there are two broad types of questionnaire namely self-administered and interviewer-administered. Self-administered ques-

tionnaires are usually completed by the respondents. Such questionnaires are administered electronically using:

(A) Internet-mediated questionnaire

(B) Postal questionnaire

(C) Delivery and collection questionnaire

Responses to interviewer-administered questionnaires are recorded by the interviewer on the basis of each respondent's answers. A growing number of surveys contact respondents and administer questionnaires using:

(A) Telephone questionnaire

(B) Structured interview

4.5.2 Reliability and validity of the questionnaire

The quality of the collected data needs to be checked according to the reliability and validity to ensure the creditability of the findings and conclusions of this study.
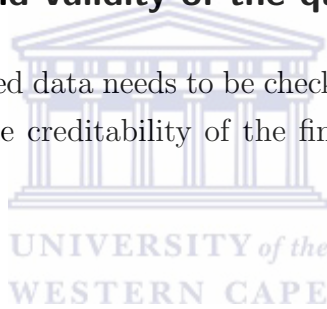
4.5.2.1 Reliability

A measure is reliable to the degree that it supplies consistent results (Cooper and Schindler 2010). Reliability estimates the degree to which an instrument measures the same way each time it is used under the same conditions with the same subjects (Adams et al. 2007). Reliability also refers to whether the measurement is consistent (Marczyk et al. 2005). A very important aspect of reliability lies in the definitions of variables which are being measured. For reliability in measurement, especially in survey research, the researcher must have a clear and an unambiguous definition of all the concepts and artificial constructs being used in the research design. Vanderstoep and Johnston (2009) suggested different ways to determine the reliability of a measure, which includes:

(A) Cronbach's alpha: Cronbach's alpha is the most common way to assess the reliability of self -report items. Cronbach's alpha measures the degree to which the items in an instrument are related. It has a maximum value of 1.0. Values closer to 1.0 reflect a stronger relationship between the test

items. For an instrument with a high alpha, participants who score high on one item on the test would also score high on other items on the test.

(B) Test-retest reliability: Test-retest reliability measures the similarity of participants' scores at two different times. The greater the similarity between the two sets of scores, the higher the test-retest reliability.

(C) Parallel-forms reliability: This method of determining reliability is often used when you are trying to determine if a measure changes over time.

(D) Inter-rater reliability: Inter-rater reliability is often used for behavioural observations. A measure has high inter-rater reliability if two people who are observing behaviour agree on the nature of that behaviour.

In this study, the reliability was determined by examining Cronbach's alpha value, thus the other types of tests not applicable to the study. Reliability is a necessary contributor to validity but is not a sufficient condition for validity (Cooper and Schindler 2010).

4.5.2.2 Validity

Validity is an important term in research that refers to the conceptual and scientific soundness of a research study (Marczyk et al. 2005). The primary purpose of all forms of research is to produce valid conclusions. Furthermore, researchers are interested in explanations for the effects and interactions of variables as they occur across a wide variety of different settings. To truly understand these interactions requires special attention to the concept of validity, there are four types of validity commonly examined in research methods (Adams et al. 2007; Marczyk et al. 2005).

(A) Internal validity: The ability of a research design to rule out or make implausible alternative explanations of the results, thus demonstrating that the independent variable was directly responsible for the effect on the dependent variable and, ultimately, for the results found in the study.

(B) External validity: Is the degree to which research results generalize to other conditions, participants, times, and places. External validity is related to conclusions that can be drawn about the strength of the inferred causal relationship between the independent and dependent variables to circumstances beyond those experimentally studied.

(C) Construct validity: Relates to interpreting the basis of the causal relation-
ship and it refers to the congruence between the study's results and the
theoretical underpinnings guiding the research.

(D) Statistical validity: Refers to aspects of quantitative evaluation that affect
the accuracy of the conclusions drawn from the results of a study

It is believed that validity is more important than reliability because if an in-
strument does not accurately measure what it is supposed to, there is no reason
to use it even if it measures consistently.

This questionnaire is a part of a project run by the School of Business and Fi-
nance (SBF) at the University of the Western Cape (UWC) in South Africa.
The project started in 2007 in the province of KwaZulu-Natal (KZN) in South
Africa by collecting data from 282 SMMEs in KZN.

The validity of this questionnaire was determined through a panel of subject
experts comprising of supervisors who assessed and refined the questionnaire
to represent the underlying theories of the study. The results from the study
and comments from these subject experts in SMME development and growth
were used in the formulation and preparation of the questionnaire to collect
data for exploring the factors acting as constraints to SMME growth as well as
investigating the effect of these constraints on SMME growth.

4.6   The study approach

The objective of this study is to examine the effect of constraints on SMME
growth; this is tested by implementing descriptive research designs to establish
the relationship between SMME growth and the independent variables, and
examine whether constraints have negative effect on SMME growth. The study
applied a survey in terms of a quantitative research approach. The approach was
useful to enable the determination of the factors acting as constraints to SMME
growth, and to investigate how SMMEs could overcome these constraints to
survive and grow.

4.7   Research site

Research site was in the Western Cape Province in South Africa, the Western Cape is an integral part of the South African economy. It is South Africa's major agricultural export area, it is the most important international tourism draw-card, a premier location of higher education institutions, a key logistics node with two major ports and a major national source of professional, business and educational services for the national economy (Council of the City of Cape Town (CCCT) 2012).

The Province makes up 10.6% of South Africa's total land area, is home to 11.3% of South Africa's population and accounts for approximately 14% of the national GDP (Herrington and Kew 2013). Key industries include tourism and agriculture, while sectors such as finance, real estate, biotechnology and retail have shown substantial growth, and are the main contributors to the regional economy. After Gauteng and KwaZulu-Natal, the Western Cape's manufacturing sector is the third largest contributor to the national manufacturing sector; the Province has the lowest unemployment figure at 21% compared to 26% for Gauteng and 38% for the Eastern Cape and Limpopo (Herrington and Kew 2013).
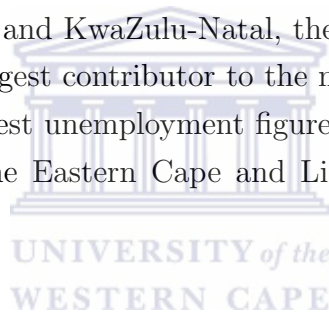
4.8   The population of the study

In order to test the hypotheses developed in this study and to investigate the effect of constraints on SMME growth, it is required to have quantitative data of a statistically representative sample of SMMEs. The statistically representative sample is an important dimension, since most prior studies in this research area have concentrated on qualitative approach. In order to make generalizable assumptions, it is important to test the theories based on large scale data.

The population of the study consists of owner-managers of SMMEs in the Western Cape Province in South Africa. SMMEs are an important component of the economy in the Western Cape and South Africa at large. Estimates of the total size of the SMMEs sector in South Africa vary. However, the estimates provided by the Labour Force Survey (LFS) and the Global Entrepreneurship Monitor (GEM) are consistent (Roberts, Kaplan, Wentzel and Davids 2005). In total, GEM estimates that there are approximately two million entrepreneurs

in South Africa running about 1,1 million enterprises (Turton and Herrington 2012). The Western Cape government estimates that there are 336,000 enterprise owner-managers running 189,000 SMMEs. Of these SMMEs, 100,000 are start-ups, 67,000 are new and 23,000 are established SMMEs (Roberts et al. 2005).

4.9   Sampling

In order to ensure a high degree of reliability and validity, the study used a variety of sampling techniques in selecting the sample for the study. Within the Western Cape Province, a random sampling was applied to solicit responses from SMMEs. The selection of who was invited to participate in the study was based on the firm qualifying as a SMME in line with the South African National Small Business Act (NSBA), Act 102 of 1996 (as amended in 2003 and 2004) (NSBA 1996). The data was collected using a questionnaire, which was administered to the sample of SMMEs. The purpose of the questionnaire is to collect all relevant information regarding variables that reflect owner- manager factors, SMMEs characteristics and factors predict SMME growth. Of the total 1420 questionnaires that were distributed to three broadly defined industry, manufacturing, trading and servicing, in the fall of 2013, 962 were returned that were usable, indicating a response rate of 67.7%.

4.10   Data collection

There are certain broad categories that encompass the types of data collection techniques. Generally, the research question and the nature of the variables under investigation usually drive the choice of measurement strategy for data collection (Marczyk et al. 2005). Data collection techniques were chosen in accordance with the level of understanding likely to arise from their use. Hence, the study applied a survey in terms of a quantitative research approach, the data was collected through the researcher administered questionnaires. Descriptive research designs use questionnaires to collect data to test the research hypotheses. The study used structured interview questionnaires to collect the data.

4.11   The contents of the questionnaire

The questionnaire comprised seven major sections. Section one consisted of items on demographic information of the responding firms that included gender, age, citizenship, education, number of employees, period of firm's operation, form of business ownership, and training undertaken by the enterprise owners. The literature has shown that demographic characteristics have influence on enterprise finance. These characteristics were used in this study to investigate whether they had influence on SMME growth. Section two was designed to collect information on the level of awareness and effectiveness of government initiatives on the SMMEs. Section three of the instrument aimed at collecting information on the reasons that best determine what factors contributed to SMME growth and employment creation. Section four was designed to assess the respondents' awareness of the sources of business finance. Section five of the questionnaire examined factors effect of constraints on SMME growth. Section six assessed the respondents' skills and competencies in relation to SMME growth. Finally, section seven examined government policies on SMMEs growth and development.

4.12   Measurement of variables

Regarding the predictors, the effect of internationalization was measured by asking respondents to estimate the level of exporting activities of their business growth. The constraint variables were measured by asking the respondents to estimate the effect of these variables on business growth.

4.12.1   SMME growth

The literature on SMMEs has used a range of variables to measure growth, but the most widely used measures were sales turnover and employment growth. Kozan et al. (2006) found a strong correlation between sales and employment growth. Also noticeable was the relationship between financial performance and employment growth. Employment growth is a reliable and a less volatile measure of growth than sales, as owner-managers generally wait for demand to stabilize before recruiting personnel (Wiklund 1999). Additionally, reliable information on employment is easier to gather and less sensitive than financial

data. Thus, employment is widely used as a measure of growth (Barringer, Jones and Neubaum 2005; Chaganti, Cook and Smeltz 2002; Davidsson et al. 2002; Freel 2004). Therefore, this study measured the growth of SMMEs in terms of an increase in employment.

4.12.2   Control variables

The study includes several control variables that may affect SMME growth prior to the empirical investigations on the possible moderating effect of microfinance on the relationship between financial constraints and SMME growth. First, the study controlled for firm characteristics. Characteristics that are important predictors of SMME growth, and were thus controlled for include: age, ownership, size, and industry (Delmar et al. 2003; Dobbs and Hamilton 2007; Heinonen et al. 2004; Naldi and Davidsson 2013; Westhead and Birley 1995). Age was measured by the number of years the firm had been in existence until 2013, the study further grouped SMME age into three age groups; new, young and old. SMME with less than two years was considered in new firm group, SMME with more than two years and less than ten years was regarded in young firm group. Old group consisted SMMEs with more than ten years.

For ownership structure and control, the study identified four types of ownership namely: sole trader, partnership, close corporation and private company. SMME size was measured by the number of employees, and according to the South African National Small Business Act (NSBA) (Act 102 of 1996 as amended in 2003 and 2004), to micro, very small, small and medium enterprises. For the control variable of industry three dummy variables reflecting the firms' industry - manufacturing, trading and service - was used.

Secondly, the respondents of the survey were the owners/managers of SMMEs. Several researchers have suggested that owner/manager demographic characteristics might affect SMME growth (Dobbs and Hamilton 2007; Naldi and Davidsson 2013; Onuorah 2009; Welter 2006). The study included three control variables that reflect the owner/manager's demographic characteristics; gender, age and education level. Five age groups to measure owner/manager age, and five levels of education, starting from primary school up to post graduate level to measure owner/manager's level of education was used to further classify the variables.

4.12.3 Predictor's variables

For the predictors, the study used variables which are assumed to have an influence on a SMMEs growth. Government initiative is one such variable, and it was measured with ten items reflecting the several types of initiatives found in the Western Cape. The structure of the initiatives were examined by means of an exploratory principal components analysis, the factor score was then used to represent government initiatives in the correlation and multiple regression analysis.

The other predictors (planning function, market and customers, and black economic empowerment programs) were measured by asking the respondents to estimate the effect of these predictors on business growth. For the sources of finance and capital structure four dummy variables were used to measure the influence of sources of finance and capital structure on SMME growth.

4.12.4 Constraints to SMME growth

The constraint variables were measured by asking the respondents to estimate the effect of some factors as constraints to their business growth. The factors enquired about include: lack of clear business plans, lack of government support, government regulations, competition, corruption and lack of access to finance. For the lack of skilled employees the respondents were asked to estimate the level of skill of their work force - using three categories: skilled, semi-skilled and unskilled - at the inception of the business and by the time of the questionnaire was conducted. The lack of professional financial advisors was measured by asking the respondents if they managed to make use of a professional financial advisor.

The lack of awareness of financial services and assistance was measured by asking the respondents whether they had heard of the most known financial intuitions, government agency, funding schemas and supporting programs for SMMEs in the Western Cape. This was followed-up with a question on if they had made use of these services. The factor score was then used to measure the levels of their awareness of financial services and assistance.

4.12.5   Moderating Variables

The study used one moderating variable to examine how SMMEs should over-
come constraints to growth; microfinance. Microfinance was measured by a
dummy variable reflecting the use of microfinance within SMME financial struc-
tures.

4.13   Data analysis

There are several statistical procedures that can help to better analyse and
understand the data that has been conducted by means of a survey. The purpose
of analytic methods is to convert data into information needed to make decisions.
According to Hair et al. (2010), the choice of the methods of statistical analysis
depends on

(A) The number of variables,

(B) The scale of measurement,

(C) Parametric versus nonparametric statistics

The major difference between parametric and non-parametric lies in the underly-
ing assumptions about the data. When the data are measured using an interval
or ratio scale and the sample size is large, parametric statistics are appropriate.
It is also assumed that the sample data are collected from populations with nor-
mal distributions. In contrast, when a normal distribution cannot be assumed,
the researcher must use non-parametric statistics.

After considering the measurement scales and data distributions, according to
Hair et al. (2010), there are three approaches for analysing sample data that
are based on the number of variables; univariate, bivariate and multivariate
statistics.

4.13.1   Univariate statistics

Univariate means the researcher statistically analyse only one variable at a time.
The use of univariate statistics in this study was to calculate some statistics to
measure the distribution, central tendency and dispersion of data included in
this analysis.

4.13.1.1 Measures of central tendency

Frequency distributions can be useful for examining the different values for a variable. Frequency distribution tables are easy to read and provide a great deal of basic information (Hair et al. 2010). The mean, median, and mode are measures of central tendency. These measures locate the centre of the distribution. The mean is the average value within the distribution and is the most commonly used measure of central tendency. The mean calculates an average across a number of observations. The other measurement is the median. The median is the middle value of the distribution when the distribution is ordered in either an ascending or a descending sequence. The third measurement of the central tendency is the mode. The mode is the value that appears in the distribution most often.

4.13.1.2 Measures of dispersion

Measures of central tendency often do not tell the whole story about a distribution of responses (Hair et al. 2010). Measures of dispersion describe how close to the mean or other measure of central tendency the rest of the values in the distribution fall. Two measures of dispersion that describe the variability in a distribution of numbers are the range and the standard deviation (Hair et al. 2010). The range defines the spread of the data. It is the distance between the smallest and largest values of the variable, while the standard deviation describes the average distance of the distribution values from the mean. The difference between a particular response and the distribution mean is called a deviation.

4.13.1.3 Bivariate statistical tests

In many instances researchers test hypotheses that compare the characteristics of two groups or two variables by examining the relationships. Relationships between variables means the variation in one variable coincides with variation in another variable (Greener 2008).

Bivariate data analysis is analysis and hypothesis testing when the investigation concerns simultaneous investigation of two variables. This may be done using tests of differences or measures of association between two variables at a time (Cooper and Schindler 2010). According to Hair et al. (2010), there are three

types of bivariate hypothesis tests: Chi-square, the t -test and analysis of variance. In this study, we used a cross-tabulation and Chi-square to examine the effect of each independent variable on SMME growth.

4.13.1.4   Cross-tabulation

It is set up as a frequency table including column percentages but showing both variables against the chosen categories. If one variable is suspected of being the independent variable, this is shown as a column variable not a row variable. Such tables are used to look for patterns of association in the data (Greener 2008).A cross tabulation is just a more advanced method of presenting frequency data. It presents the frequencies in a matrix (Mutezo 2005).

Cross-tabulation is useful for examining relationships and reporting the findings for two variables. The purpose of cross-tabulation is to determine if differences exist between subgroups of the total sample (Hair et al. 2010).

Cross tabulation is one of the simplest methods for describing sets of relationships. Across-tabulation is a frequency distribution of responses on two or more sets of variables. One purpose of cross-tabulations is to study relationships among variables. Researchers can use the Chi-square test to determine whether responses observed in a survey follow the expected pattern.

4.13.1.5   Chi-square analysis

Chi-square (X^2) analysis enables researchers to test for statistical significance between the frequency distributions of two or more nominally scaled variables in a cross-tabulation table to determine if there is any association between the variables (Hair et al. 2010). The chi-square test evaluates the relationship between two variables. Instead of measuring numerical scores, each individual is simply classified into a category for each of the two variables (Gravetter and Forzano 2012).

Chi-square analysis compares the observed frequencies of the responses with the expected frequencies. The Chi-square statistic tests whether or not the observed data are distributed the way the researcher would expect them to be, given the assumption that the variables are not related. The expected cell count is a theoretical value, while the observed cell count is the actual cell count based on the study. The Chi-square statistic answers questions about relationships between

nominally scaled data that cannot be analysed with other types of statistical analysis, such as ANOVA or t -tests.

4.13.1.6   Analysis of variance (ANOVA)

Researchers use analysis of variance (ANOVA) to determine the statistical difference between three or more means. ANOVA test is used to test for significant differences in situations where the variables are more than two (Leroy 2012). ANOVA is used to compare the means between-subjects research study using two or more separate samples to compare two or more separate treatment conditions or populations.

The test statistic produced by ANOVA is the (F) statistic, and a (p) value is associated with the (F). If the (p) value is less than .05, researchers conclude that the ANOVA is statistically significant and therefore the three or more groups differ from each other (Vanderstoep and Johnston 2009).

The total variance in a set of responses to a question is made up of between-group and within-group variance. The between-group variance measures how much the sample means of the groups differ from one another. In contrast, the within-group variance measures how much the response within each group differs from one another. The F distribution is the ratio of these two components of total variance (Hair et al. 2010). The larger the difference in the variance between groups, the larger the F ratio. Since the total variance in a data set is divisible into between- and within-group components, if there is more variance explained or accounted for by considering differences between groups than there is within groups, then the independent variable probably has a significant impact on the dependent variable (Hair et al. 2010). Larger F ratios imply significant differences between the groups. Thus, the larger the F ratio, the more likely it is that the null hypothesis will be rejected.

4.13.2   Multivariate Analysis

Multivariate analysis is a group of statistical techniques used when there are two or more measurements on each element and the variables are analysed simultaneously (Hair et al. 2010). Multivariate analysis refers to all statistical techniques that simultaneously analyse multiple measurements on individuals or objects under investigation. Thus, any simultaneous analysis of more than

two variables can be loosely considered multivariate analysis (Hair et al. 2009).

Some multivariate techniques (e.g., multiple regression and multivariate analysis of variance) provide a means of performing in a single analysis what once took multiple univariate analyses to accomplish. Other multivariate techniques, however, are uniquely designed to deal with multivariate issues, such as factor analysis, which identifies the structure underlying a set of variables, or discriminant analysis, which differentiates among groups based on a set of variables (Hair et al. 2009).

Multivariate analysis is an ever-expanding set of techniques for data analysis that encompasses a wide range of possible research situations. The more established as well as emerging techniques according to Hair et al. (2009) include the following:

1. Factor analysis

2. Correlation analysis

3. Multiple regression and multiple correlation

4. Multiple discriminant analysis and logistic regression

5. Multivariate analysis of variance and covariance

6. Conjoint analysis

7. Cluster analysis

8. Perceptual mapping, also known as multidimensional scaling

9. Correspondence analysis

10. Structural equation modelling and confirmatory factor analysis

This study used the first three techniques to examine the effect of constraints to SMME growth. Furthermore, the study used multiple regression technique to investigate the moderating effect of microfinance of the relationship between financial constraints and SMME growth. The following section briefly defines the techniques used in the study and the objective for their application.

