

**Gordon Institute
of Business Science**
University of Pretoria

**Access to finance: The disconnect between
entrepreneurs and financiers**

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ABSTRACT

The war against poverty, inequality and unemployment is one of South Africa's greatest imperatives. The unemployment rate is one of the highest in the world and GDP is on a steady decline. It is widely accepted that entrepreneurship can be an effective vehicle that stimulates economic growth and reduces unemployment. However, entrepreneurial activity rates have declined by over 30 percent over the last year. South Africa has the available funding to invest, yet aspiring entrepreneurs perceive access to finance to be one of the most pronounced barriers. This study aims to understand the reasons for the disconnect between financiers and entrepreneurs with regard to access to finance.

Six financiers and seven entrepreneurs were interviewed in depth to assess their respective perspectives on the challenges they encounter during the funding process. The criteria financiers use were investigated and measured against the obstacles entrepreneurs face. This made it possible to understand the areas of disconnect during the process of applying for or seeking funding.

The results highlighted the primary areas of concern as bankable contracts, collateral and the application process. Lack of awareness of resources and products available to support entrepreneurs may be the root cause of many areas of dis-connect. Therefore the study posed some recommendations to improve entrepreneurs' access to finance.

KEYWORDS

Financiers, entrepreneurs, access, funding, challenges

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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CHAPTER 1

INTRODUCTION TO RESEARCH PROBLEM

1.1 Introduction

This chapter presents the background of the study and articulates the problem statement. The research objectives of the study are presented in this chapter. The main aim of the study is to understand the reasons for disconnect between financing institutions and entrepreneurs. The chapter begins by reviewing the current state of the South African economy, which is the context of the study. The discussion is then narrowed down to discussing the entrepreneurial ecosystem, with focus on access to funding, which is the main area of the study. The chapter concludes with the presentation of the scope and the contents of the document.

1.2 Background and Context of the Study

Current state of the South African economy

The South African economy narrowly escaped a technical recession with a 0,7% growth in the third quarter after an economic contraction of 1,3% in the second quarter of 2015 (Stats SA, 2015). A country is considered to be in recession if it shows negative growth in two successive quarters. According to the World Bank, South Africa's GDP growth rate, an indicator of economic prosperity, has been on a steady decline over the last five years from 3% in 2010 down to 1,5% in 2014 (The World Bank Group, 2015). Declining growth rates and near-miss recession scenarios has not been the typical South African tale in the past as evidenced by average growth rates of 4,5% between the post-apartheid years of 2002 and 2008. However, in recent years, government has struggled to address the widening gap between the rich and poor, crime, corruption, deteriorating infrastructure and exceptionally high unemployment rates.

Unemployment crises

The unemployment rate in South Africa is one of the highest in the world, and is the highest in Sub-Saharan Africa, at 26%. South Africa's integration into the global economy called for it to refine its processes and create efficiencies in order to be competitive with its exports. The casualties of this re-engineering process were low-skilled jobs. A further challenge to increased unemployment rates are new stringent labour laws that pose a burden on businesses to be compliant where many choose the alternative of changing to capital-intensive methods of production to avoid the implications of these laws.

The Classical economic theory emphasises the importance of labour market flexibility in order to avert unemployment. Therefore, uncompromising labour relations regulations, such as the new Labour Relations Act, 1995, Basic Conditions of Employment Act, 1997 and Employment Equity Act, 1998 have an inverse effect on job creation and expansion (Mahadea & Simson, 2010). Capital intensive or capital deepening methods of production contribute to the large pool of the unemployed unskilled labour force. Labour unrest signalled the shift to capital deepening (Schoeman, Botha, & Blaauw, 2010).

The National Development Plan (NDP) has the alleviation of unemployment as one of its imperatives. The plan aimed to reduce unemployment to 20% by 2015 and to 6% by 2030 based on the underlying assumption of an average GDP growth of 5%. The current official unemployment rate is 25%; however, that does not account for those who are not actively seeking work, but are unemployed. This would bring the actual unemployment rate much higher. The reasons for the high unemployment rates in South Africa warrant a comprehensive study, as unemployment is a growing and serious problem and will not disappear in the near or distant future, hence an alternative means of earning an income must be sought that will allow citizens to contribute to society in a way that uplifts the economy and pushes positive GDP growth.

Entrepreneurship

Neo-classical studies of economic growth have focused on the role of capital and labour in stimulating economic development. In more recent years, however, it has become increasingly recognised that entrepreneurship is a key driver of economic growth

(Cumming, Johan, & Zhang, 2014). Entrepreneurship has been identified as the vehicle that creates jobs, increases purchasing power, thereby stimulating the economy in many countries around the world, particularly in emerging economies.

The SME sector in particular is an important player in stimulating economic growth. “In South Africa, over 90% of formally registered businesses in the country are small, medium and micro enterprises and they account for almost half the country’s GDP and nearly a fifth of employment” (Sriram & Mersha, 2010). Entrepreneurship can be instrumental in stimulating the South African economy and alleviating the unemployment burden and therefore must be nurtured. Government has established a Ministry for Small and Medium Enterprises. However, its capacity to address the mammoth task of galvanising the entrepreneurial ecosystem has been questioned due to resource constraints. Creating a nurturing environment in which SMEs can flourish, requires investment in an entrepreneurial ecosystem that supports, encourages and allows SMEs to thrive.

Entrepreneurial Ecosystem

The rate at which entrepreneurial activity flourishes, is largely dependent on the entrepreneurial ecosystem that exists within the country. A report, issued by the World Economic Forum, defines the components of the entrepreneurial ecosystem pillars as access to markets, funding, the regulatory framework and infrastructure, major universities as catalysts, human capital, a good support system, education and training and cultural support (Foster et al., 2013). Access to funding is considered to be one of the more challenging barriers to entry experienced by entrepreneurs, with primary sources of funding being friends and family, angel investors, private equity, venture capital and access to debt (Foster et al., 2013).

Access to Finance

Developing economies, though, often lack sources of seed capital. In particular, micro-entrepreneurs, those at or near the bottom of the social-economic pyramid, do not have access to bootstrapping methods. Due to higher poverty levels and lower excess income,

entrepreneurs often do not have their own financial resources, available capital nor can they readily borrow from often impoverished peers and family (Brau, Cardell, & Woodworth, 2015). These aspirant entrepreneurs have no choice, but to turn to the standard offerings by the conventional banking system.

Traditional credit lending models require financial statements, which show affordability to repay the loan. Collateral seems to be the most frustrating requirement for entrepreneurs as they simply do not have those resources available at their disposal. Businesses need to be operating for a period before they can apply for funding. This is not an option for those who are just starting up. It is often said successful entrepreneurs have failed a few times before they understand the nuances of running a successful business, almost a right of passage. It is highly probable that negative credit records would be a consequence of this journey, yet entrepreneurs are penalised for it when submitting credit applications.

1.3 Problem Statement

There is a general perception amongst entrepreneurs that access to capital is a major inhibitor to entrepreneurial growth and activity. However, a recent Global Entrepreneurship Monitor study revealed that South Africa is no worse or better off than any other country in terms of the availability of capital (Singer, Amoros, & Moska, 2015). South Africa is seen as having a “highly mature” financial sector with available funds; however, the funds are not made available easily and the capital is often too expensive. Eighty six percent of new businesses are self-funded and only two percent are funded from external sources. The consensus is that ease of access to bank-, angel- and IPO-based investing is getting worse (Ernst & Young, 2015). Having regard for the above, there appears to be a disconnection between the funding that is available and its transmission to its intended recipient, the entrepreneur.

1.4 Research Objectives

The main purpose of the study is to explore the disconnect that exists between financiers and entrepreneurs with regard to access to finance. The objectives of the study are as follows:

- To investigate the criteria used by financiers to fund SMEs;
- To determine the limiting factors experienced by financiers in extending finance;
- To investigate the obstacles faced by SMEs in securing funding;
- To determine the intervention measures that should be implemented to alleviate the challenges faced by entrepreneurs and financiers.

1.5 Scope of the Research

The scope of the study was limited to entrepreneurs and financiers of small and medium enterprises (SMEs) in South Africa. SMEs are defined as follows:

Small	<p>Less than 100 employees</p> <p>More established than very small enterprises, formal and registered, fixed business premises. Owner-managed, but more complex management structure.</p>
Medium	<p>Up to 200 employees</p> <p>Still mainly owner-managed, but decentralised management structure with division of labour. Operates from fixed business structure with all formal requirements being met.</p>

Source: <https://www.thedti.gov.za/default.jsp>

Funding was limited to external sources of funding from banks, venture capitalists and government funding agencies. The financiers selected specialised in SME lending. The study focused on understanding the criteria used by financiers to lend to SMEs. This

included understanding the challenges faced by both the financiers and SMEs and the interventions mentioned to minimise the challenges.

1.6 Motivation of the Study

South Africa has one of the most sophisticated banking systems in the world and available surplus funds. This would imply that entrepreneurship, the chariot that has proven itself globally in its ability to fight poverty, unemployment and inequality, logically should be a beneficiary of such available funds. Government has introduced several initiatives to address the funding gap, yet the very organisations that have these funds have not disbursed them at the end of their financial years. There is growing awareness around the SME imperative and support among financiers is gradually being harnessed; however, lending criteria, process and methods have not shifted to accommodate the very specific and peculiar needs of SMEs.

Therefore, viewed from a practical business perspective, there is a need for a deeper understanding into the reasons for this disconnect because it is key to improving entrepreneurial growth, which in turn, will have a positive impact on South Africa's high unemployment rate, which has grown to 26.4% in the first quarter of 2015, a 12,8% increase from the previous quarter, and is the highest rate since 2005 (Ferreira, 2015). Poverty, unemployment and inequality in South Africa are amongst the highest in the world.

Theoretically, there is an agreement in the entrepreneurship literature that access to funding is amongst the significant challenges faced by entrepreneurs (Claessens, 2006). Despite this agreement, there is scant information about the disconnect in accessing finance from both the financiers' and entrepreneurs' perspectives. Therefore, this study focuses on the financiers and entrepreneurs simultaneously. In addition, the literature on entrepreneurial funding had been conducted in developed economies, where entrepreneurs have better access to finance (Quartey, 2003). Therefore, this study focused on the emerging market context, specifically South Africa, which remains relatively underexplored.

1.7 Contents of the Document

Chapter 1 presents the background of the research problem, objectives and the motivation of the study. Chapter 2 presents the current entrepreneurship literature on access to funding. In line with the reviewed literature, research problems and objectives of the study, Chapter 3 presents the research questions that this study attempts to answer. Chapter 4 describes the design and the methodology of the study followed to select the appropriate approach to the research, collect and analyse the data. Chapter 5 presents the findings of the data that were gathered from the respondents. Chapter 6 discusses the findings in light of the literature, taking note of confirmatory and contradictory points of views. Chapter 7 concludes the study by summarising the results of the study, highlighting the theoretical and practical contributions, limitations and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter articulates the argument of the study with reference to the entrepreneurship literature. The chapter commences by discussing the theoretical perspectives related to access to funding. The discussions are then followed by an overview of the sources of funding, from a government and private sector perspective. The four themes related to the research questions are discussed under: funding criteria, financier challenges, obstacles faced by SMEs and interventions to improve access to funding.

2.2 Theoretical Perspectives on Access to Finance

Various studies attempted to explain the capital structure decisions made by SMEs. Despite the scholars' efforts to better understand how SMEs make capital decisions, there was still no consensus about a theory that was adequate enough to explain the phenomenon (Serrasqueiro & Caetano, 2015). According to the resource-based view (RBV) of a firm, a firm needs resources, which could either be tangible or intangible to remain competitive and have higher returns in the long term (Wernerfelt, 1984). Capital was mentioned as one of the significant resources that a firm needs to run the day-to-day operations of the business so as to grow it. Therefore, from the resource-based view perspective, it could be argued that finance or capital is a significant resource required by SMEs to run their business and be competitive, hence they had to approach financiers to seek funding.

On the other hand, an important question was how SMEs decided to seek or apply for funding at the different financial institutions. The Pecking Order Theory (POT) argued that firms preferred to first use the internal sources of funding, and if the internal sources of

finances were inadequate, they would use external sources (Myers, 1984), in this case financial institutions to obtain additional funding. Serrasqueiro et al. (2015) argued that POT had been found to be particularly relevant for SMEs. This was due to the notion that when the internal sources of capital for SMEs were depleted, they relied on private funding, including banks, while larger firms were financed through public markets. Therefore, this study adopted the RBV that the SMEs needed financing/capital as a significant resource to remain competitive, and the POT theory that when their own internal capital resources were depleted, they went to financial institutions to obtain funding.

2.3 Sources of Funding

All new businesses require funding at their start-up phase and even as they grow. Commercial banks are often not in the optimal position to assess the risks associated with SMEs. The Global Entrepreneur Monitor report suggested a new funding model should be run as a public/private initiative, where results and accountability played a major role (Singer et al., 2015). Essentially, this spoke to an unsecured lending product being made available to SMEs, where collateral was substituted by accountability. This would also mean that the traditional risk assessment methodology would have to be altered.

2.3.1 Government

The GEM report 2014 made a series of recommendations regarding the ways entrepreneurs could be supported financially. One of them was to introduce new funding models, possibly backed by government, which enabled entrepreneurs to obtain seed capital without the stringent requirements set by commercial banks with respect to collateral. The approach suggested by GEM was that there should be a state-supported micro-funding model, coupled with training and mentoring through the first year of operation. In addition, government was seen to have to introduce the policies directed at facilitating funding for entrepreneurs. Entrepreneurs who did not have access to funding from personal friends and family, had to rely on government initiatives (Acs & Szerb, 2007).

The Ministry of Small Business Development has the difficult task of galvanising the South African small business economy. Concerns around the capacity, experience and commitment to the challenge were in question, and there had been suggestions to seek out partnerships with the private sector. The effectiveness of such proposed agencies must be established.

The IDC allocated 75% of new business loans to SMEs. Business Partners invested R4.6 billion in emerging businesses over the past 20 years, directly influencing the creation of 500 000 jobs (SouthAfrica.Info, 2015). These numbers substantiated the premise that funding was available in South Africa and highlighted the fact that there was a serious disconnect between funders and entrepreneurs if entrepreneurs continued to highlight lack of funding as a problem.

2.3.2 Private sector

The most common financing offerings from the private sector were in the form of loans from banks, equity from venture capitalists and loans or equity from angel investors. Access to bank loans was less dependent on a business owner's networks, as was the case of angel investing; hence, most SMEs were reliant on banks for debt funding, but paradoxically, they struggled in their efforts to raise funding from banks (Fatoki & Asah, 2011a).

The challenges resulted from the SMEs' inability to provide collateral, or the time required to complete lengthy documents and numerous meetings needed to be conducted to conclude the transaction, which was claimed to be too time consuming for the small business owner. These were just some of the reasons offered (Khan, 2015). Bankers also looked at data, which spoke to account behaviour and financial performance of the organisation that had been collected over a period in order to assess its credit risk. This provided insight into the organisation's ability repay the debt and interest (Cowling, 2010).

Account behaviour, historical financial performance and firm characteristics all lent themselves to traditional credit assessment and catered for large, well established organisations that were financially sound. The very nature of SMEs – especially startups – did not fit the mould of having sterling financial ratios and sufficient assets to securitise

borrowings. A model outside of traditional credit assessment would have to be considered in order to cater for SMEs if they were going to have a true chance of survival.

2.3.3 Sources of funding and business lifecycles

SMEs had various avenues from which to source funding at the different phases of their development. During the startup phase, they were most likely to self-fund through savings and retained earnings. Informal funding was available through family and friends, angel investors and venture capitalists. The third source of funding came from the external formal sector, which embraced financial services and banks.

Berger and Udell (1998) proposed in their financial growth paradigm cycle that the financing option selected by the SME will be a function of the stage it was in during its growth life cycle as different strategies were required at different points. During the start-up phase, the organisation had no history for a credit provider to assess its behaviour, no trading history and still had a high probability of failure. This scenario called for insider funding sources (Abdulsaleh & Worthington, 2013).

A different perception was offered by (Mahembe, 2011) stating that the type of SME was the determining factor in the source of funding. This model described the three SME business types as small traditional, high potential and high tech.

The model also defined three different phases in the lifecycle of a business: start-up, growth and stable or consolidation phase, and prescribed the source of funds as a joint function of the phase of business lifecycle and the type of SME.

The table below describes the aforementioned model.

Figure 2-1: Sources of funding according to business phase

	Start-up Phase	Growth Phase	Stable/ Consolidation	Exit
Type of SME	Source of Finance			
Traditional small business. Provides employment for individual, family and friends	Family, friends, savings, equity in residential property, loans underwritten by government	Asset-backed finance, bank debt, factoring, trade credit	Bank debt if required	N/a
High Potential. Possibly export business	Angel finance, Team's equity , some venture capital	Venture capital, private equity, asset-backed finance, some bank debt	Venture capital high-yield debt market, bank debt	Exit via capital markets or direct access to stock market
High-tech, information and life sciences intellectual Property	Angel finance, venture capital, corporates	Venture capital, corporates, Asset-backed finance	Corporates, bank debt	Exit typically through trade sale

Source: (Mahembe, 2011)

Reflecting on the three models presented above, the common thread was the 'stage of business lifecycle' the organisation was in as a determinant of source of funds. One could argue that age was also a function of stage of business lifecycle; however, that may not necessarily be true as some organisations do not scale, in which case they will start and continue to be a traditional small business. Therefore, it can be assumed that SMEs have internal and external, formal and informal sources of funding available to them at various stages of their lifecycles.

2.4 South African Funding System Compared to Other African Countries

A comparative study of the level of involvement of banks in SMEs across five African countries, conducted by Berg and Fuchs (2013), revealed that South Africa was lagging behind Kenya, Rwanda and Tanzania as reflected in the table below. While the definition of SME varied across all countries, commercial bank surveys revealed the loan book attributable to SMEs as a percentage of the total loan book varied between five and twenty percent.

Table 2-1: Banks' involvement with SMEs

	Kenya	Nigeria	Rwanda	South Africa	Tanzania
SMEs' share of total bank lending	17.4%	5%	17%	8%	14%
Contribution of SMEs to banks' net income	20.5%	11%	20%	15%	16%
Percentage of revenues derived from:					
Credit	68%	22.4%	71%	27%	73%
Deposit and account management	12.7%	53.2%	11.4%	50%	12%
Other transactions and fee-based services	19.3%	24.4%	17.6%	23%	15%

Source: Berg, G. & Fuchs, M. J. (2013)

Lending to SMEs was not of significant importance to the big four banks in South Africa, but many banks in Rwanda and Kenya focused on SMEs as clients. This was primarily because the highly competitive corporate segment had encouraged banks to look to other market segments in order to develop and grow (Berg & Fuchs, 2013).

The Kenyan SME-lending market was highly competitive, with commercial banks servicing many different segments. The reason Kenya had the upper hand on other Sub-Saharan African countries originated in its innovative products, technology and micro-finance rooted institutions using non-traditional credit lending methodologies (Berg & Fuchs, 2013). In South Africa, close to 80% of retail banking was performed by the big four banks. The high barriers to entry acted as inhibitors to innovation, resulting in the continuation of traditional credit assessment, which did not support the SME market.

Further, Kenyan organisations provided invoice discounting and hire purchase to SMEs with government contracts or reputable large organisations (Berg & Fuchs, 2013). In South Africa, government could take in excess of nine months to settle their obligations, which would have devastating impact on SMEs and act as a deterrent for invoice discounting.

2.5 Funding Criteria

2.5.1 Age

The length of time that an organisation had been in existence was directly correlated with its ability to weather storms successfully. In this context, time was an indicator of the firm's ability not to adopt opportunistic strategies and rise to the challenges that knocked on its door. Empirical studies have shown that firms that have been in existence for a period in excess of five years have a higher probability of a successful loan application than those who have not (Fatoki & Asah, 2011a). Firm characteristics such as size and age were two of the most significant risk indicators considered by financial institutions when assessing credit applications (Cowling, Liu, & Ledger, 2012).

A further proposition introduced by Nguyen and Luu (2013) was that younger firms had not had the time to develop relationships with financiers or accumulate the information they required to be successful with credit applications. "As the firm grows and gains a track record, it was more likely to become 'investor ready' to access external finance such as bank loans, VC and public loans/equity" (Vanacker & Manigart, 2010). Therefore, age was regarded as one of the criteria used to provide SMEs with funding.

2.5.2 Size

In addition to age of the business, the size of the business was also regarded as an important criteria for awarding funding (Cowling et al., 2012). Larger organisations had the resources to document and generate information, which made them credit application ready (Cowling et al., 2012). Larger firms had larger assets, which increased their probability of gaining access to long-term finance because of the favourable impact of the assets on their debt ratios. "Larger firms tended to be more diversified, hence had an inverse relationship to the probability of bankruptcy and a positive relationship to access to finance" (Fatoki & Asah, 2011a). Firm size carried a higher weighting when conducting assessment criteria during the times of recession, which put SMEs at a distinct disadvantage (Cowling et al., 2012). While smaller firms had greater challenges in accessing finance, in a competitive market investors or financiers could reject a funding

application based on the viability of their business concept and not the size of the organisation.

2.5.3 Collateral

Banks employed various strategies to manage the behaviour of their clients, so as to comply with their own legal requirements. One such strategy was the employment of collateral and covenants. Unfortunately, the costs of such strategies are borne by the customer and may have a particularly significant impact on SMEs (Moro, Fink, & Kautonen, 2014). (Fatoki & Asah, 2011b) argued that collateral was actually employed to reduce the risk of a loan by providing the financier with an opportunity to recover its funds without reducing the debt. Collateral improved the SMEs' access to finance. However, SMEs with a smaller portion of tangible assets to total assets were less likely to be successful in their loan applications as they lacked sufficient collateral (Abdulsaleh & Worthington, 2013).

Regardless of the incentive/driving force/motivation behind the need for collateral, it weighed highly in the traditional credit lending practice. Most SMEs did not possess sufficient collateral to secure funding. The big four banks in South Africa practiced traditional lending practices that insisted on collateral as a requirement to release funding. SMEs thus were at a disadvantage using current credit assessment models.

2.5.4 Relationship lending

Relationship lending was based on the premise that during the time spent between borrower and lender, the lender was able to gather private information about the borrower over a period of time, which had an influence on the lending decision and setting the terms of the loan agreement, as the relationship grew. An alternative form of lending, relationship lending, which was based on the length and strength of the relationship between the client and the bank, provided an alternative and should be considered in addition to the 'hard' financial lending criteria. Narteh (2013) argued that relationship lending was of such paramount importance, it should replace transactional lending that was based on hard

data, with relationship lending based on the intricate relationship between the banker and SME manager or owner. Further lending, based on financial data, referred to as transaction lending, and did not favour SMEs.

One of the variables discussed in the context of relationship lending was the behaviour of interest rates as the borrower-lender relationship evolved. (Boot & Thakor, 1994) model hypothesised that interest rates had an inverse relationship to the length of the lender-borrower relationship. (Greenbaum, Kanatas, & Venezia, 1989) held an opposing view and predicted a rates increase with time. Boot and Thakor (1994) also suggested the value of collateral relative to the loan decreased over time.

Relationships take time to develop, grow and nurture, hence relationship lending did not serve start-ups or young businesses. Its success was also highly dependent on the compatibility of the personalities involved to build harmonious, mutually rewarding relationships and tested the emotional intelligence of both parties.

2.5.5 Entrepreneurial characteristics

One of the greatest challenges lenders faced was assessing and differentiating between a 'good entrepreneur' (one who will repay a loan) and a bad entrepreneur (one who will not repay) as a result of insufficient data available. The perception of entrepreneurial characteristics played a significant role in the loan assessment as perceived competence was important to the lender as a contributor to the success of the organisation and the probability of identifying and exploiting future opportunities (Moro et al., 2014). Entrepreneurial characteristics drew on educational background, age, risk taking, innovativeness and pro-activeness as constants, which influenced access to credit (Miller, 1983; Nguyen & Luu, 2013). Therefore, this study suggested that entrepreneurial characteristics were a significant determinant of attainment of funding.

2.5.6 Experience

The influence of experience gained from prior firms in the same industry was significant. Experience was defined as having to deal with or manage a variety of situations in an

organisation similar to the one currently owned by the entrepreneur. It informed the manner in which an owner identified opportunities and their agility in taking advantage of them (Soriano & Castrogiovanni, 2012). While there were arguments that too much experience in a particular area closed one off to possibilities outside of the ‘container of experiences’ and more often than not, propelled one to believe that they “knew it all”, which was not always healthy, the counter argument was that experience provided one with a wealth of information to draw from, from which one was able to make informed decisions. This was an asset to any organisation and one that financiers valued.

Experience was also valued because the time spent in acquiring the experience allowed people to develop their ethical decision-making abilities. Research found that people with three to five years’ experience tended to be more compromising when having to make ethical decisions as opposed to people with greater experience (Khalid, Omar, Syed Agil, & Khalid, 2013). Entrepreneurs had a leadership role to play in their organisations, and to lead by example, as far as ethical issues were concerned, was a responsibility they were charged with. Experience gained through being exposed to tenuous situations allowed one to develop those skills, and did bode well when financiers sought to evaluate the entrepreneur, particularly in relationship-based lending.

6.2.6 Bankable contracts

In the absence of tangible assets to serve as security, entrepreneurs were on a back foot in their efforts to conclude a funding transaction successfully. This reality was particularly frustrating for the entrepreneur who had a contract or order to fulfil, but did not have the working capital to execute the order. Purchase order funding (POF) was an alternative to the conventional financing transactions, in that the purchase order contract was used as collateral to secure funding. There were two risks the funding institution had to consider in this transaction type. The first one was the ability of the SME to deliver on the contract, which was therefore concerned about its operational functionality and secondly, the solidity of the buyer to remain financially liquid (Wu, Huang, & Chiang, 2014).