4.13.2.1 Factor analysis

Factor analysis is a statistical approach that can be used to analyse inter-relationships among a large number of variables and to explain these variables

in terms of their common underlying dimensions (Hair et al. 2009). Factor analysis is widely used in business research to reflect hidden or latent variables which cannot be directly measured, but tend to be indirectly measured by other measures (Adams et al. 2007). The objective is to find a way of condensing the information contained in a number of original variables into a smaller new set of factors with a minimal loss of information (Hair et al. 2009). These new variables are created in a way so as to be orthogonal or uncorrelated. This means that besides making the data more manageable, by reducing the number of variables, it is also a means to overcoming the problems of multicollinearity (Adams et al. 2007).

Factor analysis is based on the assumption that all variables are correlated to some degree. Therefore, those variables that share similar underlying dimensions should be highly correlated, and those variables that measure dissimilar dimensions should yield low correlations. As suggested by Hair et al. (2009), there are three key guidelines that should be considered when performing factor analysis:

(A) A strong conceptual foundation needs to support the assumption that a structure does exist before the factor analysis is performed

(B) A statistically significant Bartlett's test of sphericity (sig. < 0.050) indicates that sufficient correlations exist among the variables to proceed

(C) Measure of sampling adequacy (MSA) values must exceed 0.50 for both the overall test and each individual variable; variables with values less than 0.50 should be omitted from the factor analysis one at a time, with the smallest one being omitted each time

Factor analysis is in many ways more affected by not meeting its underlying conceptual assumptions than by the statistical assumptions. The researcher must be sure to thoroughly understand the implications of not only ensuring that the data meet the statistical requirements for a proper estimation of the factor structure, but that the set of variables has the conceptual foundation to support the results.

4.13.2.2   Correlation

Correlation is primarily concerned with finding out whether a relationship exists and with determining its strongest and direction. When two variables vary

together, such as work and income, they are said to be correlated. Accordingly, correlational studies are attempts to find the extent to which two or more variables are related (Ho 2006). The simplest correlational study involves obtaining a pair of observations or measures on two different variables from a number of individuals. The paired measures are then statistically analysed to determine if any relationship exists between them (Ho 2006). To quantitatively express the extent to which two variables are related, it is necessary to calculate a correlation coefficient. There are many types of correlation coefficients, and the decision of which one to employ with a specific set of data depends on the following factors:

(A) The level of measurement on which each variable is measured

(B) The nature of the underlying distribution (continuous or discrete)

(C) The characteristics of the distribution of the scores (linear or non- linear)

There are two types of correlation: the Pearson product correlation coefficient (r), employed with scaled variables, and the Spearman rank order correlation coefficient (rrho), employed with ordered or ranked data. This study examines the relationship between SMME growth and other variables using Pearson product correlation coefficient. It is important to note that, regardless of which correlational technique is used, as explained by Ho (2006), these two techniques have the following characteristics in common:

(A) Two sets of measurements are obtained on the same individuals or on pairs of individuals who are matched on some basis.

(B) The values of the correlation coefficients vary between +1.00 and -1.00. Both of these extremes represent perfect relationships between the variables, and 0.00 represents the absence of a relationship.

(C) A positive relationship means that individuals obtaining high scores on one variable tend to obtain high scores on a second variable. The converse is also true, i.e., individuals scoring low on one variable tend to score low on a second variable.

(D) A negative relationship means that individuals scoring low on one variable tend to score high on a second variable. Conversely, individuals scoring high on one variable tend to score low on a second variable.

In order to examine the correlation coefficient between the variables, Ho (2006) suggested that some assumptions must be made:

(A) For each subject in the study, there must be related pairs of scores, i.e., if a subject has a score on variable X, then the same subject must also have a score on variable Y.

(B) The relationship between the two variables must be linear, i.e., the relationship can be most accurately represented by a straight line.

(C) The variables should be measured at least at the ordinal level.

(D) The variability of scores on the Y variable should remain constant at all values of the X variable. This assumption is called homoscedasticity.

4.13.2.3 Multiple regression

Regression and correlation are closely related. Both techniques involve the relationship between two variables, and they both utilize the same set of paired scores taken from the same subjects (Ho 2006). However, whereas correlation is concerned with the magnitude and direction of the relationship, regression focuses on using the relationship for prediction (Ho 2006). In terms of prediction, if two variables were correlated perfectly, then knowing the value of one score permits a perfect prediction of the score on the second variable. Generally, whenever two variables are significantly correlated, the researcher may use the score on one variable to predict the score on the second.

There are many reasons why researchers want to predict one variable from another, like correlation, to perform a regression analysis, Ho (2006) suggested the following assumptions:

(A) For each subject in the study, there must be related pairs of scores. That is, if a subject has a score on variable X, then the same subject must also have a score on variable Y.

(B) The relationship between the two variables must be linear, i.e., the relationship can be most accurately represented by a straight line.

(C) The variables should be measured at least at the ordinal level.

(D) The variability of scores on the Y variable should remain constant at all values of the X variable. This assumption is called homoscedasticity.

Multiple regression is the appropriate method of analysis when the research problem involves a single dependent variable presumed to be related to two or

more independent variables (Hair et al. 2009). The objective of multiple regression analysis is to predict the changes in the dependent variable in response to changes in the independent variables. This objective is most often achieved through the statistical rule of least squares (Hair et al. 2009). Whenever the researcher is interested in predicting the amount or size of the dependent variable, multiple regression is useful.

4.13.2.3.1   Types of multiple regression method

According to Ho (2006), there are three major types of multiple regression technique: standard multiple regression, hierarchical regression and statistical (stepwise) regression. They differ in terms of how the overlapping variability due to correlated independent variables is handled, and who determines the order of entry of independent variables into the equation.

Standard multiple regression   For this regression model, all the study's independent variables are entered into the regression equation at once. Each independent variable is then assessed in terms of the unique amount of variance it accounts for. The disadvantage of the standard regression model is that it is possible for an independent variable to be strongly related to the dependent variable, and yet be considered an unimportant predictor, if its unique contribution in explaining the dependent variable is small .

Hierarchical multiple regression   This regression model is most flexible as it allows the researcher to determine the order of entry of the independent variables into the regression equation. Each independent variable is assessed at its own point of entry in terms of the additional explanatory power it contributes to the equation. The order of entry is normally dictated by logical or theoretical considerations. For example, based on theoretical reasons, a researcher may decide that two specific independent variables will be the strongest predictors of the dependent variable. Thus, these two independent variables will be accorded priority of entry, and their total explanatory power evaluated. Then the less important independent variables are entered and evaluated in terms of what they add to the explanation above and beyond that afforded by the first two independent variables.

Statistical (Stepwise) regression For this statistical regression model, the order of entry of predictor variables is based solely on statistical criteria. Variables that correlate most strongly with the dependent variable will be afforded priority of entry, with no reference to theoretical considerations. The disadvantage of this type of regression is that the statistical criteria used for determining priority of entry may be specific to the sample at hand.

This study performed a standard multiple regression to examine the effect of constraints to SMME growth. Multiple regression analysis is a dependence technique. Thus, in order for a researcher to use it, he or she must be able to divide the variables into dependent and independent variables (Hair et al. 2009). The authors suggested the following guidelines to apply multiple regression analysis:

(A) The data must be metric or appropriately transformed, and

(B) Before deriving the regression equation, the researcher must decide which variable is to be dependent and which remaining variables will be independent.
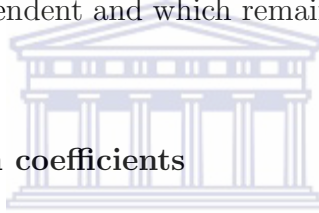
4.13.2.3.2   Regression coefficients

In multiple regression analysis, multiple independent variables are entered into the regression equation, and for each variable a separate regression coefficient is calculated that describes its relationship with the dependent variable. The coefficients enable researchers to examine the relative influence of each independent variable on the dependent variable. The easiest way to analyse the relationships is to examine the regression coefficient for each independent variable, which represents the average amount of change expected in dependent variable given a unit change in the value of the independent variable.

The problem with multiple independent variables is the possibility that each independent variable is measured using a different scale. To solve this problem, Hair et al. (2010), suggested calculating the standardized regression coefficient (beta). Beta shows the change in the dependent variable for each unit change in the independent variable. Standardization removes the effects of using different scales of measurement. Beta coefficients will range from 0.00 to 1.00, and can be either positive or negative. A positive beta means as the size of an independent variable increases then the size of the dependent variable increases. A negative beta means as the size of the independent variable increases then the size of the dependent variable gets smaller.

4.13.2.3.3   Statistical significance

After the regression coefficients have been estimated, the researcher must examine the statistical significance of each coefficient. This is done in the same manner as with bivariate regression (Hair et al. 2010). Each regression coefficient is divided by its standard error to produce a (t-test) statistic, which is compared against the critical value to determine whether the null hypothesis can be rejected.

The researcher should examine the (t-test) statistics for each regression coefficient. Many times not all the independent variables in a regression equation will be statistically significant. If a regression coefficient is not statistically significant, that means the independent variable does not have a relationship with the dependent variable and the slope describing that relationship is relatively flat, which means the value of the dependent variable does not change at all as the value of the statistically insignificant independent variable changes.

When using multiple regression analysis, it is also important to examine the overall statistical significance of the regression model. This is tested by (F) statistic which is compared against a critical value to determine whether or not to reject the null hypothesis. If the F statistic is statistically significant, it means the chances of the regression model for the sample producing a large R^2 when the population R^2 is actually 0 are acceptably small.

4.13.2.3.4   The multiple regression model

A regression model that contains more than one predictor variable is called a multiple linear regression model. The goal of multiple linear regression is to model the relationship between the independent/explanatory and dependent/response variables. The multiple linear regression equation for a model with three independent variables can be written as follows:

$$y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + \varepsilon_i \qquad (4.1)$$

Where:

y is the value of the dependent variable, what is being predicted or explained

b_0 (Alpha) is the constant or intercept

b_1 is the slope (beta coefficient) for x_1

x_1 is the first independent variable that is explaining the variance in y

b_2 is the slope (beta coefficient) for x_2

x_2 is the second independent variable that is explaining the variance in y

b_3 is the Slope (Beta coefficient) for x_3

x_3 is the third independent variable that is explaining the variance in y

ε_i is the error term, disturbance term, or noise. This variable associated with an estimated, measured y variable and captures all other factors which influence the dependent variable.

4.13.2.3.5   Multicollinearity in regression analysis

Multicollinearity refers to the situation in which the independent variables are highly correlated (Ho 2006). When independent variables are multi-collinear, there is "overlap" or sharing of predictive power. This may lead to the paradoxical effect, whereby the regression model fits the data well, but none of the predictor variables has a significant impact in predicting the dependent variable. Multicollinearity can be examined by checking "Tolerance" and "VIF" values for each predictor. A tolerance value should be more than 0.10 while the VIF, which stands for variance inflation factor and its value should be less than 10 (Ho 2006)

4.13.2.3.6   The moderator effects

The moderator effect occurs when the moderator variable, a second independent variable, changes the form of the relationship between another independent variable and the dependent variable and it is also known as an interaction effect (Hair et al. 2010). In general terms, a moderator is a variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. It is a third variable that affects the zero-order correlation between two other variables (Baron and Kenny 1986).

The moderator effect is represented in multiple regression by a product term. The product term is a compound variable formed by multiplying independent variable by the moderator, which is entered into the regression equation. The

moderated relationship is represented as

$$y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_1 x_2 \tag{4.2}$$

Where

$b_0 =$ intercept

$b_1 x_1 =$ linear effect of the moderator variable x_1

$b_2 x_2 =$ linear effect of the independent variable x_2

$b_3 x_1 x_2 =$ moderator effect of x_1 on x_2

To determine whether the moderator effect is significant, the researcher follows a three-step process:

(A) Estimate the original (un-moderated) equation.

(B) Estimate the moderated relationship (original equation plus moderator variable).

(C) Assess the change in R^2: If it is statistically significant, then a significant moderator effect is present. Only the incremental effect in R^2 is assessed, not the significance of individual variables.

Thus, in un-moderated regression, the regression coefficients b_1 and b_1 are averaged across levels of the other independent variables, whereas in a moderated relationship they are separate from the other independent variables. To determine the total effect of an independent variable, the separate and moderated effects must be combined. The overall effect of x_1 for any value of x_2 can be found by substituting the x_2 value into the following equation:

$$b_{total} = b_1 + b_3 x_2 \tag{4.3}$$

For example, assume a moderated regression resulted in the following coefficients: $b_1 = 2.0$ and $b_2 = 0.5$. If the value of the independent x_2 ranges from 1 to 7, the total effect of moderator variable x_1 can be calculated at any value of x_2. When x_2 equal 3, the total effect of x_1 is $3.5 (2.0 + (0.5 * 3))$. When x_2 increases to 7, the total effect of x_1 is now $5.5 (2.0 + (0.5 * 7))$.

The moderator effect analysis provides the researcher with great flexibility in representing a wide range of relationships within regression models. However,

the selection of the moderator variable must be guided by theory that is supported by empirical analysis (Hair et al. 2009).

4.13.2.3.7   Validity and reliability of the regression results

To perform multiple regression analysis and to examine the validity and reliability of the results, researchers should consider some assumptions as suggested by Ho (2006), such as:

(A) Linearity: As regression analysis is based on the concept of correlation, the linearity of the relationship between dependent and independent variables is crucial. Linearity can easily be examined by residual plots. For non-linear relationships, corrective action to accommodate the curvilinear effects of one or more independent variables can be taken to increase both the predictive accuracy of the model and the validity of the estimated coefficients.

(B) Homoscedasticity: The assumption of equal variances between pairs of variables. Violation of this assumption can be detected by either residual plots or simple statistical tests. Some statistic software provides the Levene Test for Homogeneity of Variance, which measures the equality of variances for a single pair of variables.

(C) Independence of error terms: In regression, it is assumed that the predicted value is not related to any other prediction; i.e., each predicted value is independent. Violation of this assumption can be detected by plotting the residuals against sequence of cases. If the residuals are independent, the pattern should appear random. Violations will be indicated by a consistent pattern in the residuals. Some statistic software provides the Durbin-Watson statistic as a test for serial correlation of adjacent error terms, and, if significant, indicates non-independence of errors.

(D) Normality of the error distribution: It is assumed that errors of prediction (differences between the obtained and predicted dependent variable scores) are normally distributed. Violation of this assumption can be detected by constructing a histogram of residuals, with a visual check to see whether the distribution approximates the normal distribution.

4.14   Statistical analysis software

All statistical analyses in the present study were computed using the SPSS statistical package for Windows version 21.0. SPSS stand for Statistical Package for the Social Sciences. SPSS is a package of programs for manipulating, analysing, and presenting data; the package is widely used in the social and behavioural sciences (Landau and Everitt 2004). SPSS is one of the most popular of the many statistical packages currently available for statistical analysis. Its popularity stems from the following features of the program (Ho 2006):

(A) It allows for a great deal of flexibility in the data format.

(B) It provides the user with a comprehensive set of procedures for data transformation and file manipulation.

(C) It offers the researcher a large number of statistical analyses processes commonly used in social sciences.

SPSS is an indispensable tool it is also relatively easy to use once the researcher has been taught the rudiments.

4.15   Summary

This chapter explained the approach used in this study. It highlighted the research design, data and sample selection, variables, and data analysis techniques used to address the research problem through the testing of the previously developed hypotheses used in the study. The objective of this study is to examine the effect of constraints on SMME growth; this was tested by implementing descriptive research designs to establish the relationship between SMME growth and the independent variables, and examine whether constraints have negative effect on SMME growth. The study applied a survey in terms of a quantitative research approach. The approach was useful to enable the determination of the factors acting as constraints to SMME growth, and to investigate how SMMEs could overcome these constraints to survive and grow. The chapter also discussed several types of statistical analyses, and explained in detail the use of unilabiate, bivariate and multivariate analysis, and how it is used to investigate the effect of constraints on SMME growth. It also highlighted the data processing and statistical packages used to analyse the data.

The following chapter presents the research results. The chapter focuses on the responses provided by SMMEs in the questionnaire. Tables are used in conjunction with pie charts and graphs to aid in the analysis of data. The, results obtained in each part in the questionnaire are compared with empirical studies to confirm their consistency or inconsistency. Hypotheses are tested using regression analysis to determine the effect of constraints on SMME growth. Finally, the moderating effect of microfinance on the relationship between financial constraints and SMME growth is investigated.

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Chapter 5

Data Analysis and Findings

5.1 Introduction

This chapter presents the result of the survey conducted. The chapter begins with a discussion of basic characteristics of the sample. It then presents and discusses the descriptive findings on the relationships between the study variables and whether the relationships are significant. Further, the chapter examines the effect of constraints on SMME growth, and investigates the moderating effect of microfinance on the relationship between financial constraints and SMME growth. The chapter concludes with a summary of the findings.

5.2 Validity and reliability of the questionnaire

The validation of the questionnaire is very important because if an instrument does not accurately measure what it is supposed to, there is no reason to use it even if it measures consistently. This questionnaire is a part of a project run by the School of Business and Finance (SBF) at the University of the Western Cape (UWC) in South Africa. The project started in 2008 in the province of KwaZulu-Natal (KZN) in South Africa by collecting data from 282 SMMEs in KZN. To validate the questionnaire the researcher took the following steps:

> First, the researcher established face validity, by having experts on SMMEs and entrepreneurship looked at the results from the study in KZN and the first and current version of the questionnaire to evaluate whether the questions effectively capture the factors affecting

SMME growth. Then the researcher consulted a statistic cotch to check the questionnaire for common errors like double-barreled, confusing, and leading questions.

Second, the current version of the questionnaire was pilot tested on a small subset of 30 SMMEs in the Western Cape Province. The pilot data was entered into a spreadsheet for cleaning, identifying entry errors and categorization. The number of current employees in the business was categorized to micro small and medium enterprise according to South African definition.

Third, factor analysis was performed to Identify underlying components using principal components analysis (PCA) for measuring lack of the awareness of financial services and government initiatives, there were no problems with factor loading. Fourth, reliability checks were also performed to examine the degree of internal consistency in measuring lack of the awareness of financial services and government initiatives, by checking the correlation between questions loading onto the same factor. The values of Cronbach Alpha were in acceptable ranges.

The pilot study was followed by the main fieldwork project in the autumn of 2013 to gather the data for the study.

5.3   Descriptive findings of the research study

Exploring the factors affecting SMME growth such as demographics of owner/managers characteristics of SMMEs is one of the objectives of this thesis. This section presents the descriptive findings of the thesis.

5.3.1   Demographics of owner/managers of SMMEs

Table 5.1 and figure 5.1, show that there were more male owner/managers than female entrepreneurs in this study. The majority of owner/managers surveyed were male (75.4%). The results show that in the sample, the majority of business owners were not young, 75.8% were between the age of 40 and 59. In general, only 22.0% of all business owners in this study were not older than 40. In relation to gender differences in terms of their age, male owner/managers tended to

be older than female owner/managers, 59.8% of them are older than 40 years, compared with 16% of female owner/managers.

In this study, education was measured by determining the highest level of education of the owner/managers. Five levels of education were used; ranging from secondary, senior secondary, diploma (three years or more), graduate degree, and post graduate.

Table 5.1: Demographics of owner/managers of SMMEs

Gender	Age					Education				
	17 to 29	30 to 39	40 to 49	50 to 59	60 and over	Secondary	Senior Secondary	Diploma	Graduate (Degree)	Post Graduate
Male %	2.8	10.8	36.7	23.1	2	1.9	23.9	29.2	19.5	0.8
Female %	0.4	8	8.7	7.3	0.2	0.9	6.9	8	7.8	1
Total %	3.2	18.8	45.4	30.4	2.2	2.8	30.8	37.2	27.3	1.9

Source: Researcher's own computation from the study survey data

Figure 5.1 shows that a majority of business owners have higher levels of education and attained tertiary qualifications 66.4%, 37.2% with a diploma degree, 27.3% with graduate degree, followed by 1.9% with post graduate degree. The figure also shows that 33.6% of respondents had completed a secondary certificate and there were no respondents who had no schooling. In relation to gender differences in terms of the level of education of owner/managers, males were more educated than females, 49.6% of males have a university education compared to 16.8% females. The result in table 5.1 shows that majority of business owners with a post graduate degree were female.

5.3.2 Characteristics of SMMEs

This section presents descriptive results about the SMME characteristics: age, size, sector, and type of ownership. These variables have been included in the study as control variables.