A conflicting view was expressed by (Caldentey & Chen, 2009) in that the financial institutions had no vested interest in the supply chain of the company, therefore they should not be concerned about the operations of the organisation. A counter argument to

this position would be that the bank had a vested interest in the loan being repaid, hence it should be interested in its operations to ensure the company could deliver on its order and collect on the sale of the transaction in order to repay the loan.

2.6 Financiers' Obstacles

The challenges encountered by financiers when allocating funding to entrepreneurs were:

2.6.1 Business plans

A business plan is a tool that informs all stakeholders about the nature of the business and defines its operations and strategy, which depicts its intended direction and how it intends to get there. Studies about the impact of a business plan on a company's success had been twofold. (Brüderl, Preisendörfer, & Ziegler, 1992) showed in their study the positive impact of a business plan on the success of a business and its survival. (Fernández-Guerrero, Revuelto-Taboada, & Simón-Moya, 2012) showed that business plans, even if they were well crafted, and accounted for entrepreneurial skills, were not good indicators of a firm's success.

A study conducted by (Hopp, 2015) showed that the business plans were compiled by entrepreneurs because they understood it as a requirement to obtain funding; however, it revealed very little information about the entrepreneur. Albeit limiting in the aforementioned sense, entrepreneurs who prepared formal business plans had a higher rate of success in obtaining finance from formal institutions than those who did not.

It was apparent that the views, opinions and studies produced varying results regarding the impact and significance of business plans as an indicator of future success. Having established the ambivalence about business plans, however, it was obvious that their presence improved the probability of obtaining finance.

2.6.2 Entrepreneurial characteristics

Stereotypical prejudices and descriptions of accountants were that they were analytical, dull, grey and boring; that lawyers were there for their own benefit only, but entrepreneurs were not described in single phrases that encapsulated their characteristics. This probably was because they were described in contrasting ways. They were said to be undying optimists who ventured forth confidently, stared adversity in the face and said, “give it your best shot”. There was the more pragmatic side of them that was able to concede to the fallout from inappropriate decisions, adjusted their positions and moved forward (Miller & Sardais, 2013).

“Some scholars claimed that entrepreneurs maintained their rosy optimism despite venture creation being a risky undertaking with a high risk of failure. In fact, they emphasised that serial entrepreneurs preserved their optimism even after many of their own ventures had failed” (Ucbasaran, Westhead, Wright, & Flores, 2010). Some entrepreneurs were thought of as arrogant as consequence of their optimism (Hayward, Shepherd, & Griffin, 2006).

Contrary to the picture painted in which entrepreneurs were unshakable even when the world around them was tumbling down, other literature introduced another side to the typical entrepreneur. This facet was risk averse, did not radiate optimism and was a lot more pragmatic (Xu & Ruef, 2004). “Confirming accounts, particularly those within fine-grained corporate histories, showed entrepreneurs as being hard-nosed realists, who begin their venture with a good deal of caution, avoid excessive risk taking, and understand better than most others the challenges confronting their ventures” (James, 2009).

These extreme and contrasting descriptions admittedly had their place in the world of entrepreneurship. If optimism and confidence did not feature, no one would be brave enough to venture out on their own and start their own business, which had a hugely positive impact on the economy. However, no entrepreneur can afford to live with their head in the clouds and assume that everything was going to work out well all the time when running a business. A healthy dose of realism of the scenarios their venture faced was imperative to journey through uncharted waters.

2.6.3 Lack of business acumen

Entrepreneurs were resilient, tenacious and moved forward with intrepid confidence even though walls sometimes were falling down beside them. These characteristics informed the persona of the entrepreneur. Equally important though, were the more technical skills required to understand the operational and mechanical aspects of the business. It was a combination of these skills that produced fantastic business acumen.

The results from a study performed by (Nieuwenhuizen & Kroon, 2003), showed that the financing criteria used by financiers when evaluating entrepreneurs were primarily concerned with functional management skills. The skills specifically referred to were “planning of the enterprise, knowledge of competitors, being mainly market-focused, quality work enjoying priority, client service, financial understanding, financial management, knowledge and skills with regard to the enterprise and the utilisation of experts”. A view expressed by (Sloka, Kantane, Avotinš, & Jermolajeva, 2014), confirmed that management skills were paramount in determining the probability of success of a business.

Successful entrepreneurs embraced a variety of skills and characteristics. Their abilities to win people over and close deals was equally important to their knowledge of systems, processes, finances and operations in their business. Naturally, they were not required to be technical experts in every area, but a working understanding was imperative for them to manage and direct their businesses successfully.

2.7 Obstacles Faced by Entrepreneurs in Securing Funding

Government launched several initiatives to assist entrepreneurs to obtain finance; however, it appeared many were unaware of these initiatives. Singer et al. (2015) indicated that only 10% of the respondents in the Western Cape knew the names of government initiatives that had been set up to assist small business, against 12% in the rest of the country.

Table 2-2: Level of awareness to funding opportunities

Government agency	Western Cape	KZN	Gauteng
National Youth Development Agency	33.7%	53.5%	65.9%
Small Enterprise Finance Agency	11.3%	21.7%	4%
Small Enterprise Development Agency	54.8%	26.6%	48.5%
Industrial Development Agency	12.5%	31.7%	14.3%
National Empowerment Agency	4.6%	10%	20.4%
Department of Economic Development and Tourism	11.1%	0	0

Source: (Singer et al., 2015)

The above table indicates the levels of awareness people had about agencies in place to assist in obtaining finance. A study was performed that attempted to understand and measure the effectiveness of the support agencies in South Africa. The study showed that 68% of the sample were not aware of the support agencies in their area, with only 32% being aware (Mazanai & Fatoki, 2011).

The lack of awareness did not allow entrepreneurs realise the fruits of these initiatives and would have a negative impact on access to funding and entrepreneurial growth. Further, while the support centre seemed to be effective, lack of awareness of its existence hindered the realisation of its full benefit.

A study conducted in Ghana on 125 entrepreneurs, provided an empirical evidence of challenges encountered by entrepreneurs of SMEs to access funding (Abhor & Biekpe, 2006).

The challenges were:

- Lack of securable assets;
- Lack of knowledge by financiers about the entrepreneurs' businesses;
- Not meeting the required criteria;
- Lack of knowledge about their own businesses;
- Lack of knowledge about the lending criteria used by financiers;
- Lack of financial performance track record;
- Highest interest rates;
- Poor record keeping.

Finally, a study conducted by Beck and Demirgüç-Kunt (2006) indicated that financial obstacles faced by entrepreneurs were country specific. According to Becker (2006), this was due to the notion that the level of institutional development of different countries was distinct and had an impact on access to finance. In places where the institutions were well developed, there were minimal challenges encountered, while in countries where the institutions were underdeveloped, there were difficulties in accessing funding. As the institutional environment supportive of entrepreneurship in the South African context was still developing (Singer et al., 2015), South African entrepreneurs owning SMEs also still encountered obstacles when looking for finance. Therefore, this study will determine exactly which obstacles are entrepreneurs faced with when seeking funding.

2.8 Interventions to Improve Access to Funding

2.8.1 Awareness

The lack of awareness regarding the existence of business support centres established to assist entrepreneurs in accessing finance was a serious stumbling block in the entrepreneurial eco-system. Entrepreneurs needed to be made aware of the resources available to them. One of the initiatives to accomplish this was hosted by the Western Cape Government and Deloitte in March 2015, in which entrepreneurs and financiers were brought together in a Funding Fair that was attended by more than 1 000 people (Singer et al., 2015). Initiatives like these were impactful, as they brought awareness to hundreds of entrepreneurs about the funding and support resources that were at their disposal.

Awareness campaigns should be run by business development support centres using media that are likely to reach their intended audience, such as print and electronic media. The banking sector should also contribute to the awareness campaign by referring those who apply for credit and were declined to their local business development centre (Mazanai & Fatoki, 2011).

2.8.2 Education

(Kolvereid & Moen, 1997) stated that students who studied entrepreneurship at university had higher entrepreneurial intentions than those who did not. (Upton, Sexton, & Moore, 1995) found that 40% of students who studied entrepreneurship went on to open their own businesses. The positive correlation between entrepreneur education and the actual creation of entrepreneurs had been attested to, but unfortunately entrepreneurship was not commonly offered as a subject of study in South Africa.

A comparative study of the impact of education on entrepreneurship in the US and Turkey conducted by (Şeşen & Pruett, 2014), showed that because entrepreneurial education had been integrated into the educational system in the US for many years, it produced the likes of Google, Microsoft and Hewlett Packard. However, in Turkey, where entrepreneurship had been studied at only a few higher education institutions, the quality was inadequate. The resultant effect was some entrepreneurial activity out of necessity and not out of identified opportunity.

2.8.3 Business development support centres

As a way of improving access to funding for businesses in the informal sector, where small loans coupled with technical support were often needed, the South African government had introduced about 18 organisations to encourage SME entrepreneurial activity by providing funding (Singer et al., 2015). This list was by no means exhaustive, but it provided an indication as to the extent of the initiatives undertaken by government.

The table below provides a list of agencies, which had been established by government to provide the technical support, training and mentoring.

Table 2-3: South African Funding Organisations

Name	Business type	Description
Khula Enterprise Finance	SME	The company is a wholesale finance institution, which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business. Khula's channels include South Africa's leading commercial banks, retail financial institutions, specialist funds and joint ventures in which Khula itself is a participant. Its primary aim is to bridge the "funding gap" in the SME market not addressed by commercial financial institutions.
Small Enterprise Foundation	Micro lending	The Small Enterprise Foundation (SEF) is a not-for-profit, pro-poor microfinance institution working towards the eradication of poverty by creating a supportive environment where credit and savings services foster sustainable income generation, job creation and social empowerment.
Tshomisano credit programme	SMME	This is a credit programme, which targets women.
Khula Start	Micro lending	This programme is an intervention on the United Nations microcredit model to promote greater access to micro-credit, especially in rural communities. It provides financial support to the lower end of the micro-enterprise sector and targets the historically disadvantaged groups, particularly women living in rural areas. At least 70 percent of the loans have been set-aside for female candidates.
Khula Technology transfer fund	SME	The Khula Technology Transfer Fund facilitates access to local and international technology.
Business Partners Limited	SME	Business Partners Limited is a venture capital firm specialising in debt and equity investments, start-ups, seed capital, early stage, expansions, outright purchases, management buy-outs and buy-ins, leveraged buy-outs, franchises, tenders, and contracts. The firm seeks to invest in small and medium-sized enterprises.

Name	Business type	Description
Tourism Enterprise Programme	SME	TEP is the operating entity for strategic partners in tourism, a non-profit company that utilises funding from corporate South Africa and government to facilitate the growth, development and sustainability of small tourism businesses in South Africa.
Seda Technology Programme	SME	Responsible for the provision of both financial and non-financial technology transfer, business incubation and quality support services for small enterprise.
National Empowerment Fund	SME	The aim of this organisation is to support B-BEEE and previously disadvantaged individuals and communities. It offers a funding for start-ups and expansion as a loan, equity funding.
National Youth Development Agency	SME	NYDA provides enterprise funds for entrepreneurs between 18 and 35 years old and aims to assist them in starting a business or growing an existing one.
Industrial Development Corporation	SME	Under the IDC, there are multiple funds available offering financial support to start-up businesses needing capital for equipment, working capital and buildings. It also funds business expansion.
KSN Growth Fund	SME	Its primary mandate is investment in infrastructure to promote economic development with in the Province. The Growth Fund endeavours to ensure an even spatial distribution of investment across the province.
Isivande Women's Fund	SME	Is an exclusively women's fund provided to empower women with existing business. Through its funding, education and training, the Fund aims to accelerate women's economic empowerment with affordable, usable and reliable finance.
Land Bank	SME	Offers a wide range of loans for all financial needs like buying land, equipment and working capital for agricultural projects.
Small Enterprise Finance Agency	SME	Has access to R1.4-billion in funding given by IDC and the government for South African small businesses over the next three years.
iMbewu Fund	SME	The iMbewu Fund supports black entrepreneurs wishing to start new businesses and supports existing black-owned enterprises with expansion capital. The Fund supports these entities by offering debt, quasi-equity and equity finance products. Funding threshold: R250 000 to R10-million.

Name	Business type	Description
The NEF Rural and Community Development Fund	SME	The NEF Rural and Community Development Fund provides investment from R1-million to R50-million to commercially viable projects that seek to economically benefit communities in rural and peri-urban areas. Sectors to be funded include: primary and secondary agriculture; agro-processing; manufacturing; tourism; agro-forestry; retail property development; aqua and marine culture; small-scale mining; renewal energy.