As shown in figure 5.2, 66.7% of owner/managers indicated that their chosen form of legal entity was private company because of the limited liability, and ease of registration aspect. Of the respondents, 29.0% had opted for a sole trader form of business ownership whilst only 4.2% of respondents opted for the partnership form of ownership. The study sample was collected from three broadly defined industries, manufacturing, trading and servicing. Of the sample 47.7% work in the servicing sector, with 26.3% in manufacturing, and 26.0% in

trading.

As shown in figure 5.2, the majority of the SMMEs are small enterprises - 48.8%. Only 16.0% of the sample SMMEs had more than a hundred employees. Of the sample 35.2% are micro and very small enterprises with less than ten employees.

To examine the age of SMMEs, they were regrouped into three age-groups: new firms, young firms and old firms. The new firms group represents SMMEs with less than two years in business by 2013, young firms are those SMMEs with more than two years, but less than nine years in business, and old firms represent SMMEs with more than nine years in business. Figure 5.2 shows that the majority of the sample falls under the young age group 52.7%.

5.3.3   Market and customers

The respondents were asked to estimate the importance of several groups of customers for their business growth. Five types of customers were given: government contracts, sub-contracting from large firms, overseas customers, general public customers, and other SMMEs. Figure 5.3 shows that the most important type of customers to an SMME is the general public customer, 85.1%, with 75.9% ranking other SMMEs as important. Only just 6.7% of the sample ranked government contracts as important for business growth.

5.3.4   Government initiatives and programs

5.3.4.1   Government initiatives

Respondents were asked to rate the promotion of SMME assistance programmes under different government departments. As can be seen from table 5.2 and figure 5.4, the majority of respondents, 88.7%, opted for the option of "poor and very poor". Government agencies of small enterprise incentives in the Western Cape were rated as the poorest among all government initiatives. Of the respondents 10.6% rated the overall government initiatives as neither poor nor well. The positive impact of government initiatives and polices was rated very low with an average of only 0.6%. Table 5.2 also shows that labour legislation has the biggest "well" rate and that was only 1.5%. However, none of government initiatives and polices were rated as "very well".
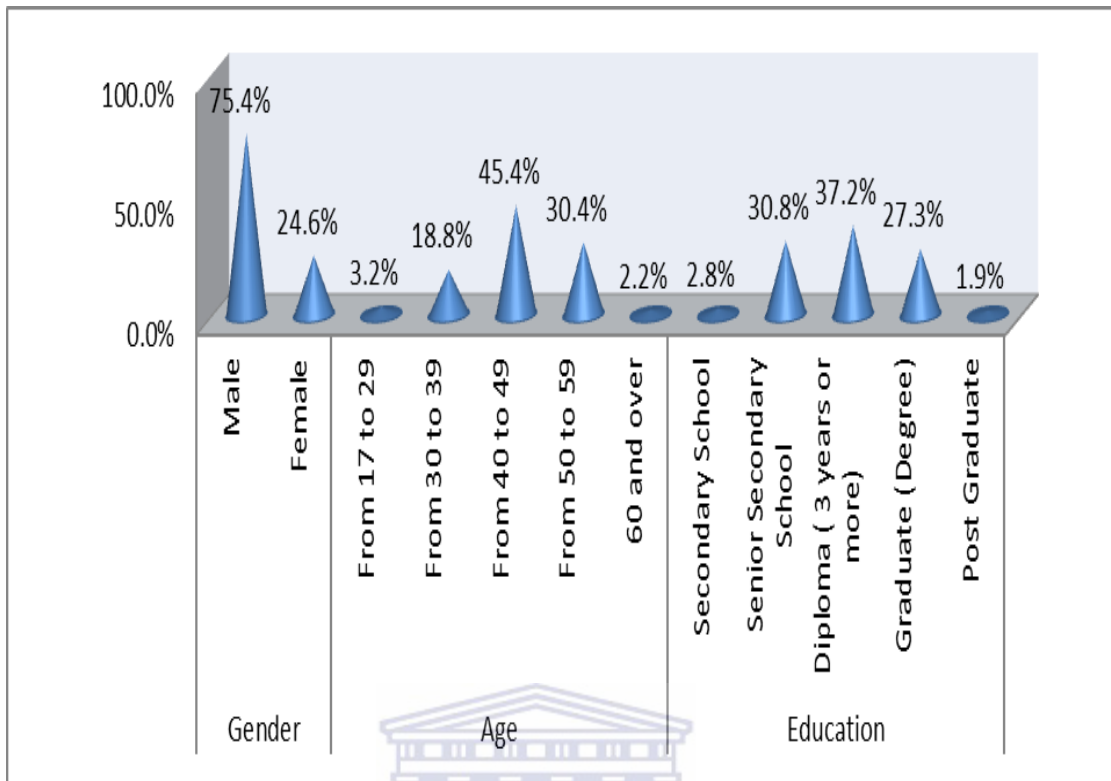
Figure 5.1: Demographics of owner/managers of SMMEs
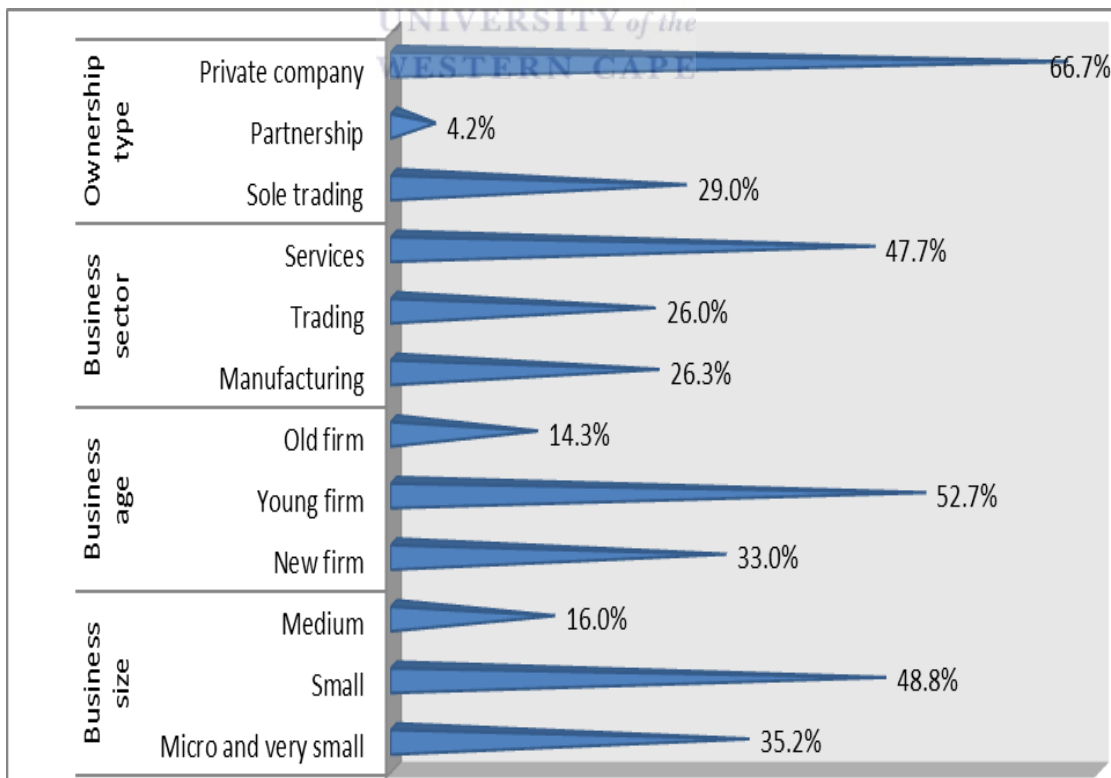
Figure 5.2: Characteristics of SMMEs
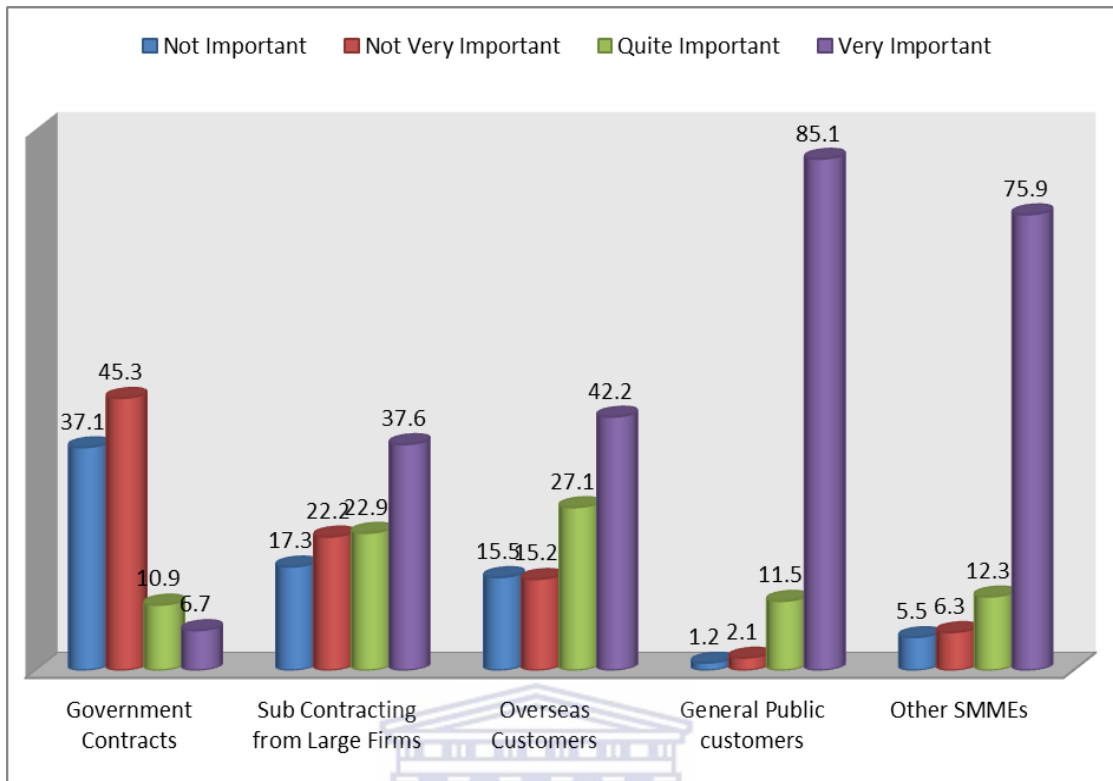
Figure 5.3: Market and customers
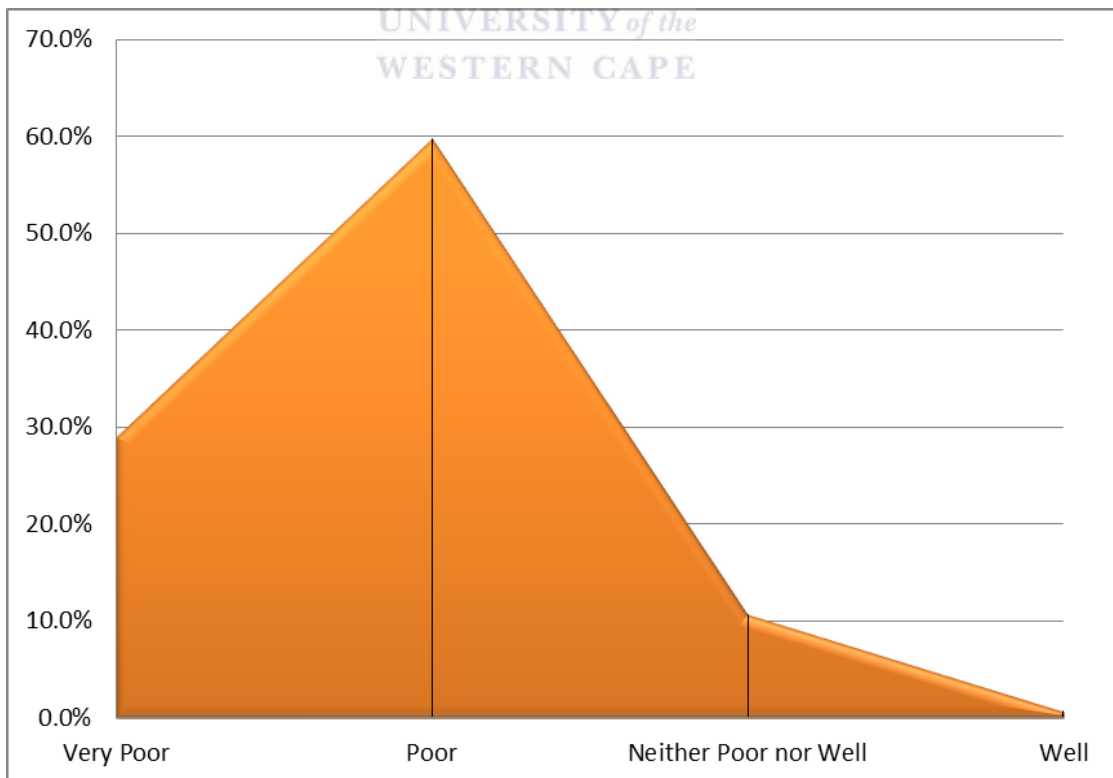
Figure 5.4: Government initiatives

Table 5.2: Government initiatives

	Very Poor (%)	Poor (%)	Neither Poor nor Well (%)	Well (%)
Overall promotion of small enterprise initiatives in South Africa	24.9	70.5	4.3	0.3
Government agencies of small enterprise incentives in Western Cape	19.5	76.6	3.5	0.3
Legislation initiatives of the Government	24.1	68.4	6.4	1
Government incentive in general	31.5	54.4	13.5	0.6
Small enterprise support structures	32.6	57.7	9.4	0.3
Export incentives	26.5	46.2	27	0.3
BEE procurement initially of the government	41.3	47.4	10.6	0.7
Labour legislation	32.7	58.7	7.1	1.5
Import/ export legislation	24.7	55.6	18.9	0.7
Skills development programs initially of the government	31.1	62.7	5.6	0.6
Average	28.9	59.8	10.6	0.6

Source: Researcher's own computation from the study survey data

5.3.4.2 Black economic empowerment (BEE)

Figure 5.5 shows that most of the owner/managers 82.8% indicated that they participate in BEE. While just 17% of respondents reported that they did not participate in the program.

5.3.5 Sources of finance

Figure 5.6 shows that the majority of SMMEs depend on the personal equity of the entrepreneur, friends and family, and retained earnings to fund their business. Of the sample 11.0% made use of microfinance as part of capital structure. Also 20.0% of respondents used a combination of financial resources. Just 9.0% of SMMEs in this study gained access to funding from banks.

5.3.6 SMME growth

The literature on SMMEs has used a range of variables to measure growth, but the most widely used measures are sales turnover and employment growth. Employment growth is a reliable and less volatile measure of growth than sales, as owner/managers generally wait for demand to stabilize before recruiting personnel (Wiklund 1999). In addition, reliable information on employment is easier to gather and less sensitive than financial data. Therefore, this study measured the growth of SMMEs in terms of an increase in employment.

The questionnaire asked respondents about the change in their labour force in
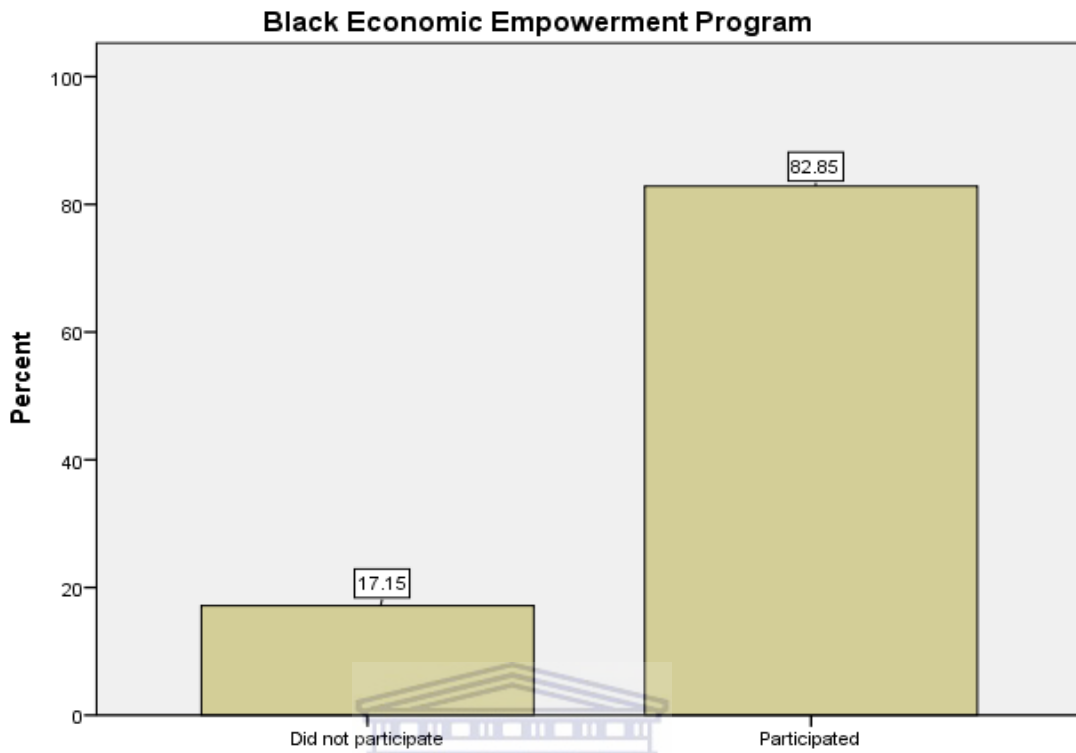
Figure 5.5: Black economic empowerment
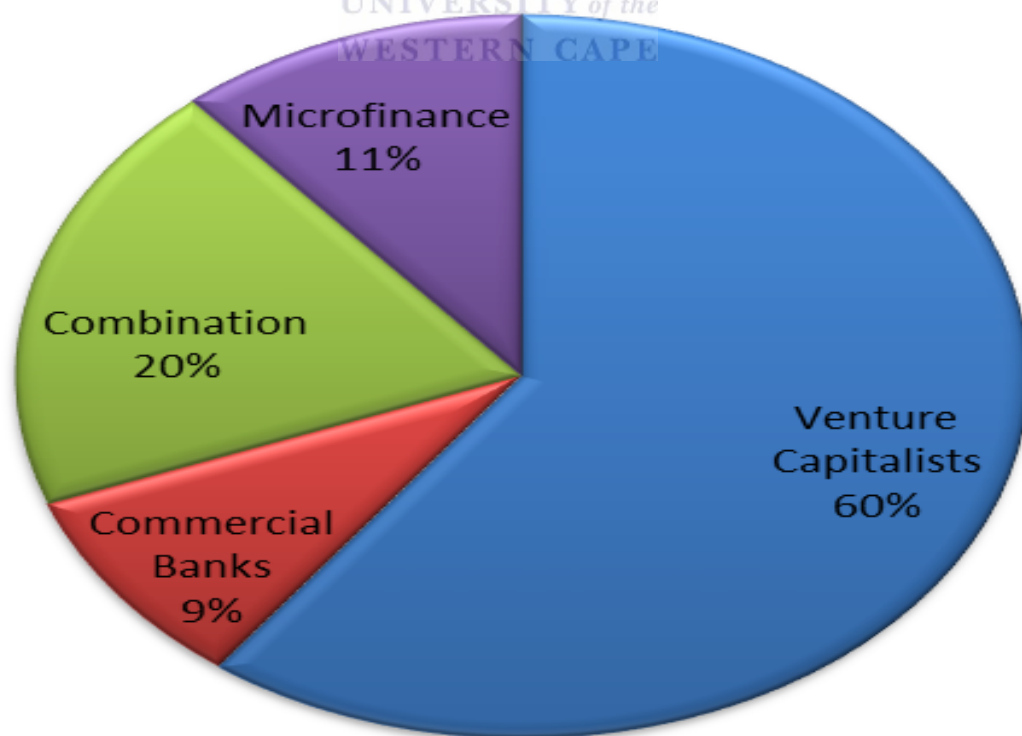
Figure 5.6: Sources of finance

the past two years. From that three groups - contracted, not change and expanded - that the measure the growth of SMMEs in terms of an increase in employment were identified. As shown in figure 5.7, the majority of the respondents report that, in the past two years, their labour force experienced a remarkable increase. Of the SMMEs in the study 30.8%, did not report any increase in their labour force, which indicates a failure to grow. The figure also shows that 6.9% of SMEs in the Western Cape Province experienced a constriction in their employment.