A study conducted by (Mazanai & Fatoki, 2011) to understand and quantify the effectiveness of the agencies that had been established, showed that those that were aware of the agencies, had greater success in obtaining finance than those who did not. Since the effectiveness of the agencies had been proven, the question then arose as to why all aspiring entrepreneurs were not taking advantage of these agencies?

2.9 Government Policies

Government have a significant role in introducing initiatives and policies aimed at improving entrepreneurial finance support (Singer et al., 2015). Some of the policies can be fiscal management, which will minimise the massive and tenacious government borrowing from financial institutions thus improving SME's access to finance (Tagoe, Nyarko & Ebenezer Anuwa-Amarh, 2005). In addition, government can introduce policies directed at improving availability of information and making it easier for SMEs to have information about the available funding plans (Beck & Demirguc-Kunt, 2006). This indicates that there are many initiatives that government can introduce to help SMEs.

2.10 Culture

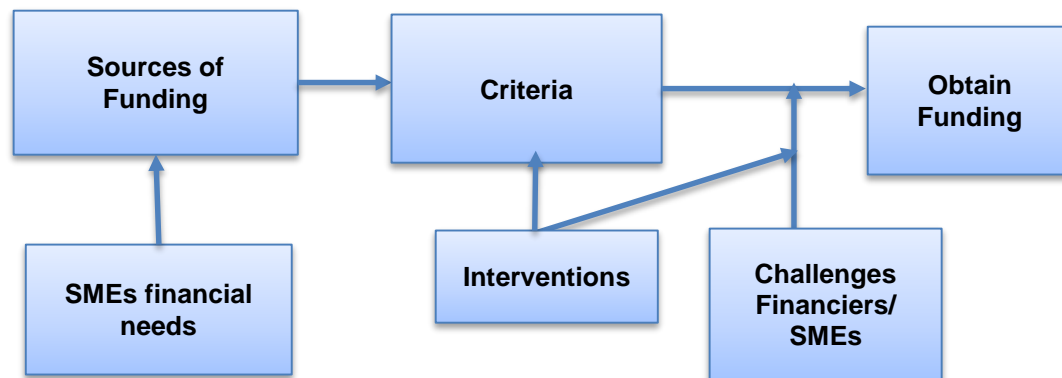
South Africa is reported to be having the lowest level of entrepreneurial activity in comparison to other sub-Saharan Arica countries (Singer et al., 2015; Co, 2003). Since the democratic elections in 1994, government have recognised the significance of entrepreneurship to job creation and economic growth (Mary, Ngozi, & Simon, 2015).

Although the entrepreneurial activity is still low, government derived initiatives to create an entrepreneurial culture (Mary et al., 2015). In order to be entrepreneurial, people should be exposed to a culture of entrepreneurship (Co, 2003). This is possible through the ecosystems that the government is establishing, which includes culture, governmental and private institutions, financial institutions, tertiary institutions, and religious institutions (Mary et al., 2015). If the country embraces an entrepreneurial culture, it will be easier for entrepreneurs to access the financial institutions so as to obtain funding. Even entrepreneurs with track records of failure will not be denied finance because of the entrepreneurial culture embraced by financial institutions (Piscione, 2013).

2.11 Conclusion

This chapter presented the literature review in line with the study’s research problem and associated research objectives. The literature review is summarised as in the figure depicted below:

Figure 2-2: Summary of literature review



The diagram indicated that when SMEs have a financial need, they went to funding institutions to seek funding. The funding institutions had a prescribed list of criteria to check whether they could fund the entrepreneurs. If entrepreneurs met the prescribed criteria, they obtained funding, and if not, then they did not get the funds. The challenges encountered by the financiers when entrepreneurs applied for funding determined if they were willing to extend the funding. However, if there were intervention measures available to minimise the challenges, then entrepreneurs obtained the required funding.

CHAPTER 3

RESEARCH QUESTIONS

3.1 Introduction

From a review of the literature it was evident that there was a perception that South Africa has as much money available in the open market to invest in entrepreneurial activity as any other Sub-Saharan African country, yet its entrepreneurial rate has dropped by 34% according to the 2014 GEM report. A possible reason may be that entrepreneurs perceived access to finance to be their greatest challenge.

3.2 Research Questions

The following questions seek to identify the reason for the disconnect between financiers and entrepreneurs.

3.2.1 Research Question 1

What are the criteria used by financiers to fund SMEs?

3.2.2 Research Question 2

What are the limiting factors experienced by financiers in extending finance?

3.2.3 Research Question 3

What are the obstacles faced by SMEs in securing funding?

3.2.4 Research Question 4

What intervention measures should be implemented to alleviate the challenges faced by entrepreneurs and financiers?

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

This chapter presents the research approach and methodology used to collect the data. The methodology entails the unit of analysis, the population, the sample size and sampling method, the research instrument, the details of how the data was collected and the process of data analysis.

4.2 Research Design and Approach

4.2.1 Research design

An exploratory study allows one to examine what is actually happening and to gain insights into an area of interest. It assists in gaining an understanding into the extent of a problem (Saunders, Saunders, Lewis, & Thornhill, 2011). This research sought to understand the reason why entrepreneurs believe access to funds is one of their greatest challenges, on the one hand, and why financiers reject funding entrepreneurs even though funds are available, on the other hand. The study aimed to understand the reason and extent of the problem, therefore an exploratory study was considered the most appropriate research methodology.

4.2.2 Research philosophy

Interpretivism advocates that it is necessary for the researcher to understand differences between humans in their role as social actors (Saunders et al., 2011). This highlights the need to recognise the difference in studying humans as opposed to objects. People behave in ways that is subject to their interpretation of the facts; therefore, everyone has a

different lens from which they view events or experiences. Interpretivism is a derivative of phenomenology, which refers to the manner in which humans make sense of the world around them (Saunders et al., 2011). Phenomenology studies the thinking of the person experiencing a phenomenon from their perception. The many different perceptions of many people experiencing the same phenomenon is uncovered and grouped into different categories (Marton, 1986).

This research is a study into the challenges faced by financiers and those faced by entrepreneurs in the financing transaction. Logic assumes both parties will have differing viewpoints to the same transaction, highlighting the different lens through which each party views the experience; therefore, interpretivism was considered to be the most suitable philosophy to adopt.

4.2.3 Research approach

Developing an understanding into the way people make sense of the social world falls within the terrain of induction. Research using the inductive approach is interested in the context in which events take place and uses a small sample of subjects for research to be conducted on (Saunders et al., 2011). A deductive approach has not been selected as there is no theory to test that has been developed to understand the disconnect between financiers and entrepreneurs. Instead, it is the perception and experience of both financiers and entrepreneurs of the financing transaction that this research wants to comprehend; hence an inductive approach has been selected.

4.2.4 Strategy

A narrative is a personal account of an event or experience and involves the participants telling their story. This strategy is used to connect events and actions that occur within a particular context into a meaningful whole. Further, the chronological sequence of events as articulated by the participant is maintained in order to aid robust understanding and analysis. Where there is more than one participant, the researcher is able to compare and triangulate the narratives of the participants (Saunders et al., 2011).

The researcher conducted semi-structured interviews with entrepreneurs and financiers. During the interview, the interviewees related their experience in obtaining/providing

finance as it related to the people involved; processes followed, time frames and various other factors were described, which ultimately provided a holistic picture of the transaction in its entirety. The researcher asked questions that fed into the three themes identified: process, obstacles and interventions. Questions were posed that profiled the interviewee.

4.2.5 Time frame

The research was conducted using semi-structured interviews over a three-month period from September 2015 to November 2015. The variables that affect the subject matter are influenced by numerous elements both on a micro- and macro-economic level. Therefore, this is a cross-sectional study, and is relevant for a short period of time.

4.3 Research Methods

The research methods describe the population from which the sample was obtained. The methodology on how data was collected and analysed is presented as part of research methods.

4.3.1 Population

According to Saunders et al. (2012), a full set of cases from which a sample is taken is called a population. The population for the study is all SME entrepreneurs in South Africa, and all financiers of SME entrepreneurs.

While the definition of an SME has been defined in the National Small Business Amendment Act (26 of 2003), the actual number of SMEs within South Africa is unknown. Literature estimates are between one and three million; however, its source cannot be verified and this range is too large for it to have any meaning.

Financiers include banks, venture capitalists, angel investors, government funding organisations, and friends and family. The extent of this population also cannot be measured.

4.3.2 Unit of analysis

A unit of analysis is entrepreneurs of SMEs and managers at funding agencies.

4.3.3 Sampling method

A sample is defined as a subgroup of the whole population (Saunders et al., 2011). In the absence of a sampling frame, which holds the probability of any case being included in the sample because the population can be reliably measured, non-probability sampling was considered to be the most appropriate. Purposive sampling in particular was used by the researcher as it allowed her to apply her judgement in selecting participants who she believed were best suited to answer the research questions (Saunders et al., 2011).

The researcher interviewed financiers who were part of the banking sector, venture capitalists, fund managers and government-owned organisations. Entrepreneurs varied from those who have more than 35 years of experience to those who are starting out as new entrepreneurs. The researcher also interviewed an expert in the entrepreneurial landscape and whose work is contributing to the development of a robust eco-system in South Africa. While none of the data gathered from this respondent was used in the research as she is neither a financier nor entrepreneur, she was interviewed with the sole purpose of obtaining a better understanding of the current entrepreneurial and financing dynamics in South Africa.

4.3.4 Sample size

When using non-probability sampling, sample size is not scientific as it is with probability sampling. The researcher conducted interviews until saturation was reached while interviewing entrepreneurs and financiers. Seventeen interviews were conducted; however, only 13 interviews have been analysed and presented in this research due to transcription problems.

4.3.5 Data collection

The qualitative research interview is defined as "an interview, whose purpose is to gather descriptions of the life-world of the interviewee with respect to interpretation of the meaning of the described phenomena" (Strauss & Corbin, 1990). Collecting these descriptions can be done in several ways. Face-to-face interviews are the most common, interviewing by telephone and the internet are also popular (Opdenakker, 2006). Essentially, the researcher has to ask purposeful questions and carefully listen to the answers to be able to explore these further (Saunders et al., 2011).

An interpretivist philosophy was used during the research in order to understand the participants' interpretation of phenomena (Saunders et al., 2011); therefore, semi-structured interviews were considered to be the most appropriate technique to gather data. In semi-structured interviews, the researcher has a list of themes and maybe key questions to be covered. It is possible, depending on the context, to omit some questions or themes, depending on the flow of the conversation (Saunders et al., 2011). This method allowed the researcher to probe the answers provided in cases where a deeper understanding or greater clarification was required. It also allowed for discussion into areas that were not part of the original questioning, but surfaced through the probing process and provided a greater understanding into the research problem.

Entrepreneurs and financiers were interviewed, using face-to-face, semi-structured interviews, to obtain their respective interpretations of the funding challenges experienced by the respondents. They were questioned about specific themes, which endeavoured to gain a richer understanding about the research questions.

The researcher informed the participants about all relevant ethical issues such as the purpose of the study, voluntary participation, the non-disclosure agreement, informed consent and rights to withdrawal (Saunders et al., 2011).

The researcher posed questions in a tone and manner that did not project her own judgment, or any judgment, in order to avoid a bias in the way the interviewee responds. All interviews were recorded using an electronic device, and transcribed thereafter using the services of a transcriber, in order to avoid bias in the way the information was

interpreted by the researcher (Saunders et al., 2011). Permission to record the interview was obtained from the participants before recording commenced.

The researcher prepared for the interviews by ensuring a deep understanding of the subject matter. The researcher was cognisant of the cultural differences, which may have existed with some of the participants in order to avoid misinterpretation. The interview themes were supplied to the participants prior to the interview in order to allow them to prepare for the discussion and to establish credibility for the researcher (Saunders et al., 2011).

4.3.6 Data analysis

The data was analysed using a qualitative data analysis software program known as the Atlas Ti. This program made data analysis easier during the coding process and organisation of the data. The analysis of data was done in the following steps:

STEP 1: Cleaning of the data

The first step in coding involved the reading of the transcripts and familiarisation with the data. The researcher ensured that all the transcripts were accurately transcribed and written out properly, as it is not possible to clean the transcripts once they are loaded onto Atlas Ti.

STEP 2: Loading of transcripts on Atlas Ti.

The transcribed data was then loaded onto Atlas.Ti for qualitative analysis. The loaded documents were grouped, using the primary document manager, into two groups, i.e. financiers and entrepreneurs. This helped in the comparison and management of the data across the two groups.

STEP 3: Coding process

After the data was loaded onto Atlas Ti, the coding process begun. Coding is the process whereby the data is organised into segments of text before bringing meaning to the information (Creswell, 2003). The researcher coded these inductively, thus without any pre-organised code list.

STEP 4: Formation and revision of categories

Data that was collected was dissected into various categories. These categories were provided with their own unique codes and all similar data was labelled with the same code. The categories identified during the initial coding process were analysed for emergent relationships between them. These categories of data were grouped together and five 'families' were identified.