5.3.7 Constraints to growth

5.3.7.1 Business constraints

Figure 5.8, illustrates that 83.8% of the respondents found that tough competition was hampering them in achieving their respective goals. Of the respondents: 51.1% said that corruption negatively affected their businesses; 85.1% said that government rules and regulations "red-tape" were an impeding factor on their business; and 39.9% considered the lack of a clear business plans to be a contributing factor to them not achieving all their business goals. Many of the respondents, 84.9%, found a lack of government support was an impediment to achieving their respective goals. The figure shows that, 92.1% of the respondents interviewed, found that a lack of skilled employees was a constraint to them achieving their business goals.

5.3.7.2 Financial constraints

Figure 5.8, shows that 69.3% of respondents found a lack of access to finance was a constraint to achieving their business goals. Of the respondents 30.7%, did not consider their business constrained by the unavailability of financial resources. However, the lack of awareness of financial services and assistance was seen as a bigger constraint to growth than a lack of access to finance. The figure also shows that, according to the respondents, the biggest constraint to SMME growth was the lack of professional financial advisors and consultation.
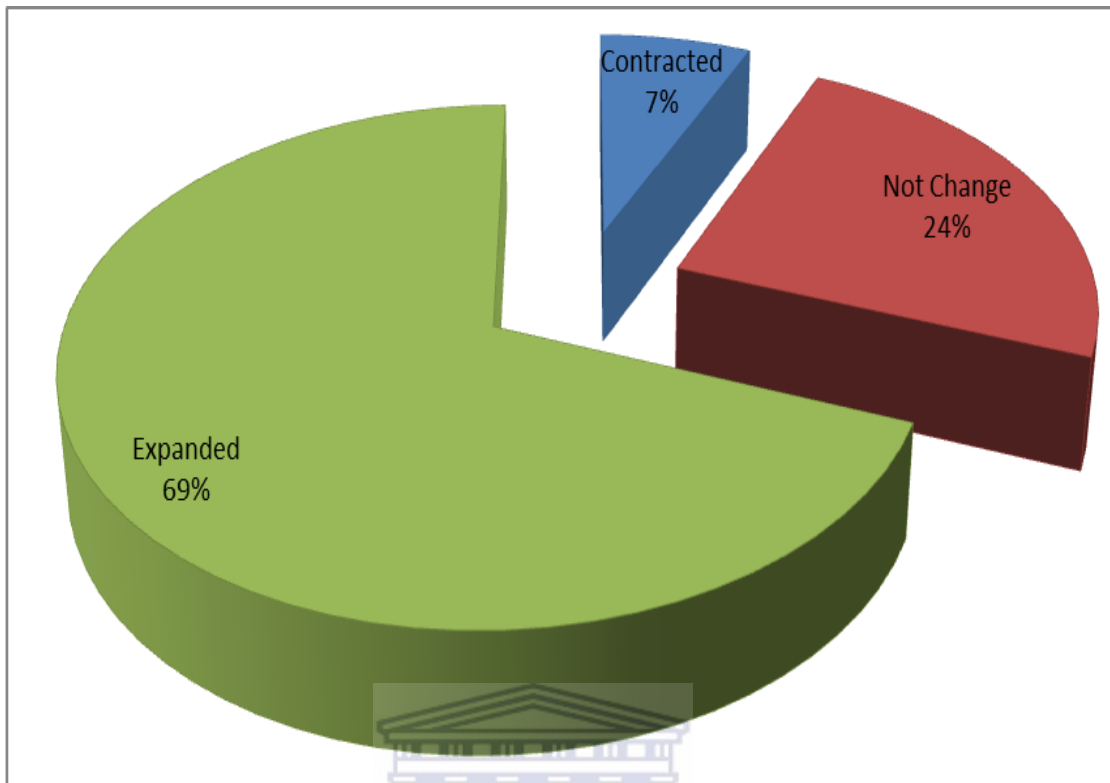
Figure 5.7: SMME growth in terms of an increase in employment
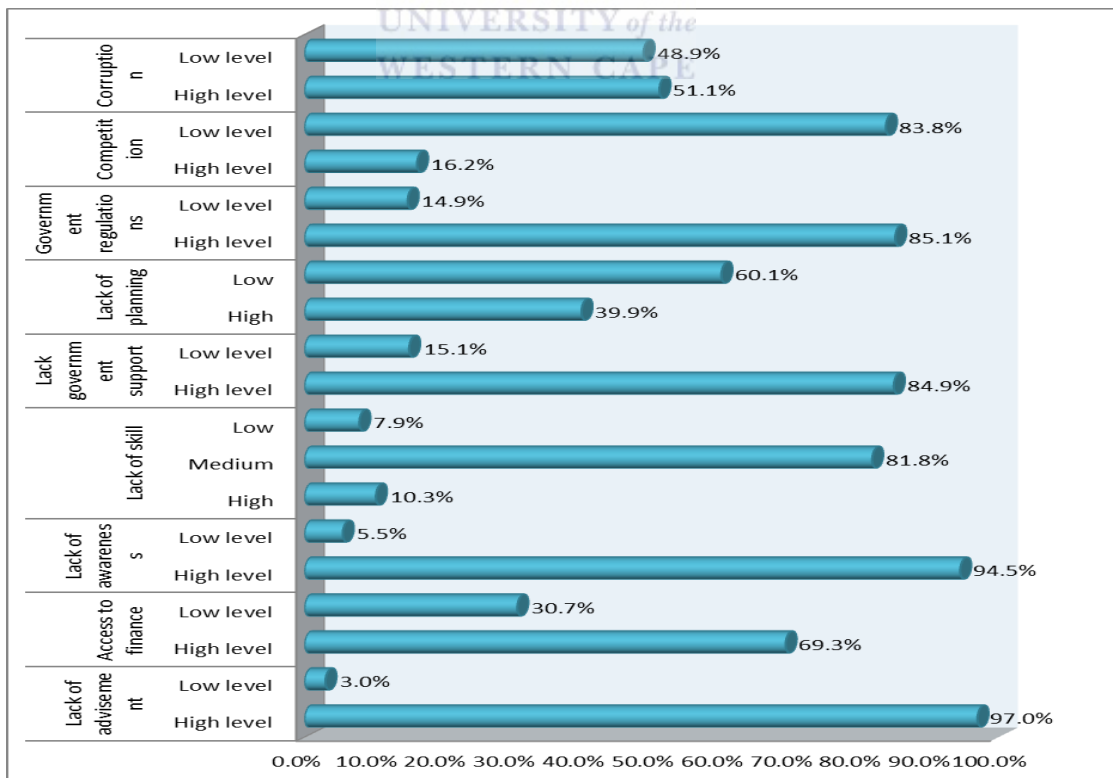
Figure 5.8: Constraints to SMME growth

5.4 Examining the relationships with SMME growth

The relationships between two variables can be described in several ways, including presence, direction, strength of association, and type. The first issue is whether two or more variables are related at all. If a systematic relationship exists between two or more variables, then a relationship is present. To measure whether a relationship exists, we rely on the concept of statistical significance (Hair et al. 2010). If we test for statistical significance and find that it exists, then we say that a relationship is present. If we test for statistical significance and find that it exists, then we can say that a relationship is present. If a relationship is present between two variables, it is important to know the direction of the relationship. The direction of a relationship can be either positive or negative.

An understanding of the strength of association is also important. Researchers generally categorize the strength of association as: no relationship, weak relationship, moderate relationship, or strong relationship (Hair et al. 2010). If a consistent and systematic relationship is not present, then there is no relationship. A weak association means the variables may have some variance in common, but not much. A strong association means there is a consistent and systematic relationship, and the relationship is much more evident when it is strong (Hair et al. 2010). The strength of association is determined by the size of the correlation coefficient, with larger coefficients indicating a stronger association.

A fourth important concept is the type of relationship. According to Hair et al. (2010), there are a number of different ways in which two variables can share a relationship. Variables Y and X can have a linear relationship , which means the strength and nature of the relationship between them remains the same over the range of both variables, and can be best described using a straight line. A second type of relationship between Y and X is a curvilinear relationship, which means the strength and/ or direction of the relationship changes over the range of both variables.

A linear relationship is much simpler to work with than a curvilinear relationship. If we know the value of variable X, then we can apply the formula for a straight line (Y = a + b*X), to determine the value of Y. But when two variables have a curvilinear relationship, the formula that best describes the linkage is more complex. Therefore, most researchers work with relationships

they believe to be linear.

5.4.1 Factor analysis

Factor analysis takes a large set of variables and looks for a way the data may be 'reduced' or summarised using a smaller set of factors or components (Pallant 2010).

5.4.1.1 Factor analysis and principal components of government initiatives

Respondents were asked ten questions to rate the promotion of SMME assistance programmes under the different government departments. In order to investigate the effect of government initiatives on SMME growth, these ten questions were reduced to a single variable measuring the rate of government initiatives. This was done by performing factor analysis. For the factorability to be considered suitable, there are some assumptions that had to be made. According to Pallant (2010), to test whether the data is sufficient for a factor analysis, a researcher should ideally have a sample size of 150 or more.

Table 5.3: Correlation matrix of the government initiatives

#		N	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9
1	Overall promotion of small enterprise initiatives	962	1.8	0.514	1								
2	Government agencies of small enterprise incentives	962	1.85	0.469	0.778	1							
3	Legislation initiatives of the Government	962	1.84	0.569	0.608	0.687	1						
4	Government incentive in general	962	1.83	0.669	0.326	0.482	0.446	1					
5	Small enterprise support structures	962	1.77	0.618	0.443	0.48	0.448	0.364	1				
6	Export incentives	962	2.01	0.74	0.339	0.41	0.442	0.34	0.317	1			
7	BEE procurement initially of the government	962	1.71	0.68	0.415	0.407	0.31	0.27	0.399	0.197	1		
8	Labour legislation	962	1.77	0.636	0.474	0.475	0.411	0.434	0.47	0.445	0.382	1	
9	Import/ export legislation	962	1.96	0.681	0.462	0.523	0.522	0.468	0.407	0.494	0.336	0.411	1
10	Skills development programs	962	1.76	0.578	0.407	0.496	0.468	0.466	0.464	0.427	0.307	0.532	0.497

Kaiser-Meyer-Olkin Measure of Sampling Adequacy=0.896;
Bartlett's Test of Sphericity: Approx. Chi-Square =4298.457; df=45; p<0.001
Source: Researcher's own computation from the study survey data

The correlation matrix should show at least some correlations of r = 0.3 or greater, and the Bartlett's test of sphericity should be statistically significant at p <0.05 and the Kaiser-Meyer-Olkin (KMO) value should be 0.6 or above.

The ten questions rating government initiatives were subjected to principal components analysis. Prior to performing the analysis, the suitability of the data for factor analysis was assessed. Inspection of the correlation matrix as shown

in table 5.3, the study sample size is 962 and all the coefficients were above 0.3, there was just one coefficient (r = .270) between BEE procurement and the impact of export incentives, less than 0.3. All the relationships in the correlation matrix were positive, indicating that all items were measuring the same thing. The KMO value is .874 and Bartlett's test is significant ($p < .001$), therefore factor analysis is appropriate. As per table 5.4, the principal components analysis revealed the presence of only one component with eigenvalues exceeding 1, explaining 49.8% of the variance. An inspection of the scree plot in figure 5.9 shows a clear break after the first component. The reliability of government initiatives scale has been checked, the scale has Cronbach's $\alpha = .856$, and corrected item-total correlations ranged from .817 to .846, indicating that the scale has acceptable reliability. According to (Hair et al. 2009) the generally agreed upon lower limit for Cronbach's alpha is 0.70. Therefore, the factor score was used to represent government initiatives in the correlation and multiple regression analysis.

Table 5.4: Total variance explained for government initiatives

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.989	49.886	49.886	4.989	49.886	49.886
2	0.933	9.33	59.216			
3	0.826	8.258	67.474			
4	0.663	6.634	74.109			
5	0.611	6.114	80.223			
6	0.549	5.495	85.718			
7	0.479	4.791	90.509			
8	0.413	4.133	94.642			
9	0.344	3.44	98.082			
10	0.192	1.918	100			

Source: Researcher's own computation from the study survey data

5.4.1.2 Factor analysis and principal components of lack of awareness of financial services

The correlation matrix should show at least some correlations of r = 0.3 or greater, and the Bartlett's test of sphericity should be statistically significant at p <0.05, and the Kaiser-Meyer-Olkin (KMO) value should be 0.6 or above. This means that the factorability is considered suitable. The nine questions on awareness of financial services institutions and programs were subjected to principal components analysis. Prior to performing this analysis, the suitability

of the data for factor analysis was assessed.

Inspection of the correlation matrix as shown in table 5.5, the sample size is 962 and all the coefficients were above 0.3, there was just one coefficient (r = 0.173) between RED Door Project government small enterprise support Agency and the Business Partners government small enterprise support Agency which was less than 0.3. All the relationships in the correlation matrix were positive indicating that all items were measuring the same thing. The KMO value was 0.929 and Bartlett's test is significant (p < .001), therefore factor analysis is appropriate.

Table 5.5: Correlation matrix of the awareness of financial services

Have you heard of the:	N	Mean	Std. Deviation	1	2	3	4	5	6	7	8
RED Door Project government small enterprise support Agency	962	0.54	0.517	1							
SEDA government small enterprise support Agency	962	0.44	0.508	0.669	1						
Industrial Development Corporation Agency	962	0.42	0.506	0.566	0.73	1					
South Africa Micro Finance Apex Fund (SAMAF) Agency	962	0.32	0.479	0.605	0.723	0.72	1				
Business Partners government small enterprise support Agency	962	0.67	0.488	0.173	0.292	0.402	0.411	1			
National Youth Development Agency (NYDA?)	962	0.34	0.486	0.545	0.742	0.77	0.829	0.442	1		
Khula Enterprises Agency	962	0.34	0.486	0.557	0.704	0.698	0.766	0.418	0.819	1	
National Empowerment Corporation	962	0.33	0.481	0.569	0.749	0.747	0.837	0.438	0.856	0.878	1
Umsobomvu Youth Fund (Now part of NYDA)	962	0.29	0.469	0.581	0.676	0.68	0.865	0.405	0.809	0.855	0.885

Kaiser-Meyer-Olkin Measure of Sampling Adequacy =0.929;
Bartlett's Test of Sphericity Approx: Chi-Square=8797.809; df=36; p<0.001
Source: Researcher's own computation from the study survey data

Table 5.6 shows that, the principal components analysis revealed the presence of only one component with eigenvalues exceeding 1, explaining 70.6% of the variance. An inspection of the scree plot in figure 5.10 shows a clear break after the first component. Furthermore, the reliability of lack awareness of financial services institutions and programs scale has been checked, the scale has Cronbach's $\alpha = .943$ for the nine items, indicating that the scale has acceptable reliability. Therefore, the factor score was used to represent lack awareness of financial services institutions and programs in the correlation and further multiple regression analysis.

5.4.2   Correlation Analysis

To examine correlation between SMME growth and the other variables, the study used the Pearson correlation coefficient. The Pearson correlation coef-
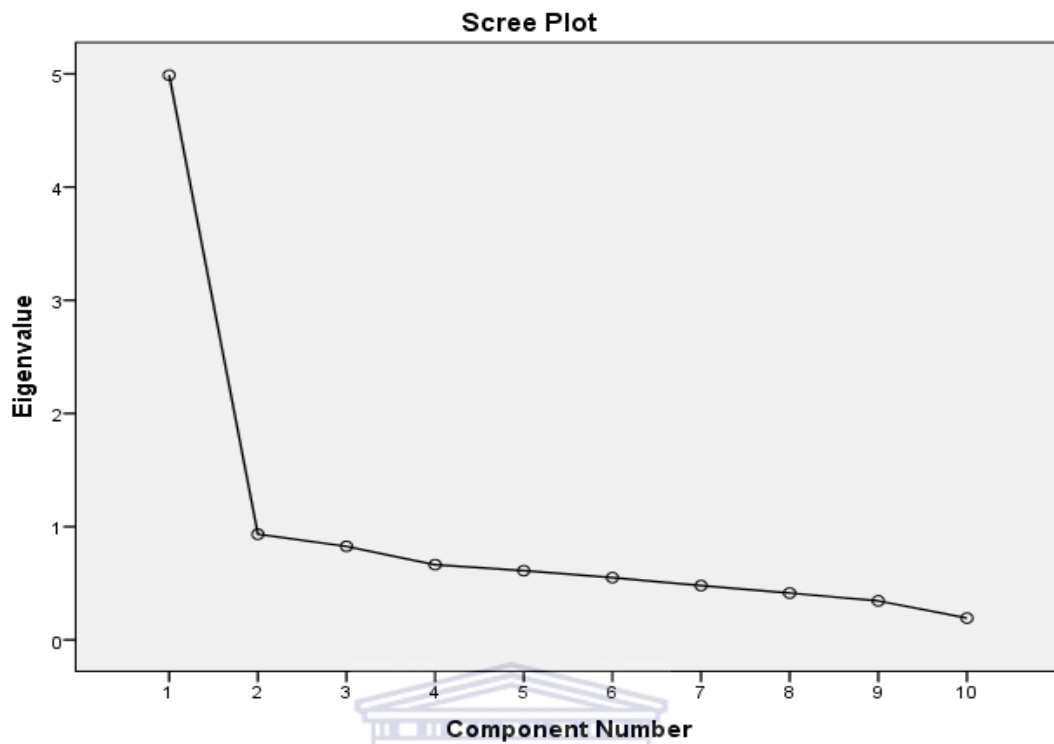
Figure 5.9: Scree plot of PCA for government initiatives
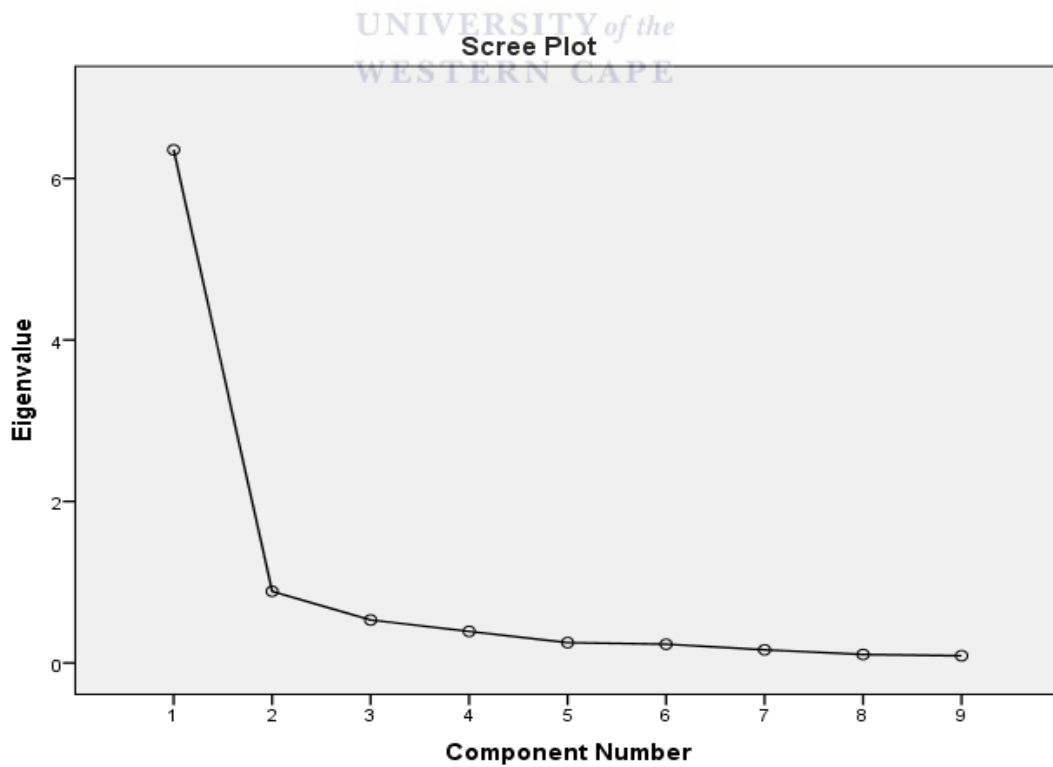
Figure 5.10: Scree plot of PCA for the awareness of financial services

Table 5.6: Total variance explained of the awareness of financial services

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.354	70.602	70.602	6.354	70.602	70.602
2	0.886	9.845	80.447			
3	0.532	5.906	86.353			
4	0.39	4.336	90.688			
5	0.251	2.793	93.482			
6	0.232	2.573	96.055			
7	0.162	1.8	97.855			
8	0.105	1.162	99.017			
9	0.088	0.983	100			

Source: Researcher's own computation from the study survey data

ficient is a statistical measure of the strength of a linear relationship between two metric variables (Hair et al. 2010). It varies between (-1.00) and (1.00), with (0.00) representing absolutely no association between two variables, and (-1.00) or (1.00) representing a perfect link between two variables. The correlation coefficient can be either positive or negative, depending on the direction of the relationship between two variables. The relationship between SMME growth and the other variables was investigated using the Pearson correlation coefficient. Preliminary analysis was performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity.

The results shown in tables 5.7 and 5.8, and figure 5.11, show a strong, positive and significant coefficient of (0.374) for the SMME size, indicating that there was a positive relationship between SMME size and employment growth. The more SMMEs increase in their size, the more SMMEs grow. The second largest significant coefficient was (0.366), for trading overseas "internationalization". The positive sign indicates that the increase in internationalization levels was associated with a high level of growth. The tables also show that SMME age, concentrating on sub-contracting from large firms, market and higher level of education have strong, positive and significant correlation with SMME growth. There also was a strong, negative correlation between the lack of awareness of financial services and assistance, and SMME growth, (-0.217, p < .0010), indicating that high levels of lack of awareness of financial services and assistance associated with lower levels of SMME growth. SMMEs involved solely in the trading of manufactured goods and raw materials were correlated negatively with SMME growth (-0.175, p < .0010). Similarly, SMMEs that registered their business under the sole trading type of ownership were also associated with lower levels of SMME growth. There was also a significant correlation coeffi-

cient (-0.170) between lack of professional financial advisors and consultation, and SMME growth. This means SMMEs with limited access to professional financial advisors and consultation associated with lower levels of growth.

The tables also show that there were positive and significant coefficients for combination (0.136), BEE program (0.126) and dealing with government tenders and contracts (0.110). Indicating a positive relationship with SMMEs growth, however, the coefficients were very small, so these relationships can be considered as weak relationship.
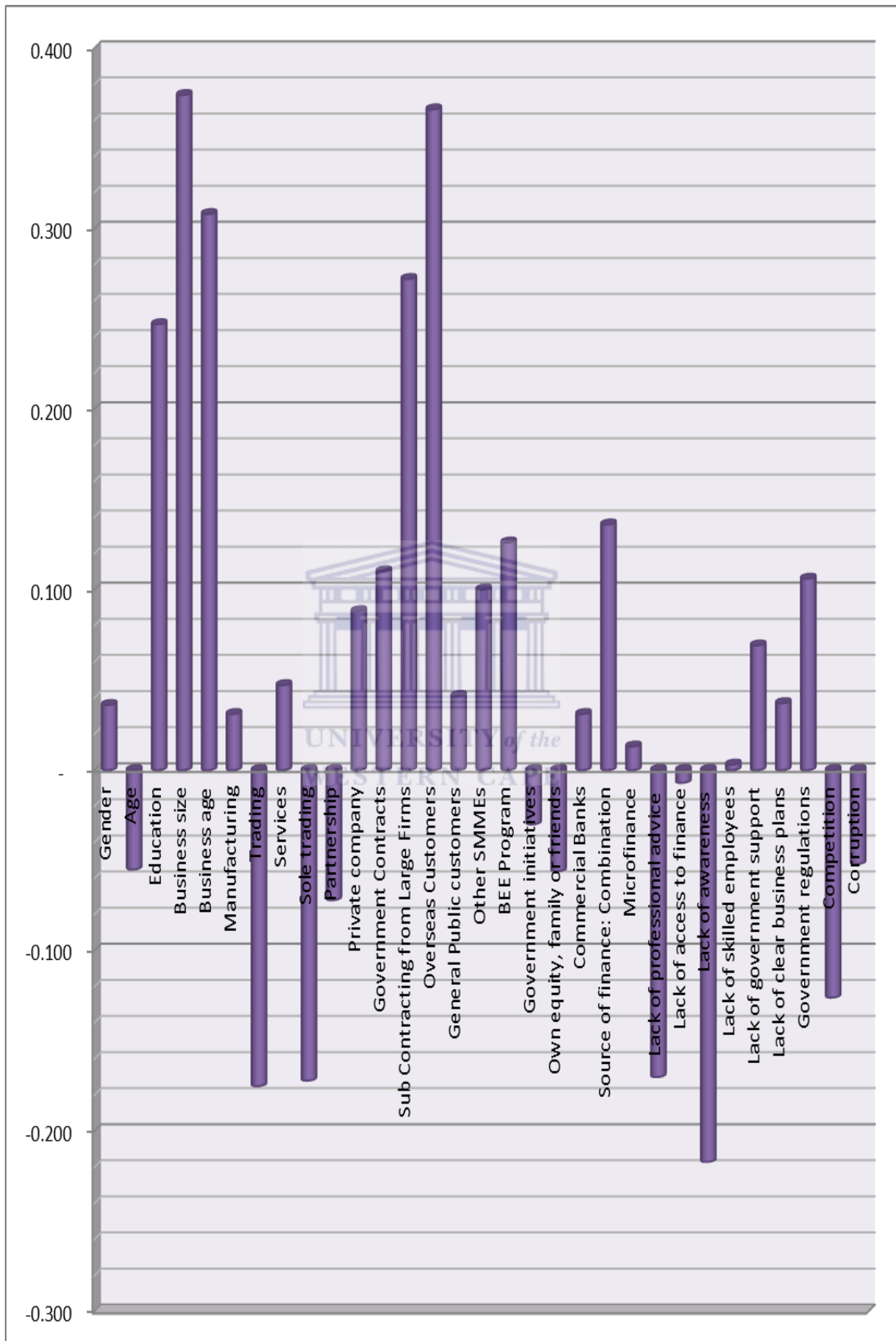
Figure 5.11: Correlation analysis

Table 5.7: Correlation analysis

#	Variables	Mean	Std. Deviation	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	SMME growth	2.624	0.61	962	1													
2	Gender	1.246	0.431	962	0.036	1												
3	Age	3.095	0.836	962	-0.055	-.096**	1											
4	Education	3.947	0.875	962	.247**	.065*	-.088**	1										
5	Business size	1.808	0.69	962	.374**	-0.033	0.039	0.009	1									
6	Business age	1.814	0.662	962	.308**	-0.003	0.013	.123**	.106**	1								
7	Manufacturing	1.359	0.48	962	0.031	-0.025	0.009	-.121**	.095**	0.06	1							
8	Trading	1.353	0.478	962	-.175**	-0.024	.065*	-.221**	.077*	-.196**	.150**	1						
9	Services	1.65	0.477	962	0.047	0.046	-0.063	.137**	.092**	0.004	-.305**	-.305**	1					
10	Sole trading	0.122	0.327	962	-.172**	-0.043	0.011	0.015	-.201**	-.251**	0.007	.077*	-.107**	1				
11	Partnership	0.018	0.132	962	-.072*	-0.022	-0.043	0.026	0.015	-.070*	-0.034	-0.033	0.049	-0.026	1			
12	Private company	0.28	0.449	962	.088**	-0.05	.068*	-.174**	.328**	.154**	.080*	.198**	-0.033	-.232**	-.066*	1		
13	Government Contracts	1.871	0.855	962	.110**	0.018	-0.032	-.109**	.216**	.252**	.222**	.114**	-.106**	-.190**	-.091**	.433**	1	
14	Sub-contracting	2.809	1.12	962	.272**	-0.04	-0.016	-0.04	.332**	.429**	.176**	0.025	.130**	-.434**	-.076*	.448**	.567**	1
15	Overseas Customers	2.96	1.092	962	.366**	-0.032	-.064*	.104**	.306**	.441**	.140**	.090**	-0.035	-.391**	-0.024	.343**	.453**	.642**
16	General Public customers	3.806	0.523	962	0.041	0.037	0.004		-.063*	0.058	-.149**	-.145**	0.06	0.017	-0.026	-0.039	-.112**	0.011
17	Pearson Correlation	3.585	0.837	962	.100**	0.053	0.016	.213**	.125**	.350**	-0.044	0.021	.081*	-.363**	-.084**	.129**	.204**	.383**
18	BEE Program	1.828	0.377	962	.126**	-0.047	-0.014	0.02	.141**	.097**	.133**	0.031	-0.01	-.160**	-0.044	.222**	.193**	.267**
19	Government initiatives	2.364	0.814	962	-0.03	0.008	-0.008	-0.049	-.072*	0.006	0.012	-0.026	-0.031	-0.018	0.008	-0.048	0.035	-0.018
20	Own equity, family or friends	0.602	0.49	962	-0.056	-0.043	-0.012	-.146**	.072*	-.107**	0.041	0.037	0.004	0.062	0.012	.095**	0.024	0.049
21	Commercial Banks	0.09	0.287	962	-0.031	-0.029	0.034	0.048	-.075*	-0.059	-0.024	0.063	-0.019	0.027	0.013	-.091**	-.131**	-.134**
22	Combination	0.195	0.397	962	.136**	0.053	0.029	.237**	0.008	.146**	-0.057	-.101**	-0.006	-.095**	-0.026	-.073*	-0.051	-0.035
23	Microfinance	0.112	0.316	962	0.013	0.018	-0.06	-.091**	-0.039	0.015	.064*	0.026	-0.022	0.039	0.002	0.043	.119**	.075*
24	Lack of professional financial advisors	1.03	0.171	962	-.170**	0.04	-0.034	-0.01	-.074*	-.143**	-0.043	0.048	0.028	0.046	.115**	-.110**	-0.002	-.111**
25	Lack of access to finance	1.693	0.461	962	-0.007	-.070*	0.005	-.149**	.158**	.126**	.140**	.067*	-0.006	-0.056	0.021	.294**	.314**	.501**
26	Lack of awareness	1.055	0.228	962	-.217**	-0.043	-0.016	-0.058	-.085**	-.097**	.085**	0.041	0.053	.077*	0.002	0.032	-.124**	-.097**
27	Lack of skilled employees	2.024	0.426	962	0.003	-.077*	0.037	-.209**	.168**	.182**	.238**	0.03	-.087**	-.118**	-0.045	.237**	.320**	.380**
28	Lack of government support	1.849	0.358	962	.069*	-0.015	-0.039	0.001	.123**	.127**	.079*	-0.059	-0.029	-.163**	-0.01	.185**	.300**	.367**
29	Lack of clear business plans	0.399	0.49	962	0.037	-0.037	0.032	-.169**	.209**	0.011	.112**	.126**	-.078*	-0.018	0.036	.377**	.252**	.234**
30	Government regulations	1.851	0.356	962	.106**	-0.026	-0.033	-0.045	.167**	.081*	.130**	0.016	-0.043	-.157**	-0.033	.195**	.306**	.299**
31	Competition	1.162	0.369	962	-.126**	0.03	0.058	-0.006	-.070*	-.089**	-0.058	0.035	0.057	0.061	.112**	-.161**	-.188**	-.194**
32	Corruption	1.511	0.5	962	-0.052	-.069*	0.036	-.188**	.282**	0.033	.085**	.183**	0.002	-.120**	0.036	.461**	.291**	.467**

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

*, Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher's own computation from the study survey data

Table 5.8: Correlation analysis - continue

#	Variables	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	31
15	Overseas Customers	1																	
16	General Public customers	0.008	1																
17	Pearson Correlation	.455**	.265**	1															
18	BEE Program	.241**	.073*	.117**	1														
19	Government initiatives	-0.038	0.032	0.025	-0.024	1													
20	Own equity, family or friends	-.064*	-.103**	-.132**	-0.038	-0.007	1												
21	Commercial Banks	0.011	0.034	.109**	-0.03	-0.003	-.388**	1											
22	Combination	0.011	0.063	0.047	-0.005	-.069*	-.595**	-.137**	1										
23	Microfinance	.070*	0.057	0.042	.092**	.112**	-.383**	-.112**	-.150**	1									
24	Lack of professional financial advisors	-0.021	-.086**	-.087**	-.210**	-0.027	0.044	-0.013	-0.041	-0.005	1								
25	Lack of access to finance	.313**	-.127**	-0.031	.331**	-.096**	.081*	-.113**	-.070*	0.058	0.012	1							
26	Lack of awareness	-.066*	-.268**	-.223**	-.071*	-0.002	.103**	0.019	-.085**	-0.057	-0.016	.121**	1						
27	Lack of skilled employees	.259**	-.138**	0.051	.142**	0.011	.071*	-0.035	-.095**	0.05	0.004	.260**	-.078*	1					
28	Lack of government support	.275**	-0.012	.065*	.587**	-0.058	-0.052	0.011	-0.005	.095**	0.006	.457**	0.051	.092**	1				
29	Lack of clear business plans	.181**	-.083*	-.121**	.095**	-0.007	.065*	-.079*	-.118**	.120**	-0.032	.266**	.082*	.238**	.100**	1			
30	Government regulations	.258**	0.012	.153**	.484**	-0.003	0	-0.021	-0.015	0.047	-.217**	.273**	-0.014	.154**	.355**	.138**	1		
31	Competition	-.093**	0.018	-0.048	-.077*	0.018	-0.034	-0.031	.068*	-0.022	0.005	-.074*	0.042	-.091**	-.075*	0.016	-.220**	1	1
32	Corruption	.367**	-.109**	.137**	.394**	-.082*	.195**	-.134**	-.195**	0.045	-.120**	.468**	-.065*	.309**	.216**	.270**	.369**	-.230**	-.230**

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

*, Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher's own computation from the study survey data

5.4.3 Cross-tabulations and chi-square analysis

One purpose of cross-tabulations is to study relationships among variables, while chi-square analysis enables researchers to test for statistical significance between the variables in a cross-tabulation table to determine if there is any association between the variables (Hair et al. 2010). To examine if there were associations between the study's variables and employee growth, cross-tabulations were performed using chi-square analysis, tables 5.9 to 5.20 show the result of chi-square analysis.

5.4.3.1 The relationship between owner/manager's demographics and SMME growth

Table 5.9: Owner/manager's demographics and SMME growth

Owner/manager's demographics		Growth in term of employees increased			
		Contracted %	Not Change %	Expanded %	Total %
Gender	Male	5.7	17.9	51.8	75.4
	Female	1.1	6	17.5	24.6
	Total	6.9	23.9	69.2	100
Owner/manager's age	From 17 to 29	0	0.8	2.4	3.2
	From 30 to 39	1.5	4.3	13.1	18.8
	From 40 to 49	2.4	10.5	32.5	45.4
	From 50 to 59	2.8	7.9	19.6	30.4
	60 and over	0.2	0.4	1.6	2.2
	Total	6.9	23.9	69.2	100
Education	Secondary School	0	0.8	2	2.8
	Senior Secondary School	3.6	12.2	15	30.8
	Diploma (3 years or more)	1.9	7.7	27.7	37.2
	Graduate (Degree)	1.4	3.2	22.8	27.3
	Post Graduate	0	0	1.9	1.9
	Total	6.9	23.9	69.2	100

Source: Researcher's own computation from the study survey data

Table 5.9 and 5.10 show the results of a chi-square test, there was no statically relationship found between gender and SMME growth, although 51.8% of males reported growth in their business. The results also show there was no association between the age of owner/managers and SMME growth. The level of education was though, highly related to SMME growth. Table 5.9 also shows that all the respondents who have a post graduate degree experienced growth, and respondents with a diploma (3 years or more) and graduate degree reported growth. The relation between education and SMME growth was significant X2 (8, N = 962) = 98.882, p <0.001).

Table 5.10: Chi-square tests for owner/manager's demographics and
           SMME growth

Owner/manager's demographics	df	Cramer's V	Pearson Chi-Square	Sig.
Gender	2	0.050	2.424	0.298
Owner/manager's age	8	0.068	8.978	0.344
Education	8	0.227	98.882	0.000

Source: Researcher's own computation from the study survey data

5.4.3.2   The relationship between SMME characteristics and growth

Table 5.11 shows that 48.8% of the enterprises that participated in the study
were small. Of the total, 78.6% experienced an increase in employees. An in-
crease in employee number is an indication of SMME growth. Micro and very
small enterprises accounted for 35.2% of the participants in the study, of which
55.5% of these enterprises failed to grow either through no change in employee
number 15.3%, or contraction 4.3%. In addition, Table 5.11 also shows that
16.0% of SMMEs in the study were medium-sized; 94.8% of them reported an
increase in their employee number. When looking at business age, 51.1% of new
firms failed due to a 16.15% expansion rate as opposed to 11.4% unchanged
and a 5.4% contraction. Young and old firms grew by 78.5% and 81.9% respec-
tively. This is attributed to expansion rates of 41.4% for young and 11.7% for
old firms.

SMME in the manufacturing and services sectors grew by 72.4% and 75.6%
caused by expansions of a 21.8% for manufacturing, and 37% for the services
sector. Within the trading sector, growth failed by 50.2% due to a 7.6% un-
changed and a 2.9% contraction. The difference in the business sector groups
also was significant at of $p < 0.001$.

Regarding ownership type, SMME's that operate as sole proprietors experienced
failed growth of 51.3% having a 4.5% unchanged and 1.8% contraction. For part-
nership, close corporation and private company ownership, SMMEs experienced
growth of 61.5%, 71.6% and 73.5% respectively. These were due to expansion
rates of 0.8% for partnership, 41.5% for close corporation and 21.0% for private
ownership.

Table 5.12 is an indication that there was a difference with a higher degree of
confidence, as the Pearson chi-square value was 164.657 with a significant value
at 0.000 levels for business size. This level of significance is much lower than
our standard criterion of 0.05 indicating that the SMME characteristics groups

Table 5.11: The relationship between SMME characteristics and growth

SMME characteristics		Growth in term of employees increased			
		Contracted %	Not Change %	Expanded %	Total %
Business size	Micro and very small	4.3	15.3	15.7	35.2
	Small	2.6	7.8	38.4	48.8
	Medium	0.0	0.8	15.2	16.0
	Total	6.9	23.9	69.2	100.0
Business age	New firm	5.4	11.4	16.1	33.0
	Young firm	1.2	10.1	41.4	52.7
	Old firm	0.2	2.4	11.7	14.3
	Total	6.9	23.9	69.2	100.0
Business sector	Manufacturing	1.7	6.7	21.8	30.1
	Trading	2.9	7.6	10.4	20.9
	Services	2.3	9.7	37.0	49.0
	Total	6.9	23.9	69.2	100.0
Ownership type	Sole Trader	1.8	4.5	5.9	12.2
	Partnership	0.5	0.0	0.8	1.4
	Close Corporation	4.1	12.4	41.5	57.9
	Private Company	0.5	7.1	21.0	28.6
	Total	6.9	23.9	69.2	100.0

Source: Researcher's own computation from the study survey data

Table 5.12: Chi-square tests for the relationship between characteristics and growth

SMME characteristics	df	Cramer's V	Pearson Chi-Square	Sig.
Business size	4	0.293	164.657	0.000
Business age	4	0.244	114.619	0.000
Business sector	4	0.161	49.657	0.000
Ownership type	6	0.177	60.322	0.000

Source: Researcher's own computation from the study survey data

comprising of business size, age, sector and ownership type are statistically significant different in predicting SMME growth. The Cramer's V value of 0.293 indicates a very a strong relationship between SMME size and its growth. Similarly Cramer's V value of 0.244, 0.161 and 0.177 indicates a strong relationship between SMME age, its sector, ownership type and growth.

5.4.3.3 The relationship between markets and customers and SMME growth

Table 5.13 shows that government contracts were quite important in contributing to SMME growth. Those with government contracts grew by 54.3% with an expansion of 5.9% as opposed to no change of 4.5% and contraction of 0.5%. Similarly, government contracts that were very important resulted in an expansion of 5.2% with an overall growth of 78.1%. Furthermore, not important government contracts and not very important government contracts contributed to business growth by 59.1% and 79.8% respectively.