STEP 5: Thematic analysis

Thematic analysis is a method for identifying, analysing and interpreting patterned meanings or themes in qualitative data (Braun, Clarke, Terry, Rohleder, & Lyons, 2014). Once the categories were developed, the researcher used the thematic analysis to identify recurring outcomes. After the analysis was performed, an understanding as to possible reasons for the patterns or themes were assessed.

4.4 Research Limitations

There are several data quality issues associated with semi-structured interviews. Reliability of data is a limitation due to the lack of standardisation in these types of interviews, as alternative researchers may not reveal the same information.

Secondly, interviewer bias exists, which is where the researcher uses comments, a tone or non-verbal behaviour that could influence the way in which the interviewee responded to the questions asked (Saunders et al., 2011).

Thirdly, the reliability of data is further compromised due to interviewee or response bias. The reason for this is two-fold. On the one hand, the interviewees may be influenced by their perceptions of the interviewer. On the other, the interviewee may not be comfortable sharing all the relevant information, and only provide a partial picture of the situation (Saunders et al., 2011).

Participation bias will affect the quality of the data because of the lack of willingness to participate due to time constraints, which will have a bias on the data collected (Saunders et al., 2011).

The findings of the research may be applicable to other settings, which raises the risk of generalisability. Generalisability could be a concern as this is a qualitative research study and a small sample. A sample of seven entrepreneurs and six financiers will be used (Saunders et al., 2011).

Lastly, there is the limitation of validity of the data due to the researcher not having gained the full extent of the participants' knowledge and experience and was not able to infer what was intended (Saunders et al., 2011).

A total of 10 financier interviews were conducted, however only 6 have been analysed and presented as findings. This is due to the transcriber not submitting three of the conducted interviews. One of the interviews was so severely impaired, that it was rendered redundant by the researcher.

4.5 Conclusion on Research Design and Methodology

The summary of the research design and methodology of the study is shown below:

Table 3-4: Research design and methodology

Research Design and Methodology	Approach adopted in this study
Research design	Exploratory
Research Philosophy	Interpretivism
Research Approach	Inductive
Research Strategy	Narrative
Time Frame	Cross Sectional
Population	SME Entrepreneurs
Unit of Analysis	Entrepreneurs and Financiers
Sampling Method	Purposive
Sample Size	13
Data Collection	Semi-Structured Interviews
Data Analysis	Inductive Data Analysis

CHAPTER 5

PRESENTATION OF FINDINGS

5.1 Introduction

The previous chapter discussed the methodology used to unpack the reasons for the disconnect between financiers and entrepreneurs in the funding transaction. This chapter presents the results of the interviews conducted with financiers and entrepreneurs in describing their respective experiences regarding the aforementioned.

5.2 Profiles of Respondents

A total of 18 interviews were conducted; however, only 13 were presented in the findings due to transcription and technological limitations. Interviews with seven entrepreneurs and six financiers across a diverse range of sectors and backgrounds are disclosed below.

Table 5-5: Profile of financier interview respondents

Respondent	Industry	Position
1	Government	Venture capital investor
2	Government	Development financier
3	Bank	Head of Personal banking
4	Bank	COO Enterprise development
5	Fund manager	Chairperson of fund
6	Venture capitalist	Head of fund

Table 5-6: Profiles of entrepreneurs

Respondent	Industry	Years of experience
7	Haircare products	35
8	Africa development	30
9	Media and film	10
10	Outdoor marketing	5
11	Medical supplies	5
12	Airline	5
13	Marketing	15

5.3 Research Question 1: Criteria to Fund Entrepreneurs

The first research question seeks to understand the criteria adopted to fund entrepreneurs. The emerging themes from the investigation into the criteria used to fund entrepreneurs are bankable contracts, collateral, entrepreneurial characteristics, experience, financial viability and risk.

5.3.1 Bankable contracts

Bankable contracts or guarantees, refer to orders or commitments from customers to purchase goods or services from the SME. The feedback indicates that it provides financiers with assurance about the ability of the business to generate an income and therefore repay the loan. It appears that there is a growing number of institutions operating in that arena. The respondents support this notion by mentioning that:

Respondent 1: *“It depends who the applicant is, what the opportunity is, if the start-up has got bankable orders, off-take agreements in the bag of the start-up and then it just makes the risks a lot less, so it depends on what the opportunity presented is.”*

Respondent 6: *“And also, you will find SEFA and NEF chasing a lot of contracts or tenders. They play a lot in that space now. You see them in that space, whether or*

not they should be playing there, I personally do not think so.”

Respondent 3: *“Do you have contracts in place with the guys that you are going to sell? How long are the contracts valued? What are the quality criteria on those contracts?”*

Respondent 9: *“The viable concern means that we need to secure almost R30 million worth of business per year for the next three years on contracts before they will part with a quarter of a billion rand.”*

Contrary to the requirement for bankable contracts to be obtained in order to obtain finance, it becomes evident that some entrepreneurs, despite being able to secure these contracts prior to loan application, are still unsuccessful in their loan application.

Respondent 11: *“Credit history, business financials (you need to be in business for at least 6 months) and growing transactions. And being a tender, it was awarded to me. It was a national tender and it did not make much of a difference either.”*

Respondent 10: *“For many reasons, whether you do not have the track record yet, you do have a commitment from potential customers and because the business that we are doing, we manufacture it, so we are suppliers. We have got a signed commitment and letters of intent from clients and yet that is still not enough to actually secure adequate funding.”*

5.3.2 Collateral

Collateral is a cornerstone of the traditional lending criteria. Its presence as an obstacle is highlighted by four of the seven entrepreneurs interviewed. Three of the financiers state that collateral is not a requirement; however, five of the entrepreneurs have had a different experience, in that they were not granted finance due to the lack of collateral. The catch-two challenge seems to be that entrepreneurs are seeking finance to purchase assets, yet it is assets they need to obtain finance.

Respondent 3: *“... a lot of these customers do not have collateral, they are not going to have any and even if they do have a house that is paid off, we have no intention of taking collateral as a house. That is your personal thing, right.”*

Respondent 8: *“I was lucky at the early stage because we were selling a product that was in such demand at the time that it was able to sustain staff immediately. But the first loan I took from the Small Business Development Corporation, it was like R13 000 and I had to use my house as collateral.”*

Respondent 4: *“So with things like pre start-ups, it is definitely flexibility in terms of that. We do not ask for security from SMEs because they do not have security and also we are looking at preferential interest rates as well.”*

Respondent 10: *“So that would be the collateral requirements. So you are sourcing funding, trying to purchase assets, yet the financiers want existing assets to securitise.”*

Respondent 7: *“Because they do not have the balance sheet, they do not have the assets. Unless you have a “rich dad” who can stand in for you at the bank, but if you do not have it....”*

5.3.3 Entrepreneurial characteristics

The entrepreneurial characteristics that emerge as key to what financiers look for is the experience of having run businesses previously, even if they have failed, and learnt the lessons. Persistence, passion and tenacity are definitive qualities that the financiers seek. Entrepreneurs believe it is their ability to identify opportunities, to think outside of the box, push boundaries and never give up on themselves that are key ingredients to successful entrepreneurship, which extends itself to successfully obtaining finance.

Respondent 7: *“I think you need hard work. Hard work and you do not need someone who conforms.”*

Respondent 8: *“Fortunate enough, I have been really lucky, I have an eye for spotting for more opportunities.”*

Respondent 1: *“I will give you the answer from a venture capital point of view, I would look for people who have failed as entrepreneur a few times because that obviously speaks lessons learnt and hopefully, they will not repeat them going forward.”*

Respondent 3: *“when you have a one-on-one interview with a client, the impression that you get and the passion that some of the guys show you right, that alone is just sufficient for a bank to back them.”*

Respondent 2: *“Yes, but again the persistence comes in. So if a guy comes to you and you reject his business plan and you tell him why, if he comes back having resolved your challenges, you pay a lot more attention to it.”*

Contrary to the ideal characteristics an entrepreneur should embrace, financiers have experienced qualities that show lack of commitment and initiative as well as unrealistic expectations from entrepreneurs.

Respondent 1: *“My personal experience of a lot of business plans I have seen at the start-up phase is the commonly used phrase ‘I cannot start a business if I do not have cash and you are telling me that you cannot give me cash if I have not proved a business, ‘chicken and egg’.”*

5.3.4 Experience

The experience of the entrepreneurs interviewed ranges from four to well over 35 years of individual experience. The interviews reveal financiers look for experience in the industry of the business as it provides the entrepreneur with the distinct advantage of understanding the nuances of the industry that a novice would not be able to do. This increases the chances of business success, which improves the probability of loan repayment.

Respondent 6: *“We fund a start-up; for example, a guy has worked in the construction sector, he has been a project or site manager and he has solid construction experience. And now he leaves to set up his own thing. We are happy to fund such because he has capacity; he has technical know-how.”*

Respondent 5: *“Then usually what you want is somebody who has been in that sector for a while, understands it well enough and is now taking a leap of faith, of course maybe not with the resources, but understands the dynamics of that industry well enough.”*

Respondent 2: *“So a guy might be working for an engineering company and he starts making generators and that is still a guy we would back because we know he knows the customer base, he knows the supply challenges, he has not proven*

himself in his distinct entrepreneur business, but he is not naive at all about the space he is into.”

5.3.5 Financial viability

The profit motive as a driver of the financing decision comes through from both entrepreneurs and financiers. Interestingly, there are more entrepreneurs than financiers who emphasise the need to show a viable business in order to obtain finance.

Respondent 2: *“So the IDC’s corporate skill is first financial sustainability and second industrial development. The reason financial sustainability comes first is because we would not survive very long if we did not prioritise that.”*

Respondent 7: *“To get finance as an entrepreneur you have to demonstrate to whoever is going to finance you that you have a viable business.”*

Respondent 12: *“We were saying we are not here to make a profit. We are just here to create a platform and a lot of investors are not willing to do that because at the end of the day, they also want profit-driven business.”*

5.3.6 Risk

The feedback from the respondents indicates the risk appetite varies among lending organisations. Two of the financiers speak about risk. One financier manages a fund that has more of a “balls to the wall” approach, and the other is a venture capitalist who is more conservative.

Respondent 5: *“... it is the scope, in our case, our mandate is to fund things that nobody else will fund. So we will fund an idea to get it from idea to pilot and then the likes of the IDCs will take over the next round of funding. In our case, our mandate allows us to take risks that nobody else would.”*

Respondent 6: *“Obviously, the private sector, because we raise capital from the capital market to lend to these guys, naturally because we sign sureties ourselves, we are going to be careful about the type of risks we take. We are not going to go for higher risks.”*

5.4 Research Question 2: Challenges Experienced by Financiers

The interview questions seek to understand the challenges financiers face in lending to entrepreneurs. Respondents speak frequently about business plans, the entrepreneurs' lack of technical ability, lack of engagement and the lack of business viability.

5.4.1 Business plans

Three of the six financiers complain about business plans being of a substandard quality. This sometimes means staff has to assist in putting a plan together that is of an adequate standard in order to be approved for funding. The lack of interest or time invested to compile a compelling business plan is also emphasised.

Respondent 2: *So I think a lot of people get lost in the whole ceremonious aspect of a business plan, whereas we want to see the practical crux of what is being proposed. I have seen three-page business plans that are bankable and I have seen 100-page business plans that are completely empty, but I cannot say that it is a common problem one way or the other. Sometimes it works and sometimes it does not”.*

Respondent 3: *“Obviously it has to go for official approvals and we need a business case. So what will happen is that our relationship manager will most likely help in drafting the business case; that case presented in a manner that can be understood by our broader audience, including credit.”*

Respondent 6: *“... the question is, is it a lack of willingness to put it together or lacking the ability to put it together? Honestly, I do not know. There are instances where we say this guy should be able to put it together, he does not want to. And there is quite a lot of that.”*

5.4.2 Lack of entrepreneurial characteristics and competencies

Three areas are highlighted as being wanting as far as entrepreneurial characteristics and competencies are concerned, i.e. lack of technical skills, personality clashes and lack of business acumen.

a) Lack of technical skills

While entrepreneurs may be exceptionally skilled in their particular area of expertise, they sometimes are not familiar with the some aspects of the business, which are crucial to its success.

Respondent 6: *“We used to have guys like that coming to us. And we used to say we will help you, but you must get a technical person, but we soon find out that they do not listen to the technical guys. They actually want to tell the technical guys because they own the business“.*

b) Lack of financial acumen

Two of the seven financiers mention difficulties they have experienced with entrepreneurs who do not have a critical technical skill such as financial abilities.