Sub-contracting from large firms that were regarded as not important amounted to a failed growth of 53.6%. This was caused by a no change of 5.9% and contraction of 3.3%. Sub-contracting from large firms that were not very important, quite important and very important contributed to growths of 66.4%, 70% and 80.9% respectively; these were as a result of expansions of 14.8%, 16% and 30.5%. Overseas customers regarded as not important and not very important did not contribute to SMME growth expansion rates; they accounted for only 7% at not important and 5.5% for not very important overseas customers. This is in contrast to quite important and very important of overseas customers that contributed to SMME growth by 82.8% and 81.3%. Expansion at high level was 22.5% and 34.3% at very high level. The highest level of trading overseas "internationalization" associated with high level of growth

Those who responded with the general public customers as not important did not experience growth, those SMMEs experienced failure to grow by 58.3%. Those SMMEs that selected not very important, quite important and very important rankings of general public customers had growth of 60%, 65.8% and 70.3% respectively. These were mainly due to expansion rates of 1.2%, 7.6% and 59.9%. And lastly, other SMMEs contribution toward SMME growth indicated an increase of 60.4% for not important SMMEs, 50.8% for not very important SMMEs, 59.3% for quite important SMMEs and 73% for very important SMMEs. Other SMMEs contribution was as a result of expansion rates of

Table 5.13: The relationship between markets and customers and growth

Main customers		Growth in term of employees increased			
		Contracted %	Not Change %	Expanded %	Total %
Government Contracts	Not Important	3.8	11.3	21.9	37.1
	Not Very Important	2.5	6.7	36.2	45.3
	Quite Important	0.5	4.5	5.9	10.9
	Very Important	0.0	1.5	5.2	6.7
	Total	6.9	23.9	69.2	100.0
Sub-contracting from Large Firms	Not Important	3.3	5.9	8.0	17.3
	Not Very Important	1.6	5.9	14.8	22.2
	Quite Important	0.7	6.1	16.0	22.9
	Very Important	1.2	5.9	30.5	37.6
	Total	6.9	23.9	69.2	100.0
Overseas Customers	Low level	3.4	5.1	7.0	15.5
	Medium level	1.6	8.1	5.5	15.2
	High level	0.5	4.2	22.5	27.1
	Very high level	1.4	6.5	34.3	42.2
	Total	6.9	23.9	69.2	100.0
General Public customers	Not Important	0.0	0.7	0.5	1.2
	Not Very Important	0.0	0.8	1.2	2.1
	Quite Important	0.8	3.1	7.6	11.5
	Very Important	6.0	19.2	59.9	85.1
	Total	6.9	23.9	69.2	100.0
Other SMMEs	Not Important	0.2	2.0	3.3	5.5
	Not Very Important	0.6	2.5	3.2	6.3
	Quite Important	1.0	4.0	7.3	12.3
	Very Important	5.0	15.5	55.4	75.9
	Total	6.9	23.9	69.2	100.0

Source: Researcher's own computation from the study survey data

3.3%, 3.2%, 7.3% and 55.4%.

In Table 5.14, the level of significance is much lower than our standard criterion of 0.05 for government contracts, sub-contracting from large firms, overseas customers and other SMMEs. This indicates that these types of customers were statistically significant to SMME growth. General public customers was significant at $p<0.05$. The Pearson chi-square value was ranged from 13.334 to 11.632 indicating that the differences between the five customers' groups were significant.

Table 5.14: Chi-square tests for the relationship between customers and growth

Main customers	df	Cramer's V	Pearson Chi-Square	Sig.
Government Contracts	6	0.182	64.039	0.000
Sub-contracting from Large Firms	6	0.213	87.324	0.000
Overseas Customers	6	0.322	199.632	0.000
General Public customers	6	0.086	13.334	0.038

Source: Researcher's own computation from the study survey data

5.4.3.4 The relationship between government initiatives and programs and growth

Table 5.15 shows that those SMMEs that did not participate in BEE program, and those that had participated in contributed to growth. 82.8% of SMMEs in this sample participated in BEE program and 71.1% of them experienced growth. When SMMEs did not participate in BEE program their growth expanded by 10.3% and when they participated in the program their growth expanded by 58.9%. On the other hand, 39.2% of the total of 57.9% of SMMEs those evaluated government initiatives as well and very well had grown. Table 5.16 shows that there were no differences between the levels of estimating government initiatives effects and SMME growth. The table also shows that the difference in participation in BEE program was significant, the Pearson chi-square value was 19.793 (p<0.001), also Cramer's V was 0.293, which means that SMME size has strong effect on SMME growth.

Table 5.15: The relationship between government initiatives and programs and growth

Government initiatives and programs		Growth in term of employees increased			
		Contracted%	Not Change %	Expanded %	Total %
BEE Program	Not participate	2.5	4.4	10.3	17.2
	Participate	4.4	19.5	58.9	82.8
	Total	6.9	23.9	69.2	100.0
Government initiatives	Very poor and poor	1.6	4.8	15.2	21.5
	Neither poor nor well	0.9	4.8	14.9	20.6
	Well and very well	4.4	14.3	39.2	57.9
	Total	6.9	23.9	69.2	100.0

Source: Researcher's own computation from the study survey data

Table 5.16: Chi-square tests for the relationship between initiatives and growth

Government initiatives and programs	df	Cramer's V	Pearson Chi-Square	Sig.
BEE Program	2	0.143	19.793	0.000
Government initiatives	4	0.039	2.925	0.570

Source: Researcher's own computation from the study survey data

5.4.3.5 The relationship between source of finance and SMME growth

Table 5.17 show commercial banks, microfinance, own/family or friends as well as a combination of financial sources have an impact on SMME growth. Com-

mercial banks as sources of SMME finance contributed to growth of 62.1% as a result of a 5.6% expansion rate.

Table 5.17: The relationship between source of finance and SMME growth

Source of finance		Growth in term of employees increased			
		Contracted %	Not Change %	Expanded %	Total %
Source of finance	Commercial Banks	0.5	2.9	5.6	9.0
	Microfinance	0.7	2.6	6.7	10.0
	Own/ Family or Friends	5.1	15.5	41.3	61.9
	Combination of sources	0.5	2.9	15.7	19.1
	Total	6.9	23.9	69.2	100.0

Source: Researcher's own computation from the study survey data

Microfinance contributed to a 66.7% growth as a result of a 6.7% expansion. Personal, family and friends are other sources of finance that contribute to SMME growth of 66.7% because of its expansion of 41.3% and lastly a combination of other sources contribute to an 82.1% SMME growth.

Table 5.18 shows that the relation between sources of finance and SMME growth was significant, the Pearson chi-square value was 20.888 (p<0.010). This means that there were significant differences between the types of financial resources used by SMMEs.

Table 5.18: Chi-square tests for the relationship between source of finance and growth

Source of finance	df	Cramer's V	Pearson Chi-Square	Sig.
Source of finance	6	0.104	20.888	0.002

Source: Researcher's own computation from the study survey data

5.4.3.6 The relationship between constraints and SMME growth

Table 5.19 shows constraints to growth, and its associated relationship to SMME growth. Lack of professional financial advisors and consultation at high levels limits SMME growth to 48.3%. This is due to no change of 0.2% and a contraction of 1.4%. Invariably a low level in a lack of professional financial advisors and consultation contributed to SMME growth of 69.9%. Lack of access to finance at both low and high levels contributed to growth by 68.8% and 69.4% respectively. Of the respondents 69.3% estimated the lack of access to finance

as a constraint, of them 30.6% experienced no growth.

Lack of awareness of financial services and assistance at very low level contributed to SMME growth of 71.6% as opposed to a failed growth of 28.3% at low level. High level of awareness of financial services and assistance for SMME expanded by 67.7% and contracted by 2.8% with no change of 1.1% for low level. A lack of skilled employees at low, medium and high levels resulted in SMME growth rates of 81.6%, 67.9% and 70.7%. These growths were as a result of expansions at low levels of 6.4%, medium of 55.5% and high at 7.3%. Lack of government support at low and high levels contributed to SMME growth of 61.4% and 70.6% respectively. Expansions at low level of 9.3% and at high level of 60% contributed to these growths.

Lack of clear business plans at low level with expansion rate of 41.6% contributed to a 69.2% growth. There is also a high level lack of clear business plan with expansion rate of 27.7% contributing to a 69.3% growth. Government regulations at both low and high levels recorded scores of 63.6% and 70.2% growth. Expansions at low levels were 9.5% and 59.8% at high levels. Competition contributed to SMME growth of 71.2% at low level and 59% at high level. These are due to expansion rates of 59.7% at low levels and 9.6% at high levels. Corruption at low level resulted in a 67.7% growth and at a high level was 70.7%. Expansion of SMME when corruption is a constraint at low level was 33.1% and when high at 36.2%.

Table 5.20 shows that the difference between high and low levels of lack of access to finance, lack of government support and corruption was not significant. The Cramer's V of 0.267 and 0.220 for lack of professional financial advisors and consultation, and the lack of awareness of financial services and assistance respectively, show there was strong relationship between these two constraints and SMMEs growth, and Pearson chi-square of 68.341 and 46.501 (p<0.001) confirmed that the levels of these constraints have significant differences associated with SMME growth. The table also shows that there were significant differences between the levels of lack of skilled employees, lack of government support, lack of clear business plans, competition and government regulations, with low level of these constraints SMMEs experienced high level of growth. Chi-squared tests merely indicate the degree of evidence of association. They are rarely adequate for answering all questions about a data set like any significant test; chi-squared tests have limited usefulness. A small P-value indicates strong evidence of association, but provides little information about the nature

Table 5.19: The relationship between constraints and SMME growth

Constraints to growth		Growth in term of employees increased			
		Contracted %	Not Change %	Expanded %	Total %
Lack of professional financial advisors and consultation	Low level	5.5	23.7	67.8	97.0
	High level	1.4	0.2	1.5	3.0
	Total	6.9	23.9	69.2	100.0
Lack of access to finance	Low level	2.2	7.4	21.1	30.7
	High level	4.7	16.5	48.1	69.3
	Total	6.9	23.9	69.2	100.0
Lack of awareness of financial services and assistance	Low level	5.7	21.1	67.7	94.5
	High level	1.1	2.8	1.6	5.5
	Total	6.9	23.9	69.2	100.0
Lack of skilled employees	Low	0.7	0.7	6.4	7.9
	Medium	6.1	20.2	55.5	81.8
	High	0.0	3.0	7.3	10.3
	Total	6.9	23.9	69.2	100.0
Lack of government support	Low level	1.4	4.5	9.3	15.1
	High level	5.5	19.4	60.0	84.9
	Total	6.9	23.9	69.2	100.0
Lack of clear business plans	Low level	5.2	13.3	41.6	60.1
	High level	1.7	10.6	27.7	39.9
	Total	6.9	23.9	69.2	100.0
Government regulations	Low level	2.5	2.9	9.5	14.9
	High level	4.4	21.0	59.8	85.1
	Total	6.9	23.9	69.2	100.0
Competition	Low level	4.6	19.5	59.7	83.8
	High level	2.3	4.4	9.6	16.2
	Total	6.9	23.9	69.2	100.0
Corruption	Low level	4.2	11.6	33.1	48.9
	High level	2.7	12.3	36.2	51.1
	Total	6.9	23.9	69.2	100.0

Source: Researcher's own computation from the study survey data

Table 5.20: Chi-square tests for the relationship between constraints and SMME growth

Constraints to growth	df	Cramer's V	Pearson Chi-Square	Sig.
Lack of professional financial advisors and consultation	2	0.267	68.341	0.000
Lack of access to finance	2	0.008	0.056	0.972
Lack of awareness of financial services and assistance	2	0.220	46.501	0.000
Lack of skilled employees	4	0.097	18.038	0.001
Lack of government support	2	0.072	4.981	0.083
Lack of clear business plans	2	0.095	8.644	0.013
Government regulations	2	0.165	26.180	0.000
Competition	2	0.136	17.770	0.000
Corruption	2	0.064	3.977	0.137

Source: Researcher's own computation from the study survey data

or strength of the association. Statisticians have long warned about dangers of relying solely on results of chi-squared tests rather than studying the nature of the association Chi-square tests of independence (Agresti 2002).

Therefore, the study used multiple regression analysis to examine the nature and strength of the relationship between constraints and SMME growth, and test the research hypotheses. Investigation of the moderating effect of microfinance on the relationship between financial constraints and SMME growth was also done by using multiple regression analysis. The next section presents the results of the multiple regression analysis.

5.5 Examining the effects on SMME growth

A regression analysis was conducted to examine the relationships expressed in the conceptual framework of this study, after adjustments for microfinance as a moderating variable. The analysis was done to examine the relationships between a set of independent variables and SMME growth, after controlling for the effect of the demographics variables and the characteristics of SMMEs on SMME growth.

5.5.1   Multiple regression analysis and findings

Preliminary investigations were made to ensure that the assumptions of normality, linearity and homoscedasticity were not violated. The largest variance inflation factor (VIF) of each independent variable is 2.69, which was below the rule-of-thumb cut-off of 10 as suggested by Hair et al. (2010).

Table 5.21 contains the results of the regression analysis and shows the model that was used to test the hypotheses. Model 1 contains the control and the predictor variables. Preliminary investigations were made to ensure that the assumptions of normality, linearity and homoscedasticity were not violated. The table shows that the R-square for this model 1 is 0.382. This means that 38.2 percent of the variation in SMME growth can be explained by the control, and other predictor variables. The regression model tests indicate that the R-square for the overall models is significantly different from zero F $(31,930)$ = 18.519, p < 0.00. This means there are 0.000 chances the two regression models results come from a population where the R-square actually is zero. That is, there are no chances out of 1000 that the actual correlation coefficient is zero. The largest variance inflation factor (VIF) of each independent variable 8.595 and 6.096, which was below the rule-of-thumb cut-off of 10. Large VIF values indicate a high degree of col-linearity or multicollinearity among the independent variables (Hair et al. 2009). This gives confidence in the regression results.

5.5.2   Hypotheses Testing

The conceptual framework consists of two kinds of hypotheses: the hypotheses one through six address the relationship between SMME growth and the independents variables, whereas hypothesis seven investigates the moderating effect of microfinance on the relationship between financial constraints and SMME growth. To test hypotheses one through six, the results of regression model as shown in table 5.21 were used. To determine whether the effect of one or more of the independent variables were significant, the standardized coefficients of these variables was examined.

5.5.2.1   Hypothesis one

Hypothesis one predicted that "there is significant relationship between the demographic characteristics of an SMME owner/manager namely: gender, age

Table 5.21: Multiple regression results

Variable	Model 1		
	Beta	**Std. Error**	**VIF**
(Constant)	3.150***	0.326	
Demographics of owner/managers of SMMEs:			
Gender	0.035	0.037	1.041
Age	-0.034	0.019	1.052
Education	0.199***	0.021	1.425
Characteristics of SMMEs:			
Business size	0.300***	0.026	1.345
Business age	0.17***	0.029	1.534
Business sector:			
Manufacturing	-0.006	0.037	1.275
Trading	-0.131***	0.039	1.412
Services	-0.057	0.039	1.412
Ownership type:			
Sole trading	-0.060	0.060	1.573
Partnership	-0.073**	0.125	1.088
Private company	-0.034	0.047	1.799
Main customers:			
Government Contracts	-0.080*	0.026	2.006
Sub-contracting from Large Firms	0.150**	0.028	3.845
Overseas Customers	0.140***	0.044	1.951
General Public customers	-0.062*	0.035	1.330
Other SMMEs	-0.192***	0.025	1.767
Government initiatives and programs:			
Government initiatives	0.005	0.020	1.057
BEE program	0.128**	0.055	2.876
Source of finance:			
Own equity, family or friends	0.205**	0.094	8.595
Commercial Banks	0.169**	0.108	3.891
Combination	0.202**	0.098	6.096
Microfinance	0.129*	0.097	3.779
Constraint to growth:			
Lack of professional financial advisors	-0.116***	0.100	1.185
Lack of access to finance	-0.088*	0.048	1.956
Lack of awareness of financial services and assistance	-0.175***	0.080	1.353
Lack of skilled employees	-0.077*	0.023	1.531
Lack of government support	-0.039	0.055	1.552
Lack of clear business plans	0.011	0.038	1.383
Government regulations	0.038	0.054	1.474
Competition	-0.057*	0.047	1.193
Corruption	-0.096*	0.048	2.355
Model tests:			
R			0.618
R Square			0.382
Adjusted R Square			0.361
df			31
N			930
F			18.519
P			P<0.001

***, p<0.001; **, p<0.010; *, p<0.050

Source: Researcher's own computation from the study survey data

and education level, and SMME growth". The standardized coefficients "Beta" column in model 1 reveal that, among the demographic characteristics, only the level of education significantly correlates (p<0.001) with SMME growth. The education level was positively associated with SMME growth (b =0. 199). This means that education level makes the strongest and unique contribution in predicting SMME growth, when the variance explained by all other predictor variables in the model is controlled. It suggests that a high level of education is associated with high growth rates. Furthermore, the results show that gender and age were not statistically significant in predicting SMME growth.

With regard to these results, it can be concluded that hypothesis one is partially verified. Some demographic characteristics such as gender and age have no significant association with SMME growth, whereas the level of education has a significant relationship with SMME growth. This result is also supported with the analysis of chi-square tests, which revealed that, among the demographic characteristics, only the relation between education and SMME growth was significant.

5.5.2.2   Hypothesis two

Hypothesis two predicted that "there is a significant influence of SMME characteristics (namely: business size, business age, business sector and ownership type) on SMME growth". The results in table 5.21 show that business size, business age, business sector; trading and ownership type; were significant predictors of SMME growth. SMME size was a positive predictor (p <0.001) and has a beta coefficient of 0.300. This means when SMMEs increase in size their growth rates increase. This result indicated that micro and very small enterprises did not achieve high rates of growth, as the result of chi-square in table 5.12 on page 172 revealed that SMME size, age, sector and ownership types groups were statistically significant different in predicting SMME growth. Similarly, SMME age was a positive predictor of SMME growth with a significant coefficient of 0.170, which also indicates that new aged SMMEs do not achieve high rates of growth. As a SMME ages, so their business grows.

SMMEs in the trading sector are associated with no growth. The beta coefficient for trading sector was -0.131, p<0.001. The negative sign indicates that the business sector has a negative relationship with SMME growth, which means SMMEs in the trading sector were not growing. This could be due to the trad-

ing sector not being affable for entrepreneurs; entrepreneurs are able to better innovate in the service and manufacturing sectors.

Regarding the ownership type, the results revealed that those SMMEs who chose partnership as a type of ownership had a negative association with SMME growth. The result shows that the coefficient of partnership was -0.073, $p<0.010$, which indicates that this type of ownership has negative effect on SMMEs growth. The other SMME characteristics such as manufacturing and services business sectors, and sole trading private company ownership types were not significant predictors of SMME growth. Thus, we can conclude that hypothesis two is partially verified.

5.5.2.3 Hypothesis three

Hypothesis three predicted that "there is a significant relationship between types of customers (namely: government contracts, sub-contracting from large firms, overseas customers, general public customers and other SMMEs) and SMME growth". The results shown in table 5.21 indicate that all the types of customers have statistically significant relationships with SMME growth. However, some were negatively related to growth. The table shows that the biggest negative effect (-0.192, $p<0.001$) on SMME growth was associated with serving other SMMEs, which means that taking other SMMEs as a customer causes a negative effect on growth.

The second negative coefficient (-0.080, $p<0.050$) was for those SMMEs who relied on government contracts and tenders to do their business. Doing business with government was not associated with positive growth, although the coefficient was not large. There was also a significant negative coefficient of -0.062 for general public customers, meaning that SMMEs that focused on the general public experienced a negative effect on their business growth.

The results indicate that there were positive relationships between SMMEs and some types of customers. The largest positive coefficient for these types of customers was for sub-contracting from large firms (0.150, $p <0.010$), the positive coefficient sign indicates that there was positive and statistically effect of getting contracts from large firms on growth. There was also a positive coefficient of 0.140 for overseas customers. Exploring markets overseas was a positive strategy for business to grow, and this indicates that internationalization has a positive effect on growth.

The results from the regression analysis and chi-square tests confirmed a significant relationship between the types of customers and SMME growth. This is a strong evidence to support hypothesis three, as it predicts that the types of customers have a significant relationship with SMMEs growth.

5.5.2.4 Hypothesis four

Hypothesis four predicted that "there is a significant influence of government initiatives and programs on SMME growth". Table 5.21 shows that the BEE program was a positive predictor to SMME growth, it has statistically significant coefficients (0.128, p<0.010), indicating that participation in this program was positively related to business growth. The result also shows government initiatives have no any statistical influence on SMME growth. Thus, this partially supports hypothesis four, as the hypothesis predicts that BEE has a significant influence on SMME growth.

5.5.2.5 Hypothesis five

Hypothesis five predicted that "there is a significant relationship between sources of financing SMME capital structure (namely: own equity, family or friends, commercial banks, combination, microfinance) and SMME growth". Table 5.21 shows that all the types of financial resources used by SMMEs have a statistically significant effect on their growth. Further, the results show that the sources of financing SMME capital structure have a positive association with business growth. The largest coefficients (0.205, p<0.010) was found for own equity, family or friends, which means this type of financing has a unique positive contribution to SMME growth. This consists with theories and literature on SMME financing which concludes that, SMMEs prefer equity over external sources of finance such as debt to reduce the cost of finance. This means it will cost SMMEs more to get external funds than to use the equity of retained earnings and owner's funds. This because equity allows the firm's owners to retain control of the firm, avoid floatation costs such as legal, accounting and underwriting fees as well as allowing flexibility to the owners.

The second largest positive coefficient was for the combination of more than one sources of finance with value of 0.202, p<0.010, indicating that policy has a significant contribution to SMME growth. Mixing own equity, family or friends with other sources of finance is supported by most of SMME financing theories

such as trade-off, agency and pecking order theory. Although, a large number of SMMEs in this study reported that they did not find access to an external finance such debit finance, the result shows that those SMMEs who have access to commercial banks experienced growth. Commercial banks financing has a significant positive effect on SMME growth with a coefficient of 0.169, p<0.010. The results also show that microfinance was a positive predictor to SMME growth. Microfinance has a statistically significant coefficient of 0.129, p<0.050, meaning that using microfinance institutions (MFIs) services has strong impact on SMME growth.

The analysis of hypothesis five revealed that the ways of financing SMME capital structure have significant effect on SMME growth. This provides support for hypothesis five which predicts that there is a significant relationship between sources of financing SMME capital structure and SMME growth. The significant relationship between microfinance, as a source of finance to SMMEs, and SMME growth confirms the fundamental prediction of this study, that the positive effect of microfinance on SMME growth moderates the negative effect of financial constraints on SMME growth. The support found for hypothesis five gives partial support to hypothesis seven.

5.5.2.6 Hypothesis six

Hypothesis six predicted that "constraints to growth have a significant effect on SMME growth". SMMEs with constraints will have limited capability to expand, employ good technologies and search for new ideas. Accordingly, SMMEs constrained by conditions, which could be specified as follows:

(H6)1 Lack of skilled employees has a negative effect on SMME growth;

(H6)2 Lack of clear business plans has a negative effect on SMME growth;

(H6)3 Lack of government support has a negative effect on SMME growth;

(H6)4 Government regulations have a negative effect on SMME growth;

(H6)5 Competition has a negative effect on SMME growth;

(H6)6 Corruption has a negative effect on SMME growth.

(H6)7 Lack of professional financial advisors has a negative effect on SMME growth;

(H6)8 Lack of access to finance has a negative effect on SMME growth;

(H6)9 Lack of awareness of financial services and assistance has a negative effect
         on SMME growth.

5.5.2.6.1   Hypothesis six: Business constraints

To examine the effect of business constraints on SMME growth, the study tested
the hypotheses 6A through 6F. Hypothesis 6A predicts that lack of skilled em-
ployees has a negative effect on SMMEs growth. This hypothesis was tested by
examining the coefficient of a lack of skilled employees, there was a significant
negative coefficient (-0.077, p<0.050) for a lack of skilled employees. This means
that a lack of skilled employees has a negative effect on SMME growth in terms
of increases in employees. Thus, this provides evidence for hypothesis 6A.

Hypothesis 6B predicts that lack of a clear business plans has a negative effect
on SMME growth. This hypothesis was also tested by examining the effect of
lack of clear business plans coefficient. The coefficient was not statistically sig-
nificant, which means that the lack of a clear business has no significant effect
on SMME growth. Thus, support for hypothesis 6B was not found.

Hypothesis 6C predicts that the lack of government support has a negative effect
on SMME growth. This hypothesis was examined by assessing the effect of lack
of government support on SMME growth. Lack of government support has no
significant negative coefficient, indicating that there was no a significant effect
on SMME growth as shown in table 5.21. Thus, support for hypothesis 6C was
not found. Similarly, the negative effect of government rules and regulations was
examined by assessing the coefficient government rules and regulations, the re-
sult indicates that government regulations have no a significant effect on SMME
growth. Thus, the study does not find support for hypothesis 6D, which predicts
that government rules and regulations have a negative effect on SMME growth.

Table 5.21 also shows a significant coefficient of -0.057, p<0.050 for competi-
tion, the negative sign of the coefficient means there was a negative effect of
competition on SMME growth. This provides support for the hypothesis 6E. As
hypothesis 6E predicts that competition has a negative effect on SMME growth.
The result for testing hypothesis 6F revealed that there was a negative signifi-
cant coefficient of -.128, p<0.050 predicted that there was a statistically negative
effect of corruption on growth. Hypothesis 6F predicts corruption has a negative
effect on SMME growth. Thus the study found support for this hypothesis.

The results above confirmed that some of the business constraints have a significant negative effect on SMME growth, namely lack of skilled employees, competition and corruption. The results also confirmed that the lack of a clear business plans, lack of government support and government regulations have no significant effect on SMME growth.

5.5.2.6.2 Hypothesis six: Financial constraints

To examine the effect of financial constraints on SMME growth, the study verified the hypotheses 6G through 6I. As depicted in table 5.21, the second highest coefficient for all constraints to growth was for a lack of professional financial advisors (0.116, p <0.001), the negative coefficient sign indicates that there was a negative and highly statistically effect of lack of professional financial advisors on growth. This is strong evidence in support of hypothesis 6G, as it predicts that lack of professional financial advisors has a negative effect on SMME growth. There was a significant coefficient found between the lack of access to finance and growth (-0.088, p <0.050). The negative correlation coefficient indicates that there was a negative and statistically significant effect of lack of access to finance on the growth. Hypothesis 6H predicts that the lack of access to finance has a negative effect on SMME growth. The study found evidence to support hypothesis 6H.

Table 5.21 also shows that the highest negative coefficient for both types of constraints was found for a lack of awareness of financial services and assistance (-0.175, p<0.001). The large value of the coefficient indicates that a lack of awareness of financial services and assistance has a strong and unique effect on SMME growth, and the negative sign shows that lack of awareness of financial services and assistance has a significant negative effect on the growth. This is strong evidence supporting the verification of hypothesis 6I, which predicts that a lack of awareness of financial services and assistance is a negative constraint to SMME growth.

The above confirmed that financial constraints have a significant negative effect on the growth. The biggest constraint was a lack of awareness of financial services and assistance, followed by lack of professional financial advisors, then the lack of access to finance. The next section investigates the possible moderating effect of microfinance on the relationship between financial constraints and SMME growth.

5.5.3 The moderation effect of microfinance

A regression analysis was performed to assess whether microfinance is a positive moderator of the relationship between financial constraints and SMME growth. Prior to forming a product term to represent an interaction between microfinance and financial constraints, the moderator and financial constraints were cantered by subtracting the sample mean. The purpose of cantering is to reduce the potential problem multi-collinearity (Cohen et al. 2003). Table 5.22 shows the results of the interaction between microfinance and financial constraints. The moderation effect of microfinance was tested by examining the interaction term between microfinance and financial constraints.

Model 2 include the control variables, in model 3 the predictor variables was added, model 4 shows the effect of the product term of microfinance and lack of professional financial advisors. Model 5 introduces the product term of microfinance and lack of access to finance, and model 6 adds the product term of microfinance, and the lack of awareness of financial services and assistance.

5.5.3.1 Hypothesis seven

The results in table 5.22 show that there was an increase in the model fit after including the product terms of microfinance, R square in model 3 was 0.382, F $(31,930) = 18.519$, $p < 0.00$, after the product term of microfinance was included in model 4 R square increased to 0.401, F $(32,929) = 19.430$, $p < 0.00$.

This indicates that there were significant differences in the two models. When testing for moderation, the researcher is looking for significant differences in the two models to support the hypothesis of differences in the path estimates (Hair et al. 2009). Hair et al. (2009) added that the analysis of moderators is easiest when the moderator has no significant linear relationship with either of the predictors. The authors also contended that a lack of a relationship between the moderator and the predictors helps distinguish moderators from mediators. Table 5.23 shows the results of correlations between microfinance and financial constraints, there was not any significant relationship between microfinance and financial constraints, the only significant relationship was between the lack of access to finance and lack of awareness of financial services and assistance. Hypothesis 7 predicts that "microfinance is a positive moderator of the relationship between financial constraints and SMME growth". Thus this confirmed the basic

prediction that microfinance is a way to overcome financial constraints. Accordingly, the moderating effect of microfinance could be hypothesized as follows

(H7)1 Microfinance is a moderator of the relationship between the lack of professional financial advisors and SMME growth. The negative effect of the lack of professional financial advisors is reduced when SMMEs use microfinance.

(H7)2 Microfinance is a moderator of the relationship between lack of access to finance and SMME growth. The negative effect of the lack of access to finance is reduced when SMMEs use microfinance.

(H7)3 Microfinance is a moderator of the relationship between the lack of awareness of financial services and assistance and SMME growth. The negative effect of the lack of awareness of financial services and assistance is reduced when SMMEs use microfinance

Model 4 shows a positive effect (0.117, p<0.001) of the interaction term of lack of professional financial advisors and microfinance, which implies that the relationship between the lack of professional financial advisors and SMME growth is significantly changed by the effect of microfinance as a moderator. This supports hypothesis 7A, which predicts that microfinance is a positive moderator of the relationship between lack of professional financial advisors and SMME growth. As depicted in table 5.22, model 6 shows that the effect of lack of access to finance on SMME growth has significantly changed (-0.054, p<0.050) when considering the moderation effect of microfinance. Hypothesis 7B predicts that microfinance is a positive moderator of the relationship between lack of access to finance and SMME growth, as supported by the study.

Hypothesis 7C predicts that microfinance is a positive moderator of the relationship between the lack of awareness of financial services and assistance, and SMME growth. Model 6 shows no significant relationship between the product term of microfinance and the lack of awareness of financial services and assistance, and SMME growth.

There was no improvement in the model fit in terms of increase in R square value by adding the product term of microfinance, and the lack of awareness of financial services and assistance; which means that this term has no effect on SMME growth. Thus support for the expected moderating effect of microfinance on the relationship between the lack of awareness of financial services and assistance, and SMME growth was not found.

Table 5.22: The moderating effect of microfinance on the financial constraints

Variables	Model 2	Model 3	Model 4	Model 5	Model 6
(Constant)	1.421***	3.150***	3.288***	3.357***	3.357***
Control variables					
Gender	0.024	0.035	0.032	0.034	0.034
Age	-0.047	-0.034	-0.031	-0.029	-0.029
Education	0.182***	0.199***	0.201***	0.198***	0.198***
Business size	0.362***	0.300***	0.298***	0.298***	0.298***
Business age	0.238***	0.170***	0.175***	0.170***	0.170***
Business sector:					
Manufacturing	0.008	-0.006	0.001	0.003	0.003
Trading	-0.123***	-0.131***	-0.135***	-0.141***	-0.141***
Services	-0.047	-0.057	-0.055	-0.056	-0.056
Ownership type:					
Sole trading	-0.034	-0.06	-0.06	-0.059	-0.059
Partnership	-0.062*	-0.073**	-0.104***	-0.105***	-0.105***
Private company	-0.020	-0.034	-0.029	-0.028	-0.028
Predictor variables					
Main customers:					
Government Contracts		-0.080*	-0.074*	-0.072*	-0.072*
Sub-contracting from Large Firms		0.150**	0.147**	0.146**	0.146**
Overseas Customers		0.140***	0.134***	0.134***	0.134***
General Public customers		-0.062*	-0.070*	-0.071*	-0.071*
Other SMMEs		-0.192***	-0.187***	-0.184***	-0.184***
Government initiatives and programs					
BEE Program		0.128**	0.135**	0.138**	0.138**
Government initiatives		0.005	0.003	0.002	0.002
Source of finance:					
Own equity, family or friends		0.205**	0.221**	0.191*	0.191*
Commercial Banks		0.169**	0.180***	0.166**	0.166**
Combination		0.202**	0.216**	0.193**	0.193**
Microfinance		0.129*	0.139**	0.130**	0.130**
Business constraints					
Lack of skilled employees		-0.077*	-0.119***	-0.120***	-0.120***
Lack of clear business plans		0.011	0.012	0.015	0.015
Lack of government support		-0.039	-0.043	-0.048	-0.048
Constraint: Government regulations		0.038	0.034	0.036	0.036
Competition		-0.057*	-0.055*	-0.057*	-0.057*
Corruption		-0.096*	-0.091*	-0.094*	-0.094*
Financial constraints					
Lack of professional financial advisors and consultation		-0.116***	-0.105***	-0.105***	-0.105***
Lack of access to finance		-0.088*	-0.077*	-0.079*	-0.079*
Lack of awareness of financial services and assistance		-0.175***	-0.174**	-0.175***	-0.175***
Moderator variable					
Microfinance * Lack of professional financial advisors			**0.117***	**0.116***	**0.116***
Microfinance * Lack of access to finance				**-0.054***	**-0.054***
Microfinance * Lack of awareness					-0.032
Testing the models					
R	0.542	0.618	0.633	0.635	0.635
R Square	0.294	0.382	0.401	0.404	0.404
Adjusted R Square	0.286	0.361	0.38	0.382	0.382
df	11	31	32	33	34
N	950	930	929	928	927
F	36.007	18.519	19.430	19.030	18.450
Sig.	p<0.001	p<0.001	p<0.001	p<0.001	p<0.001

***, p<0.001; **, p<0.010; *, p<0.050

Source: Researcher's own computation from the study survey data

This analysis provides evidence for the expected moderating effect of microfinance on the relationship between two financial constraints and SMME growth, namely the lack of professional financial advisors, and the lack of access to finance. The results also show that microfinance was not a moderator for the relationship between lack of awareness of financial services and assistance, and SMME growth.

Table 5.23: Correlations between microfinance and financial constraints

	1	2	3	4
Microfinance	1			
Lack of professional financial advisors	-0.005	1		
Lack of access to finance	0.058	0.012	1	
Lack of awareness of financial services and assistance	-0.057	-0.016	.121**	1
**Correlation is significant at the 0.01 level (2-tailed).				

Source: Researcher's own computation from the study survey data

To visualize the nature of the product terms interactions, the study plotted the prediction lines of the effect of using microfinance on the relationship between financial constraints and SMME growth, which are shown in figure 5.12, 5.13 and 5.14. Within the group of not using microfinance, as shown in figure 5.12, the higher level of a lack of professional financial advisors was negative predictors of SMME growth. Those SMMEs who did not use microfinance experienced growth when the higher level of lack of professional financial advisors was low. SMMEs who were constrained by a high level of lack of professional financial advisors achieved higher growth when they used microfinance.

Figure 5.13 shows that those SMMEs who did not use microfinance experienced some growth when they were constrained by a lack of access to finance. However, the overall growth line was not high, indicating that SMMEs who did not use microfinance did not achieve high growth rates. On the other hand the figure shows that some SMMEs that did make use of microfinance had a lower growth rate when they had a high level of lack of access to other financial resources. SMMEs that managed to mix microfinance with other resources experienced high growth rates. As shown in the figure, the use of microfinance has a positive effect of SMME growth when SMMEs face limited access to financial resources.

As shown in figure 5.14, the highest level of SMME growth can be achieved when the level of lack of awareness of financial services and assistance is very

Figure 5.12: The interaction between microfinance and lack of professional
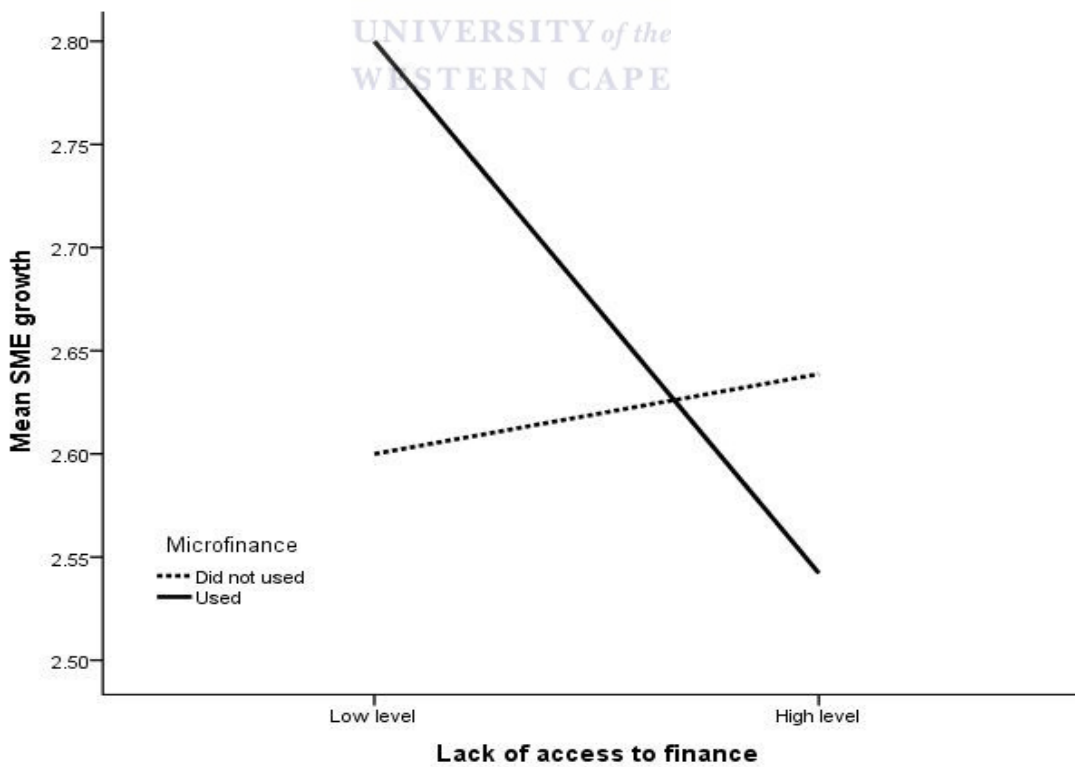
Figure 5.13: The interaction between microfinance and lack of access to finance

low. In other words, the lack of awareness of financial services and assistance is a significant constraint to SMME growth even for those using microfinance. This means that microfinance does not affect the negative influence of a lack of awareness of financial services and assistance on SMME growth.

The results above suggest that SMMEs that do not use microfinance suffer from financial constraints, and do not achieve high growth rates. While the more SMMEs used microfinance, the more they overcome the lack of professional financial advisors and the lack of access to finance and achieved higher growth rates.

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Figure 5.14: The interaction between microfinance and lack of awareness
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Chapter 6

Conclusion

6.1 Introduction

The study was set out to explore the factors acting as constraint to growth of SMMEs in South Africa. The study has identified the nature and form, the type and the effect of constraints on SMME growth. The study has also sought to know whether microfinance can moderate the effect of these constraints and help SMME to overcome, move away or reduce financial constraints to achieve higher growth rates.

6.2 Discussion

The study revealed that the majority of SMMEs experienced remarkable increase in their labour force and achieved growth rate, while 30.2% failed to grow. The study examined the influences and the effects of many factors on SMME growth and discovered the following findings.

6.2.1 Demographics of owner/managers

SMME sector is male dominated. The majority of owner/managers surveyed were male (75.4%). The study sought to establish the influence of gender on SMME growth and finds that there was no significant relationship and been business and is not a key factor for SMME growth. These findings supported the arguments of Du Rietz and Henrekson (2000) and of Johnsen (2005) that

there is no any significant gender effect on SMME growth.

The results revealed that the majority of business owners were not young, 75.8% were over forty years old and male owner/managers tend to be older than female owner/managers are. The results showed that age of the owner/managers has no significant influence on SMME growth. This results is in contrary with the findings that showed a significant relationship between age of the owner of a business and growth (Onuorah 2009; Andersson et al. 2004; McGee and Sawyerr 2003). On the other hand, Abouzeedan and Busler (2004) suggest an opposite relationship between age and SMME growth. The authors argue that older owner/managers are less able to handle the routine problems encountered by small businesses. The literature on age influence shows conflicting results relating to SMME growth.

The study also examined whether education has effect on SMME growth, the results showed that a 66.4% of business owners have higher levels of education and attained a university and male were more educated than the female. The gender difference in terms of level of education of owner/managers is statistically significant. The results also revealed the level of education has a significant positive relationship with SMME growth. This supports Dobbs and Hamilton (2007) and Smallbone2000 argument that education affects owner/managersâ€™ motivation, enhances exploratory skills, communication skills and foresight which influence the performance of SMMEs. Education has served also as a proxy for entrepreneurial skills and abilities. The results also confirm Kozan et al. (2006) findings that education is positively connected to business growth.

6.2.2 Characteristics of SMMEs

The result showed a strong, positive and significant effect for the SMME size on SMME growth. The more SMMEs increase in their size, the more SMMEs grow. This finding is supported by the Gibrat (1931) stochastic growth approach and generic stages of SMME growth and confirmed Michaelas et al. (1999) argument that there is a positive relationship between SMMEs size and the growth rates.

The study also revealed that SMME age has significant correlation with SMME growth. The more SMMEs stays in the market, the more SMMEs grow. Although, this result is inconsistent with the results of some studies, such as Heinonen et al. (2004), who states that younger businesses grow quickly initially

to reach the minimal efficient size and slow down once that has been achieved and Davidsson (1991); Dobbs and Hamilton (2007) who claim that older businesses have less growth motivation. Some studies confirmed that there is found a positive relationship between business age and growth, for example Birley and Westhead (1990); Davidsson (2002).