Respondent 6: *“So, when the guy comes and gives a net profit that is way bigger than that, instantly, you realise that there is a problem. So, we said to the guy, no, this number cannot be right. We need to redo the whole costing with him. It took us two hours and the guy missed quite a number of basic things. The point is that they are good builders, but financial management is zero.”*

Respondent 3: *“So in my experience with a lot of entrepreneurs, right so when you are really passionate about what you do, you can go through a phase of denial and hope is not a good strategy. The lack of proper cash flow does not necessarily mean that their passion is destroyed, so you have to be careful around that as well. So they go through a whole phase of denial, but we sit in the background, we know that there are massive financial issues that are being brought up because remember, we are taking a very objective view.”*

One of the financiers cites mismanagement of funds and the inability to have the vision to grow the business as a challenge.

Respondent 4: *“But you see the thing is that the challenge as well is that it is actually part of the wrong people who are asking for the money and why I say it is wrong people is that some of them, once they get that money, they misuse it. They*

do not run it properly the way you would want to run a business. They have probably one contract and that is the end of it. Because they do not use the money, the profits that they have generated from these contracts to grow and you get another contract and grow the business.”

c) Conflicting personalities

In cases where venture capitalists have an interest in the business being financed or have a degree of oversight into the business as a term of the contract, it is important that all personalities involved are able to work together. Sometimes, that is not the case, which will result in declined financing.

Respondent 6: *“The guy who would question everything on day one when they come to apply for funding. Those are the guys you always have difficulty with in monitoring. They always refuse to reveal information. That relationship is not going to last because that is just their nature and personalities.”*

5.4.3 Lack of engagement

Four of the financiers feel that entrepreneurs do not engage with them timeously or even at all. This results in the business being in such extreme distress that it is no longer viable to finance it.

Respondent 1: *“... but at the same time, if the entrepreneur knew the process to raise capital during distressed times, I mean they would anticipate a distressed time and accelerate the raising of capital just to be able to allow the business to survive the turbulence and that is lacking. So they engage too late and they are already in distress and they are already at the back foot from a business point of view and think that is avoidable, it is not something that has to be the case.”*

Respondent 3: *“... if you identify like 12 months in advance, in 12 months’ time, the customer might hit financial difficulties, so if the customer might hit financial difficulties, the chances of the bank assisting we can probably, 80% of the time you can assist them. If you pick it up 12 months in advance. If you just pick it up in one month in advance, the chances of rehabilitation is quite slim.”*

Respondent 8: *“It can take from the time when you apply for a loan to when you*

actually receive it. And some entrepreneurs, they wait for too late to apply for the loans.”

Entrepreneurs do not engage funders comprehensively enough and do not make the effort to get their attention. This results in their business plans being put at the bottom of a very big pile and not gaining any traction from a funding perspective.

Respondent 1: *“But sometimes, they become desperate, so they do not do the research because they do not have a mandate fit, they do a short kind of approach that here is my business plan, please have a look at it and come back to me and that is the last thing an investor wants to look at because the entrepreneur needs to engage the investor very specifically around the conversation. There is not a lack of funds, there is a lack of appetite and engaging funders appropriately.”*

5.4.4 Business viability

Three of the seven entrepreneurs indicate that in cases where the business case presented is not able to hold its own and does not show signs of thriving, it is abandoned. The primary indicator that the business will not boom is that the financials do not make sense.

Respondent 5: *“We do not believe the team is there, or the individual has the abilities to manage that, we were not persuaded enough that there is a market for it, we do not validate the idea.”*

Respondent 4: *“... it is just a business liability you know, you look at it and you can see this business it not going to go anywhere when you look at the functional projection, and like you say look, yes, you have got this idea or what are your thoughts on how could the financials look like in terms of what will your costs be, your liabilities and what revenue are you actually projecting and you see that this business is just not going to flourish.”*

Respondent 6: *The numbers do not make sense or we just do not believe there is a business case at all. And on the soft side of things, you just do not like the behaviour of the person.”*

5.5 Research Question 3: Obstacles Experienced by Entrepreneurs

The obstacles experienced by entrepreneurs in obtaining funding are lack of awareness, collateral, effective staff, lead times and a challenging application process.

5.5.1 Awareness

Three of the seven entrepreneurs find it difficult to access finance through lack of awareness of where to apply and where to go to access finance. This is confirmed by a financier who believes entrepreneurs are not familiar with the landscape of where to go to apply for funding. Two financiers confirm there are initiatives currently in place to enhance such awareness.

Respondent 13: *“Yes, because I saw it on the board somewhere, they advertise some of the places where I can get finances, but on the internet there is not really much that I can say really stood out.”*

Respondent 12: *“I just think if the processes could be a lot easier and also where do we find these people.”*

Respondent 9: *“So, your cold walking, your cold call as to who can I speak to, who can I set up a meeting with, it is not the best.”*

Respondent 1: *“Besides this is quite a large organisation and we invest across all sectors, basically the economy. Entrepreneurs do not do the initial research or understand where to navigate their business plan within the IDC structure.”*

Respondent 4: *“... so for example the Smart Procurement Conference that was held three weeks ago and where SMEs come in and the entrepreneurs, even guys who are just thinking about I have got a concept, I want to start a business, where do I start, where to I go.”*

Respondent 6: *“So, I think that there is a bit of education needed... I mean we do a whole lot of education in terms of seminars on when you apply for funding what you need to do and all of that.”*

Respondent 12: *“Engage more. They need to be more visible. Not a shadow in the background. Not a shadow that we always look for like an elusive figure.”*

5.5.2 Collateral

Four entrepreneurs feel collateral is a stumbling block in obtaining finance, primarily because they simply do not have the assets required. Three financiers empathise with the

collateral plight faced by entrepreneurs. Some entrepreneurs do not even bother to apply for finance because of this condition. The general sense is that the banks' collateral requirements are unreasonable in value and stifling for the entrepreneur.

Respondent 7: “... and it is still very difficult today to get funding from the banks because for the bank to give me money and for me to ask them for R10 million, they expect me to give them R100 million of security.”

Respondent 5: “Then I think one of the most difficult things and I do not know whether it has changed for the guys, are the collateral requirements.”

Respondent 6: “Collateral is the most difficult part from what entrepreneurs tell us. I must confess I have not applied to a bank for funding for a long while, but the sense that we are getting is that the banks demand unreal security. And I suppose that is why they will always give low-value loans. So, I suspect that one of the reasons why banks are still unable to provide these high-value loans is because most entrepreneurs do not have real assets to secure their loans.”

Respondent 11: “Knowing for the fact that I was not going to be able to meet the criteria required, I did not bother applying for any loans. Then, I sourced finance from within family.”

Respondent 10: “So that would be the collateral requirements. So you are sourcing funding, trying to purchase assets, yet the financier wants existing assets as securities.”

5.5.3 Ineffectual staff

Four of the seven entrepreneurs interviewed found that people on the ground who are meant to be assisting them, do not have the required skills and know-how to do that effectively. The areas of concern highlighted are lack of technical knowledge, lack of industry knowledge and general lack of interest in assisting.

Respondent 10: “So I think SEDA does a good job in terms of supporting entrepreneurs, I find that the idea and concept of SEDA is excellent, but the implementation is a bit disappointing at times in terms of the people in the office.”

Respondent 10: “Another thing such as you are an entrepreneur with a business plan that has been carefully thought of and rigorously tested and then you are trying to explain this to someone who does not have the understanding of that

industry yet you are expecting to get financing from that person.”

Respondent 9: *“You see the idea is that the person that you walk into wants to understand whether this business will work. And you never ever at any given point are going to understand whether this business works from just the paper work. So, if you do not have the idea as to what the film industry in South Africa is, what it constitutes of? How much film is made? You will never understand how this number relates to a particular....”*

Respondent 9: *“You have to understand what kind of funds and what business units actually exists; where the priorities are? And if you do not, you are just ignored.”*

Respondent 12: *“They were worried about supply chain and we had all these things covered. But again, to them it did not make any sense.”*

Respondent 12: *“So, FNB offers such a service, but we went to speak to the banker, she could not give any information with regard to the tech behind linking up merchant number to any site. I am not blaming it on her; she is a banker. But at the same time, here we are sitting with this thing we need to do online payment, but we cannot because we do not have a merchant number and the person we speak to who has the number to give us cannot explain to us. She is like ‘I will get back to you, guys.’ And we are still waiting two years down the line.”*

Respondent 8: *“... there is no communication initially; the person that attends to your application does not truly understand your industry. That alone can be detrimental to your application. You are talking to someone that is used to the steel industry and suddenly he gets a financial application for textiles.”*

5.5.4 Lead times

The time taken to process and disburse funds are long, with some having to wait up-to a year. Reasons for delays seem to be a lack of sense of urgency, no communication and a constant request for more documentation. One financier emphasises the need for funds to be disbursed timeously so as not to miss opportunities.

Respondent 13: *“Because there was always something that they need extra and we also had applied at the Standard Bank. That was a long process and that almost took a year for them. We did receive the funds now recently. But it was almost a year of struggle.”*

Respondent 12: *“It just seems as if though the donors and the administrators of the funds are not as intense as we are; like we need to get going now. They do not have that sort of feeling. They think waiting a year is not an issue.”*

Respondent 10: *“The process has been followed, but the responses are extremely delayed. Even with all documentation, all processes followed, accordingly there is quite a long lead time.”*

Respondent 13: *“They do not keep you up-to-date and the process takes very long to complete. So, like for a bond, it took almost a year of struggling. So, the time period is a major problem at the moment.”*

Respondent 3: *“... when you need the money, you need it like today or tomorrow. That is it, after that, the opportunity is gone. And as bank we cannot take two or three days to do this.”*

5.5.5 Challenging application process

Entrepreneurs struggle with the application process as they find it far too time-consuming, bureaucratic and inefficient. The extent of the laboriousness of the process is sufficiently painful to make some entrepreneurs throw in the gauntlet. One financier understands these constraints which they need to deal with, while another believes the required assistance is available and in place to navigate the process.

Respondent 7: *“Because unfortunately, formal institutions, their requirements are cumbersome. You can watch from an established businessman like myself how cumbersome it is to really deal with banks and that is how they operate. ... So I think for me if you do not really want to waste your time and energy, avoid formal institutions because formal institutions are not geared up for the entrepreneurial kind of development.”*

Respondent 10: *“The efforts involved. The documentation involved, the meetings, the delays, the cancellations and we have tried to reach out to a few, but with no success.”*

Respondent 12: *“I just think if the processes could be a lot easier and also where do we find these people. It is not as easy as it seems. I mean, we hear of things like ... “But you can google it”, there is a lot of red flags to get to before you get to the application form prior to get funding.”*

Respondent 10: *“It is extremely difficult, especially going through the gate keepers. Especially going through the first stage, you have not even had that conversation with the investment manager, where you are questioned before even meeting the relevant people and that almost turns you away.”*

Respondent 3: *“And I think that alone is a frustration on the client’s side. Just imagine you had to go to a branch, sit in a queue and fill in an application to get the R100 000 cash, this person is not going to go through that effort. First of all, they do not have the time. It is probably easier for them to phone their friend and borrow R100 000 and move forward.”*

Respondent 1: *“It is on the IDC website, IDC call centre and you need to meet a consultant and the consultant unpacks the mandate for the entrepreneur, so it should be public and obvious.”*

The arduousness of the funding application process is confirmed by financiers and entrepreneurs. Financiers require extensive information to obtain comfort and mitigate the risk associated with extending funding. Entrepreneurs struggle with the administrative aspects of the process and find the requirements unreasonable, given the nature of SMEs, and feel defeated before they begin. There are contradictions in perceptions around the support provided during the lending process between financiers and entrepreneurs.

Respondent 2: *“Our rejection rate at the initial stage is quite high, probably 75% plus, but our success rate through that gate improves to probably an inverse ratio where we approve 75% of whatever comes through there. Why is the acceptance rate so low that would be your next question. My own experience is it is sometimes an unwillingness of the entrepreneur to follow through. So our application process is a little involved because we are not primarily security-based in financing. So if you come in with security cover of less than one, but you have got a good prospect, the IDC would still look at it. As a consequence though, we have to understand the business a lot better because we are relying on its prospects, not on its aspects and to understand that process we need a lot more information. On the information request, it is a tough one for many to swallow.”*

Respondent 10: *“No, I think what actually came across was the effort involved in the application process. It almost makes it not worth it to pursue that financier. The amount of paperwork that is involved and it is almost like the chicken or the egg*

story. Some companies want an existing business and others want a start-up, yet they still want some sort of track record which is almost contradictory.”

Respondent 7: “I think it would be easier for entrepreneurs to get funding from private individuals than formal institutions.”

Respondent 7: “Because unfortunately, formal institutions, their requirements are cumbersome. You can watch from an established businessman like myself how cumbersome it is to really deal with banks and that is how they operate. So I think for me, if you do not really want to waste your time and energy, avoid formal institutions because formal institutions are not geared up for entrepreneurial kind of development.”