The study concluded that hypothesis two was partially verified. Hypothesis two predicted that "there is a significant influence of SMME characteristics (namely: business size, business age, business sector and ownership type) on SMME growth". SMME characteristics such as manufacturing and services business sectors and sole trading private company ownership types were not significantly predictors of SMME growth. SMME characteristics such as manufacturing and services business sectors and ownership types were not significantly predictors of SMME growth. Thus, the study concluded that this hypothesis is partially verified.

6.2.3   Market and customers

The study examined the effect of the several groups of customers on SMME growth; namely: government contracts, sub-contracting from large firms, overseas customers, general public customers and other SMMEs. The results revealed that all types of these customers have statistically significant relationships with SMME growth. However, serving other SMMEs, focusing on general public customers and relying on government contracts and tenders negatively affect the growth.

On the other hand, the result showed positive effects of SMME being subcontracting from large firms and trading overseas on SMME growth. Getting contracts from large firms and internationalization are effective strategies for business to grow. These findings are consistent with the literature on the influences of marketing strategies such as targeting customers and clients on business performance and growth (Armstrong and Kotler 2006; Lamb et al. 2004). The literature have suggested that internationalization has a positive effect on SME growth (Hashi and Krasniqi 2011; Kim et al. 1993; McDougall and Oviatt 1996; Tallman and Li 1996).

Therefore, the study found a strong evidence to support the hypothesis three,

as it predicts that the types of customers have a significant relationship with SMMEs growth.

6.2.4   Government initiatives and programs

The effects the government initiatives and programs such as black economic empowerment (BEE) have been examined in the stud. The results showed that BEE program has a positive influence in predicting SMME growth. This finding supported Peters (2010)statement that, emerging Black entrepreneurs is notice-able in the Johannesburg Stock Exchange (JSE), where Black equity stakes recorded significant increases. BEE is based on transformation of state assets and outsourcing of government services to be carried out in the name of helping Black entrepreneurs (Edigheji 2012).

The results also revealed that government initiatives have no any statistical influence on SMME growth. Which is contradictory with the literature argument that government initiatives and support are key factors in developing SMME sector (Madrid-guijarro et al. 2009; Mutula and Brakel 2006; Okpara 2011; Peters and Naicker 2013; Studer et al. 2006). The failing of government initiatives to contribute to SMME growth may be due to the inability of these initiatives to provide services and supports to SMME because of the lack of or poor marketing. Thus, this supports partially hypothesis four, as the hypothesis predicts that BEE has a significant influence on SMME growth.

6.2.5   Sources of finance

The study examined the effect of using several types of financing options namely; own equity, family or friends, commercial banks, combination and microfinance on SMME growth. The results showed that the majority of SMMEs in this study depend on personal equity of the entrepreneur, friends and family and retained earnings to fund their business. This consists with theories and literature on SMME financing which concludes that, SMMEs prefer equity over external sources of finance Carpenter and Petersen (2002). The results also revealed that financing SMME through own equity, family or friends option has a significant positive contribution to SMME growth. This because equity allows the firmâ€™s owners to retain control of the firm, avoid floatation costs such as legal, accounting and underwriting fees as well as allowing flexibility to the

owners.

The strategy of financing SMMEs via combination of more than one sources of finance has positive effect on growth. Mixing own equity, family or friends with other sources of finance is supported by most of SMME financing theories such as trade-off, agency and pecking order theory (López-Gracia and Sogorb-Mira 2008; Frank and Goyal 2007). Commercial banks financing also showed significant positive effect on SMME growth. SMMEs those have access to use commercial banks experienced growth. Microfinance provide SMMEs access to financial resources, technical assistant to create to create income-generating activities and grow (Helms 2006; Brau et al. 2009). The analysis of hypothesis five revealed that the ways of financing SMME capital structure have significant effect on SMME growth. This provides support for hypothesis five which predicts that there is a significant relationship between sources of financing SMME capital structure and SMME growth. The significant relationship between microfinance, as a source of finance to SMMEs, and SMME growth confirming the fundmental prediction of this study, that the positive effect of microfinance on SMME growth could moderate the negative effect of financial constraints on SMME growth.

6.2.6   Constraints to SMME growth

The examined the effect of constraints on SMME growth, these constraints were grouped into business and financial constraints. The results of examining the effect of business constraints revealed that there is evidence that lack of skilled employees, competition and corruption are important constraints to SMME growth in South Africa. These findings are consistent with the theoretical framework, which defines constraints as factors that limit the chances of growth for firms seeking to grow (Mahadea and Pillay 2008; Storey 1994). Several studies have provided evidence of the negative effect of constraints on SMME growth (Bartlett and Bukvič 2001; Doern 2009; McCormick et al. 1997; McGee 1989; Smallbone and Wyer 2000; Storey 1994). Linking these findings with the existing literature on relevant constraints, this study supports the idea that the constraints experienced by SMEs have a negative effect on their growth.

For the financial constraints, the findings confirmed that lack of awareness of financial services and assistance has significant negative effect on the growth. The lack of access to financial intuitions products and services is possibly the

lack of awareness of the resources and supports available from these intuitions. Supporting this finding, Guiso and Jappelli (2005) state that lack of awareness of financial services availability explains why business constrained by limit access to financial markets. The study also showed that lack of professional financial advisors has negative effect on the growth. Which means that lack of access to appropriate and relevant professional financial advisors is an important constraint to business growth. In other words, access to the relevant financial advisors motivate business growth. In this regards, Nkonoki (2010) has shown that the firms sought financial advices from professionals were achieving higher growth rate. Previous studies have suggested lack of access to finance is one of the greatest challenges that prevent SMMEs growth and expansion (Hussain et al. 2006; Smallbone and Wyer 2000; Terpstra and Olson 1993).

The study found evidence that lack of access to finance has negative effect on SMME growth. These findings confirmed that constraints such as lack of skilled employees, competition, corruption, lack of awareness of financial services and assistance, lack of professional financial advisors and lack of access to finance have negative effects on the growth. This provides support to the hypothesis that states constraints have negative effects on SMME growth.

6.2.7 Overcoming financial constraints

Existing studies have found that microfinance has a positive effect on SMME growth (Babajide 2011; Mchopa, Kazungu and Moshi 2014; Helms 2006; Brau et al. 2009). This study also found evidence that those SMMEs who use microfinance are more growth-oriented. To understand how microfinance helps SMMEs to overcome financial constraints, and achieve high growth rates, the study tested the moderating effect of microfinance on the relationship between financial constraints and SMME growth. The study provides evidence supporting the moderating effect of microfinance on the relationship between lack of professional financial advisors and SMME growth. Microfinance reduces the negative effect of lack of professional financial advisors on SMME growth. The literature confirmed microfinance that provides financial and legal advice to SMME and helps them to grow (Agaje 2004; Tipton 2004). The finding is supported by the literature verified the study hypothesis.

The results also revealed that using microfinance as financing option reduces the negative effect of lack of access to finance and helps SMMEs to grow. This

finding is consistent with the microfinance theory, which defines microfinance as a strategy aimed at the development and technical assistance of the poor and small entrepreneurs through training, funding and consulting to create self-employment and income generating activities (Brau et al. 2009; Karlan et al. 2006).

The results also revealed that the lack of awareness of financial services and assistance is a serious constraint to growth. This result is consistent with the existing literature on the negative effect of lack of awareness of financial services and assistance on accessing financial resources (Guiso and Jappelli 2005). However, contrary to the study hypothesis, microfinance does not moderate the relationship between a lack of awareness of financial services and assistance, and SMME growth. This can be attributed to the important role that has to be played by microfinance institutions (MFIs) and government agencies in ensuring that procedures are simple, financial products are demand-driven, and clear and brief financial information is provided. MFIs and government agencies have to invest more in marketing their products and services, most of the funding and support available to SMMEs are advertised via e-marketing which is not compatible with the nature of small business owners. The failure of microfinance institutions and government agencies to play their role in these respects severely impedes SMME growth.

6.3   The contribution of the study

An important contribution this study makes is that microfinance provides a way to overcome or mitigate financial constraints for SMMEs that exhibit a constraint to growth. The negative effect of a lack of professional financial advisors and the lack of access to finance is reduced when SMMEs make use of a microfinance source. The more SMMEs use microfinance, the more they overcome the lack of professional financial advisors, and the lack of access to finance, and achieve high growth rates. As such this is an important finding that adds to existing studies on the role of constraints as well as to the literature on entrepreneurship in developing economies.

6.4 Implications

The findings of the study may have theoretical and policy implications in relation to development of SMME sector in South Africa.

6.4.1 Theoretical implications

The literature confirmed the failure to grow SMMEs is part of an overall problem related to a lack of support and resources (Brink and Michael 2003; Sha 2006). Lack of collateral constraines SMMEs from accessing financial resources and professional services (Hussain et al. 2006; Smallbone and Wyer 2000; Terpstra and Olson 1993). The study implies that microfinance can play a positive role in SMME growth particularly for SMMEs that experience financial constraints. Constraints can be overcoming by introducing microfinance, microfinance provides SMMEs access to large number of financial products and services.

6.4.2 Policy implications

In order to enhance SMME growth in South Africa, the government can play an important role in assisting SMME to grow by effectively taking steps such as:

1. Facilitate the rules and regulations that govern the small enterprise sector, the literature confirms that the complex procedures cause the spread of corruption. Corruption has negative effect on SMME growth.

2. Support and increase initiatives aimed at promoting entrepreneurship, in addition to initiatives that contribute to raising the skill and efficiency of employees. Skilled employees have positive effect on SMME growth.

3. Engage in mutual agreements and the establishments of good relationship with other countries in order to eliminate trade restrictions and facilitate export internationally to create an enabling environment for SMMEs to grow. Internationalization helps SMMEs to grow.

4. Help in alleviation the restrictions imposed by the financial institutions to SMMEs in accessing financial resources. The inability of SMMEs to obtain the necessary funding in a timely manner negatively affect the growth.

5. Invest more in marketing the government agencies and initiatives products and services, most of the funding and supports available to SMMEs are

advertised via e-marketing which is not compatible with the nature of small business owners.

6. Develop the economic and financial policies govern financial institutions to allow Microfinance institutions (MFIs) reach the target clients to play the social and financial roles. MFIs provide SMMEs access to financial and professional services, enable them to overcome financial constraints and achieve higher growth rates.

6.5   Limitations and future research

This study is not without limitations. First, the study is based on the province of the Western Cape, of South Africa. In a South African context, with its two tiered economy, the Western Cape is perceived to be a "developed" economy as opposed to other developing African countries. Further studies can be conducted in other countries or can include samples from other provinces to compare the results. Second, as this study provides only a measurement at one moment in time, we are not able to establish causal and longitudinal effects. However, the current study's sample size is favourable in comparison to other recent studies and thus provides extended validity. Future studies that apply longitudinal designs are needed to establish the causality of the relationships found in this study.

Third, the study examined the effect nine types of constraints on SMME growth. Further studies should explore other type constraints such as lack of leadership and the lack of desire for growth. Finally, the study investigated whether microfinance assist SMMEs to overcome financial constraints and achieve higher growth rates. Further studies should the moderating effect of other predictor factors on the relationship between constraints and SMME growth.

6.6   Concluding remarks

The contributions of this study are substantive for SMME managers. Investigating empirically how SMMEs overcome constraint and grow is considered beneficial for SMMEs from social and economic perspectives. The study concluded that microfinance provides a work-around strategy to reduce the effect

of constraints on SMME growth. This study thus contributes an enhanced understanding of the relationship between constraints and SMME growth.

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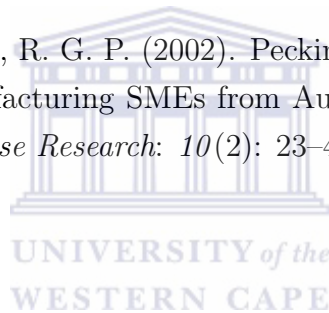
Appendix A

List of publications

The following is a list of research undertaking during the course of the study.

Conferences

Visvanathan, N., and Omer, N. (2014). Measurement and Determinant Factors affecting the Level of Knowledge Management. **Presntited at** *ASCENT 2014 - International Conference. A Scholarly Conference on Emerging Technologies for Information Systems and Business Management. 23rd to 24th April 2014.* Kuala Lumpur, Malaysia.

Omer, N., Van Burg, E., Peters, R., and Visser, K. (2015). Internationalization as a way to overcome local constraints to Small and Medium Enterprise growth in South Africa. **Presenting at** *International Conference on Business and Economic Development (ICBED) to be held on the 30-31 March 2015.* New York, USA

Journal papers

Naicker, V., and Omer, N. (2015). Measurement and Determinant Factors affecting the Level of Knowledge Management. *The Electronic Journal of Information Systems in Developing Countries*, **68(8), 1-20**.

Omer, N., Van Burg, E., Peters, R., and Visser, K. (2015). Internationalization as a way to overcome local constraints to Small and Medium Enterprise growth in South Africa. *Journal of Developmental Entrepreneurship*, **20(02), 1550011.**

Omer, N., Peters, R., and Visser, K. (2015). Financial Constraints to SMME Growth in South Africa: Investigating the Moderating Effect of Microfinance, **(In progress)**. *Enterprise Development & Microfinance.*

Omer, N., Peters, R., and Visser, K. (2015). Financial constraints to growth: does SMME size matter?, **(In progress)**. *African journal of economic and management studies.*

Omer, N., Peters, R., and Visser, K. (2015). SME age, business constraints and growth: Evidence from South Africa, **(In progress)** *Journal of the Southern Africa Institute for Management Scientists.*

UNIVERSITY *of the*

WESTERN CAPE

Appendix B

Questionnaire used for data collection

SMME DEVELOPMENT INITIATIVES AND ITS CONSTRAINTS TO GROWTH: QUESTIONNAIRE 20012/2013

UNIVERSITY *of the*
WESTERN CAPE

PROJECT LEADER: RICARDO PETERS

Western Cape

Name: _____
Position: _____
Telephone: _____
Fax: _____
E-mail: _____

Confidential

Questionnaire No: [   ]

C1

Q1 Please indicate whether you are
(Tick one Box)

Male	[ ]	(1)
Female	[ ]	(2)

Q2 **What is your age?**
(Tick one Box)

			C2
Under 21	[ ]	(1)	
21 - 30	[ ]	(2)	
31 - 40	[ ]	(3)	
41 - 50	[ ]	(4)	
51 or over	[ ]	(5)	

Q3 **Please state your nationality**
(Tick one Box)

			C3
Citizen	[ ]	(1)	
Non-citizen	[ ]	(2)	

If non-citizen please specify nationality [   ] C4

Q4 Please indicate your highest level of
educational achievement *(Tick one box)*

			C5
Primary	[ ]	(1)	
J. Secondary	[ ]	(2)	
S. Secondary	[ ]	(3)	
Diploma	[ ]	(4)	
Graduate	[ ]	(5)	
Post Graduate	[ ]	(6)	

Q5   **Please specify the number of employees currently**   C6

in your business (Full time equivalent including yourself)

C7

In the past two years has	Expanded		(1)
your labour force:	Contracted		(2)
(Tick one box)	Not Changed		(3)

Q6

Has your year-on-year turnover increased since the inception of your business?

C8

Yes	No

(2012/2013)
(If necessary, please enter approximate figure)_____(optional)

Q7   **Please state the year in which your company was established**   C9

Q8   **Please specify the form of ownership of the business**   C10

	Sole Trader		(1)
(Tick one box)	Partnership		(2)
	Close Corporation		(3)
	Private Company		(4)
	Other		(5)

C11

Q9 Please state whether your business	Commercial Banks		(1)
has been **funded by Banks or Development Finance Institutions**	Microfinance Institutions		(2)
(Tick one box)	Own/family/friends Combination		(3)

Q10A Did you initially draw up a business plan for your business?

Yes
No

Q10B Did you make use of the services of a professional financial advisor?

Yes
No

Q11   Please list the main products and/or services your business offers   C12-13

Products manufactured by your enterprise	Products supplied by your enterprise	Services offered by your enterprise

C14

Q12 Which percentage of your turnover is generated

directly from government tenders/contracts

Zero	(1)
Less than 10%	(2)
10% - 50%	(3)
More than 50%	(4)

Q13. Does your business rely heavily on government contracts?

Yes
No

Q14. Please estimate the importance of the following groups of customers for the total sales of your business

(Tick one box for each category)   (1)   (2)   (3)   (4)

	Very Important	Quite Important	Not Very Important	Not Important	
Government Contracts Export Orders/Internationalization					C21
Sub-Contracting from Large Firms					C22
Resale, Wholesale and Other Agents					C23
General Public					C24
Other Small/Medium Size Firms					C25
Other (Please Specify					c26

Q 15 Have you heard of or used the following government small enterprise support agencies?

	Heard of	Used
RED Door Project government small enterprise support Agency	? yes ? no	? yes ? no
SEDA government small enterprise support Agency	? yes ? no	? yes ? no
Industrial Development Corporation Agency	? yes ? no	? yes ? no
South Africa Micro Finance Apex Fund (SAMAF) Agency	? yes ? no	? yes ? no
Business Partners government small enterprise support Agency	? yes ? no	? yes ? no
National Youth Development Agency (NYDA)	? yes ? no	? yes ? no
Khula Enterprises Agency	? yes ? no	? yes ? no
National Empowerment Corporation?	? yes ? no	? yes ? no
Umsobomvu Youth Fund (Now part of NYDA)	? yes ? no	? yes ? no

* Small Enterprise development agency
(Small enterprises' perceptions of government support depending on awareness of programmes)

Q16. If your answer to any of the previous questions is "no" – why in your opinion do you think you have not heard of or made use of their services?

a.	I am not interested to know about government services offered because I feel ultimately it won't benefit me as a business person
b.	The services offered does not assist us much as business persons therefore we do not pay it much attention
c.	There is to much "red tape" and therefore application processes are too time consuming and I know I won't get anywhere ultimately
d.	The government institutions are incompetent and their knowledge of their respective areas very limited
e. Other Please specify._____ __	

Q 17 How would you rate the following Initiatives of government? From 1-5:

	1	2	3	4	5
Overall promotion of small enterprise	Very poor	Poor	Neither poor nor well	Well	Very well
Communication of small enterprise incentives	Very poor	Poor	Neither poor nor well	Well	Very well
Communication of legislation	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of government incentives in general	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of small enterprise support structures	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of export incentives	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of BEE procurement	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of labour legislation	Very poor	Poor	Neither poor nor well	Well	Very well
Impact of import/export legislation	Very Poor	Poor	Neither poor nor well	Well	Very well
Impact of skills development programmes	Very Poor	Poor	Neither poor nor well	Well	Very well

Q18. Do you think BEE procurement has benefited your company?

Yes

No

Q19. Do you think BEE procurement is good for business as a whole?

Yes

No

Q20. Has your fulltime labour force increased over the last five years?

Yes

No

Q21. If your answer to the previous question is YES then please indicate by how much has you labour force increased
Please indicate the most appropriate box.

1- 4	5- 10	11 – 15	16-20	21 – 25	26- 30	31 and above

Q22. What was the size of your labour force when you started your business?

_____

Q23. What was the level of skill of your work force at inception of your business?

Skilled	Semi – Skilled	Unskilled
1-5 6-10 11-14 15- 19 20 and above	1-5 6-10 11-14 15- 19 20 and above	1-5 6-10 11-14 15- 19 20 and above

Q24 What is the current level of skill of your workforce:

| Skilled	Semi – Skilled	Unskilled
1-5 6-10 11-14 15- 19 20 and above	1-5 6-10 11-14 15- 19 20 and above	1-5 6-10 11-14 15- 19 20 and above

Q25 In your opinion what will be the biggest problems/constraints which may prevent you from achieving your business goals?

	Low level	High level
1. Tough Competition		
2. Corruption		
3. Government Red-Tape		
4. Low/no growth in your respective sector		
5. Lack of government support		
6. Black economic empowerment (BEE)		
7. Lack of access to finance		

Q26. Do you think that programmes such as BEE will help expand your business?

Yes

No
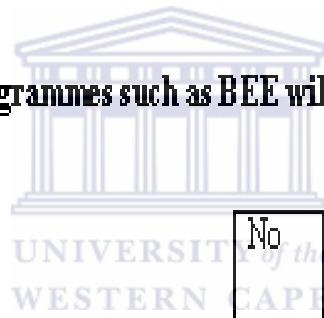
Q27. In order to become BEE compliant and expand your business, you have to take on a Black partner or employ black managers. Do you think that this will add value to your business?

Yes

No

Already BEE

Thank you for completing this questionnaire.