Respondent 13: No, they did and everything was sent through, but because they take so long and it is quite a long process, they constantly need to review your bank statements again. So, that’s how it went. Eventually, you just feel like giving up. But every three months or so, you have to give the bank the bank statements again.”

history that one could refer to from either personal or business capacity. So, I wouldn’t have qualified and so I didn’t bother applying for it”

Respondent 1: “So, freshman entrepreneurs without track record and not a great vision, you would take that opportunity and try to package a team around them and get the opportunity right just so that they do not fail, they get the mentorship and guidance and ideally they should be incubated to become seasonal entrepreneurs.”

Respondent 10: “So it is small perceptions. Whether you are a potential entrepreneur. It is small perceptions of, I have heard comments of ‘you are too young to do that sort of business, and what do you know’.”

Respondent 1: “Well, we do a background check obviously and part of the due diligence our disclaimers and legal agreement etc. in place, so I think with any interview etc. we would interview a candidate to assess them, we do a political risk or risk check with their consent, a credit check, make sure their credit history is good, similar to what commercial banks do, but during a due diligence then we have the opportunity actually to test their integrity and reliability and do we think that the person we are engaging with is trustworthy and something you can invest in. So would you put your money with that entrepreneur that is asking you for an investment?”

Respondent 11: “Because I actually left a certain business in 2009, and had

several businesses, which were not very successful. So, there was not a clean credit.”

5.6 Research Question 4: Interventions

The interview discussions with entrepreneurs and financiers show the following required intervention measures: awareness, education, government intervention, relationship-based lending, a variation of existing lending models, enhancing the existing entrepreneurial ecosystem and the need for further support. Suggestions on using social media such as face book to provide information are also made.

5.6.1 Awareness

Greater awareness about where to go to access funding, the kind of funding that is available, common reasons for funding being declined and the need for increased visibility of financiers are the major areas of concern voiced by entrepreneurs.

Respondent 10: *“Okay, so the average South African or the average South African entrepreneur does not have enough information on these financing houses. So there should be more exposure, more education in terms of what they offer and what they are willing to give.”*

Respondent 12: *“It would have been good if we have like a Friday night hook up and somebody could just talk about funding, not to sell any of their products, but to just to say; this is the thing we have found over the last year. I mean it could be having something stupid as a business plan does not make sense. So, if people have that idea on how to access funding, on a ground level, it would work a lot better.”*

Respondent 12: *“But again, I think one of the things is just to be more visible. Visibility is such an important aspect. Somebody could have Nedbank business even on a low level Facebook page, something that gives you day-to-day information for you to understand what you are doing. You sometimes are given a 10-page sitting, you may not be able to digest all the information. But through a business process or setting-up a business, on a day-to-day basis, there could be information on what should be done step by step.”*

Respondent 9: *“They do not do a great job of telling the company that; ‘we are*

going to concentrate on textile, movies and farming-agriculture for the foreseen future; like 12 months. This is the amount of funds set aside for these particular exercises; when you apply to any of these sectors, please call in or speak to this person'. Do you get where I am going?"

5.6.2 Education

There is a need for a shift in the schooling system in which becoming an entrepreneur is promoted and children and young adults are taught about the science and art of entrepreneurship. This need is expressed by three of the seven entrepreneurs interviewed. They also emphasise that children need to be inspired to want to create a job after leaving school and not expect to get a job.

Respondent 1: *"You need that mind-set shift from a youth perspective and from an institutional perspective. So the universities need to remodel the package so that I am not trained for a job, I am trained for entrepreneurship and if I do not succeed, my fall-back position is a job because then that just changes the economy."*

Respondent 4: *"What I have seen and what I have been involved in so I guess more in terms of the schooling level, the education potentially needs to be different, in terms of how kids today get taught is like I know parents are currently talking about how the curriculum needs to be innovative enough to entice that entrepreneurship. Yes, definitely in varsities, yes there are some that get flourishing from varsities, but for some it could have probably been much earlier on to get them through the range. To really understand that when you finish your studies, you do not necessarily have to go and become an employee, you can go and maybe be in a family business and be able to take over or you can actually think about starting up something."*

Respondent 12: *"I think entrepreneurship should start at school or university level. So, at that level, that is where we start getting people to understand the concept."*

5.6.3 Government

Three financiers are of the opinion government policies should assist in the creation of an enabling environment. One financier does not believe direct funding initiatives should be undertaken by government due to the administrative challenges and risks involved.

Another feels it is not government's role to intervene by rescuing companies from debt, but rather to affect regulation in a positive way toward entrepreneurship, with tax credits being one mechanism in which to do that. One entrepreneur feels policies that discriminate, based on race and gender, are harmful as it takes away the entrepreneurial spirit.

Respondent 1: *“and I think from a government's point of view, the fact that we have a minister focused around SME Enterprise Development is hugely encouraging because that ministry's mandate is to create that conversation to manage the eco system.”*

Respondent 2: *“So I think I am quite disturbed about the focus on government's need to intervene. You cannot have a capitalistic society and keep on asking government to intervene. Where it is important, the conversation around government, is to say government should not disrupt, so we should not have regulations that make it impossible to enter. We should have a legislation that enables, but to come back and to always ask government to fix things, I mean it is quite hypocritical. You cannot say ‘government, there is too much debt, government save us, we are in trouble’.”*

Respondent 5: *“Tax credits. Much stronger tax credits and tax incentives for funding entrepreneurs, but it should be related to the sector that is investing.”*

Respondent 4: *“I am sure you are aware of the BEE codes in terms of how it requires corporates to develop SMEs and I mean there are other criteria and elements in there. So from the enterprise development point, it is that corporate companies previously used to generate 25%, 25 points in terms of their BEE score card through funding and developing SMEs. So the scorecard has just changed recently and it is going into implementation now in November, so the change now it means that the points for enterprise development for these corporates are now 45%. It is quite a lot.”*

Respondent 7: *“The government's role is to create a fertile environment for 50-million South Africans. Firstly, I suppose you raise that legislation, get rid of any piece of legislation that discriminates a South African on the basis of race or gender, I mean that is very important.”*

5.6.4 Relationship-based lending

The financiers believe relationship-based lending is better suited to SMEs and start-ups in particular, than traditional credit assessment. Relationship-based lending takes into

account the lack of information to assess account behaviour, but rather evaluates the entrepreneurs and their behaviour.

Respondent 6: “... Start-up, in any event, has no history to look at. We call it relationship-based lending. This is a concept where you spend time with the entrepreneur to understand the entrepreneur and the business and through that, you are basically getting quality soft information and use that to make a decision. Now, credit scoring models, they are not able to handle that information because you are dealing with subjective things.”

Respondent 8: “Yes. That is the way to do it and if you can build that trust relationship with your suppliers, you do not ever have to go to the bank.”

5.6.5 Lending models

The need for alternate funding models to serve the SME space is acknowledged by financiers. One financier speaks about an alternative to traditional credit assessment is lending based on opportunity, where – if the opportunity is found to have high impact in terms of job creation and economic growth– then it is likely to be funded even if it has high risk. An entrepreneur raises extending creditor terms while keeping debtor payment terms short with the resulting effect being financing.

Another speaks about SA Taxi finance, which has a tailor-made product to service the taxi industry and is not based on traditional lending criteria. Financiers also speak about backing the entrepreneur as opposed to the business, such that it is the passion, drive and determination that funders believe will make the organisation work.

Respondent 1: “With the IDC, because we are developmental finance institution, our model is the risk model. We do not say yes or no based on the risk, we say yes or no based on the opportunity. So if the opportunity is to create jobs and the risk is high, we may still engage on the opportunity to price it appropriately, but ultimately the objective is to create the jobs and have the industrial impact and then the risk mitigate for that is we would say now our community actually packaged the funding package to lower our risk.”

Respondent 8: The guys on the financial side have a model. That is the criteria model that you have to meet. If you do not meet the criteria model, you fall off the radar screen immediately. That is the nature and modus operandi; whether you go

to a bank, or what used to be Small Business Development Corporation, what is now Business Partners, NEF, IDC. They all have a template that they work from; whereas the actual stuff on the cold front is different.”

Respondent 3: *“... it is new ideas you fund on expectation rather than current reality. You fund the jockey more than the horse. You take a bet on the individual rather than the kind of the model itself. The tools that you would go to bank a corporate client is very different to the tools or the skills that are required to bank an SME, the customer that is starting up.”*

5.6.6 Culture shift

The data indicates that a cultural shift is required for people to change the collective thinking to ‘make a job and not take a job.’ The mindset change should originate from communities that encourage people who are unemployed to establish their own businesses instead of continuing to try and find work.

Respondent 1: *“... in my experience, people get trained for a job and yet the attitude is ‘I am going to university because I want a good job outside of university.’ That is second prize from my perspective. The first prize is I am going to university, I want to get skilled and I am going to walk out with my own business and change the economy. The biggest challenge is the mind-set shift. We must not be job takers, but employers/job givers.”*

Respondent 7: *I can tell you if you want to destroy your own creativity, your own intellect and subject yourself to the collective because you are going to subject yourself to someone else’s agenda that you do not understand. I would love it if every individual, the 50-million South Africans, everyone to have his own agenda. That is when you will see, you will unleash potential of humans.”*

Respondent 2: *So it is a tough one because at the beginning of the conversation, the culture of entrepreneurship and cultures are rarely properly influenced by institutions. They are best served when they are organically developed, so in my mind I would say communities should encourage entrepreneurs if someone does not have a job, tell him to take a chance at this, take a chance at that.”*

5.6.7 Support

The results of the study show entrepreneurs require support in the way of financiers advising them as to why finance was declined, so they are able to learn from the experience and make the required adjustments. There is also a need for funders to be more visible. The data indicates there is a need to have support structures in place to assist entrepreneurs with more functional tasks, such as accounting skills.

Data from the financier perspective shows there are support structures currently in place to assist with accounting skills, marketing as well as market access. Support to enhance business plans is also available and pre investment centres have been established. Obviously, entrepreneurs are not aware of such support structures.

Respondent 4: *So in the centre, an SME will walk into the centre and when they get there, they will be assisted in terms of funding requirements and also non-financial support, so they will be talking about business development where an entrepreneur needs assistance about putting together financial statements, they will base it against that then you meet intervention of marketing, they need to gain access to either types of businesses so we provide market access as well.”*

Respondent 2: *On smaller non-project-based businesses, if the entrepreneur looks like he has good prospect, but he is having trouble packaging it, we have got a business support department that will fund a consultant to sharpen their business plan.”*

Respondent 12: *It would just be cool if they had somebody on the ground level to hear our qualms and reasons for being declined, and help us because you can incubate business on all aspects and you can actually incubate the business on the financial level as well. Maybe that is what needs to be done, to say; I understand your operations are in place. You do not have funding; let us see why you are not getting the funding. Let us see what is wrong and what kind of financial perspective to get the business going.”*

Respondent 1: *“So we have structures that assist. But also have what is called the PIBC Pre-Investment Division, we have a portal where entrepreneurs enter all their details on a business plan template and that then basically generates a business plan that is assessed by our pre-investment unit and that should at least*

start the conversation because if you have done that process properly, we are at a level where we can engage on a business discussion.”

Respondent 11: *“Rather than the online application, you need to be able to speak to someone that will be able to assist you. Information must be more readily available, which you can find on the internet or various government website. But more importantly, rather information being available, you need to have people with expertise to be able to advise and guide people.”*

5.7 Conclusion

This chapter presents the results of the data analysed on access to funding. The chapter clearly indicates that there is a disconnect when it comes to accessing funding. This is highlighted by the data gathered from the entrepreneurs’ and financiers’ perspectives. However, the respondents suggest interventions that can be put in place to improve access to funding.

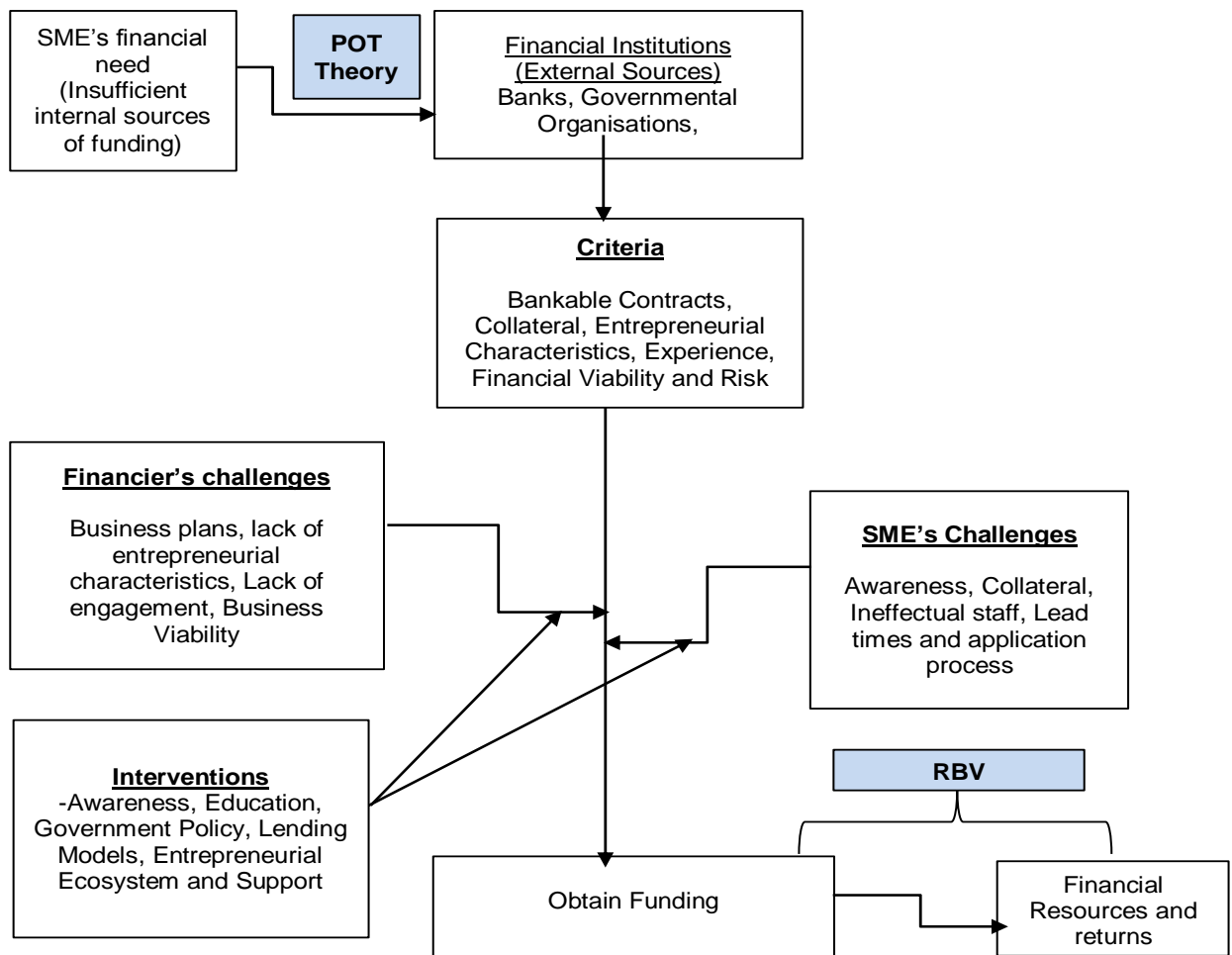
CHAPTER 6

DISCUSSION OF RESULTS

6.1 Introduction

This chapter discusses the findings of the study with reference to the literature review for similar and contradictory points of views. The diagram below is a summary of the findings of the study.

Figure 6-3: Funding of SMEs



In the literature review, it was argued that when the internal sources of funding are no longer sufficient, SMEs opt to go for external funding, thus in line with the Pecking Order Theory (POT). The internal sources of funding for small businesses are the banks, private institutions and governmental agencies. These financial institutions have their own criteria that they use to provide funding. They award funding based on these criteria: bankable contracts, collateral, entrepreneurial characteristics, experience, financial viability and risks. It was noted that during this process there are a number of challenges encountered by both financiers and the SMEs.

From the financiers' perspective, the findings show that the challenges they experience when entrepreneurs apply for funding are: business plans not fully completed and no obvious interest to persevere, lack of engagement from entrepreneurs, lack of entrepreneurship characteristics and businesses not viable. Entrepreneurs lament about the lack of awareness of options open to them, the insistence on collateral, prolonged turnaround times for obtaining funding, and the challenging application process.

In order to address the challenges, it is found that increased awareness of the institutions, what they offer as help and assistance, education of the process, related government policies on funding, introduction of the alternative lending models, increased support and cultivating an entrepreneurial culture can be of great help. If these challenges are addressed and entrepreneurs obtain funding, they will be able to build their capital. According to the Resource Based View (RBV), capital is a significant asset that can increase the returns of a business.

6.2 Research Question 1: Criteria for Funding Entrepreneurs

6.2.1 Bankable contracts

The disconnect between financiers and entrepreneurs as regards bankable contracts or guarantees lies in the fact that entrepreneurs have obtained national tenders and letters of commitment from customers; however, they were not awarded finance. Respondent 11 pointed out that "... being a tender, it was awarded to me. It was a national tender and it did not make much of a difference either."

The findings of the study show there are a number of organisations such as the NEF and SEFA in particular who have positioned themselves to fund SMEs that have obtained contracts and tenders. Hence, there are organisations that specialise in this type of funding, yet entrepreneurs who meet the required criteria, are not obtaining funding or do not know of those organisations.

Wu, Huang and Chiang (2014) confirmed that purchase order funding is an alternative to traditional lending transactions and the signed purchase order contract can be used as a substitute for collateral. Obviously, there remains an element of risk for the funder, if such order is fraudulent or cannot/will not be executed and paid.

6.2.2 Collateral

Arguably, one of the most challenging barriers entrepreneurs face to obtain finance is the collateral requirement. Most SMEs simply do not have the value of assets required as collateral to obtain loans. This position was confirmed by Abdulsaleh and Worthington (2013) who stated that SMEs with a smaller portion of tangible assets to total assets are less likely to be successful in their loan applications as they lack sufficient collateral. The diabolical nature of the scenario is that entrepreneurs need finance to grow their business so as to obtain assets, yet it is assets they need in order to obtain finance. These sentiments are communicated by Respondent 10, stating, "... that would be the collateral requirements. You are sourcing funding trying to purchase assets, yet the financiers want existing assets to securitise." Therein lies the first disconnect – the need for security by financiers and the inability of the entrepreneur to provide security.

The second disconnect as far as collateral is concerned comes from financiers saying they do not require collateral from SME entrepreneurs, but SME entrepreneurs have experienced loans being declined due to lack of collateral. This comes through from Respondent 4, a financier, "So with things like pre starts-ups, it is definitely flexibility in terms of that. We do not ask for security from SMEs because they do not have security and also we look at preferential interest rates as well." However, Respondent 7, an entrepreneur has this to say: "Because they do not have the balance sheet, they do not have the assets. Unless you have a "rich dad" who can stand in for you at the bank, but if you do not have it..."

6.2.3 Entrepreneurial characteristics

(Moro et al., 2014) confirmed the perception that entrepreneurial competence is important as it informs the lender about the ability of the entrepreneur to successfully steer the business into success and to identify the opportunities along the road that will take the business there. Respondent 8 confirms the need to be able to identify opportunity when he states, “Fortunately enough, I have been really lucky, I have an eye for spotting for more opportunities.”

The characteristics that financiers look for speak to passion, charisma, knowledge of the industry and the ability to never take no as an answer. However, the disconnect between financier and entrepreneur surfaces, when entrepreneurs display qualities that do not portray tenacity, commitment or creative thinking to navigate obstacles. Interestingly, beyond knowledge of their industry, the qualities being sought after cannot be taught, people either possess these personality traits or they do not.

6.2.4 Experience

Experience gained from other firms in the same industry enables entrepreneurs to identify opportunities and make timeous decisions to take advantage of them (Soriano & Castrogiovanni, 2012). One financier respondent feels that the lack of experience weighs so heavily, that it is the single most important reason that funds are not released sometimes.

The disconnect between financiers and entrepreneurs in this context is concerned with entrepreneurs who are exuberant and ambitious, which are great entrepreneurial characteristics, but they lack the required experience to undertake the projects or roles they want to assume. The ambitious sentiment is expressed by Respondent 10. The lack of experience puts them on the back-foot and could potentially be detrimental to the organisation, which would ultimately result in the financier incurring a bad debt. The aspirant entrepreneurs would then be advised to gain the required experience in the industry they wish to enter before applying for finance.

6.3 Research Question 2: Financiers' Challenges

6.3.1 Business plans

The real value business plans hold are questionable. Several studies have been performed trying to understand their impact to business success and there are arguments for and against their contribution. Hopp (2015) found in his research that although business plans reveal little information about the entrepreneurs' ability to successfully steer their ship into success, there was a positive correlation between those that have a formal business plan when applying for funding from formal institutions as opposed to those who have not. Therein lies the value of the business plan for the entrepreneur whose primary goal is to obtain funding.

The disconnect between entrepreneurs and funders as it relates to business plans stems from the financiers' need for a solid plan, and the entrepreneurs' general disengagement with such need to produce a sterling plan. The reasons offered are that entrepreneurs state they do not have the time to draft one since they are busy wearing the hat of CEO, COO, CFO, HR and many more functions in trying to run a business. The second reason offered is the possible lack of interest or ability to produce a professional business plan. A lack of interest is something only the entrepreneur can address, but lack of ability can be addressed via external support, since it is essential at the beginning of the engagement process. Someone who does not have the skill for producing a professional business plan, but has the passion and commitment, will be at a very distinct disadvantage. Fortunately, some of the financier respondents indicate that they have individuals or even divisions that provide support in enhancing existing business plans prior to submission for approval.

6.3.2 Entrepreneurs lack of timeous communication

Ucbasaran, Westhead, Wright and Flores (2010) wrote that entrepreneurs continue to wear rose-coloured glasses even in the face of adversity and remain optimistic even after having many failed businesses. This ability seems to be a key driver in an entrepreneur's

ability to forge ahead when times are tough and is also essential in keeping the spirits and morale of staff up when the business is not performing according to expectations.

However, this quality that has many positive facets to it, also creates a disconnect between entrepreneurs and financiers. Financiers complain about the lack of timeous communication to them when the business is in trouble. More than one financier respondent emphasises the fact that entrepreneurs approach them for help beyond the point of help. They also communicate that had the situation being brought to their attention earlier, the probability of rescuing the business would have been significantly greater.

The entrepreneurs' natural inclination to persevere in times of trouble seems to be an obstacle rather than an asset in this particular scenario.

6.3.3 Not a viable business

Results from the data analysis indicate one of the reasons financiers decline funding to a business is when the financial records are not sound. The projected financial statements either do not make sense or it is evident from them that the business is not viable.

The data also indicates soft skills play an important role in determining if the business is likely to succeed or not. Financiers look for leadership and management skills from the entrepreneur, as an indicator of future business success and if these are lacking, it is likely the application will be declined. Further reasons for rejection of an application is the absence of a market for the goods or services intended to be sold by the business. This indicates that the entrepreneur has not conducted research into the target market, is unaware of competition and the likelihood of ample sales.

The decision about the viability of a business is a very subjective one. It is not an absolute. Steve Jobs applied to the "Dragons Den" show for funding of the i-Pad and was declined, but it went on to be a huge success in the global market. A true entrepreneur is likely not to accept the rejection as final, but continue searching for funding.

6.4 Research Question 3: Challenges Faced by SMEs

6.4.1 Awareness

The data shows a rather stark disconnect exists within the context of awareness. Entrepreneurs do not know where to go to access funding and advice. One of the avenues available to them is the internet, which has proven not be very useful. Financier visibility is absent, and while there is some vague notion that funders exist, details on what they offer and under what conditions, where they are or how to contact them remains a mystery to most entrepreneurs.

The data shows financiers, on the other hand, run awareness initiatives in an attempt to educate entrepreneurs about funding requirements. This takes the shape of Funding Fridays events and conferences where entrepreneurs can ask all the questions they have about the funding process and its requirements. The highlighted challenge is that these events campaigns do not seem to reach the intended audience, the entrepreneur.

A study conducted by (Mazanai & Fatoki, 2011) quantified the level of awareness in South Africa concerning the presence of business development support agencies and found it to be at a low 32%. This information supports the results of the data in that entrepreneurs are generally unaware of the various organisations available to provide funding outside of the banking sector.

6.4.2 Ineffectual staff

For those entrepreneurs who make contact with a funding organisation, they experience challenges with human engagement. In line with Abhor and Biekpe (2006), the findings of this study show that frontline staff are not proficient in their functions of providing entrepreneurs with the information they require. The reason for this seems to be that they are not well versed with the various industries entrepreneurs operate in, and therefore entrepreneurs are not able to hold fruitful discussions with them. This point is emphasised by "... you are an entrepreneur with a business plan that has been carefully thought of and rigorously tested and then you are trying to explain this to someone who does not have the

understanding of that industry, yet you are expecting to get financing from that person.” In order to assess and analyse anything, one needs to understand it first. Unfortunately, the lack of understanding in order to evaluate such business plans critically seems to be lacking, particularly among banking personnel. The disconnect here is that funding houses have employed staff to perform the service of evaluating businesses across various industries; however, they are not equipped with the knowledge required to make those assessments. This causes frustration among entrepreneurs and more importantly, is hindering the funding process.

Another challenge with staff is they are often less than helpful as depicted in the data by comments such as, “You have to understand what kind of funds and what business units actually exist; where the priorities are. And if you do not know this, then you are just ignored.” It does not seem reasonable to expect the entrepreneur to understand the operational composition of a funding organisation, in their efforts to obtain funding. Those who are charged with the responsibility of engaging with entrepreneurs should be in a position to direct them to the correct area. Not all entrepreneurs are computer savvy and many rely on efficient, informative personal interaction. Therein lies a further disconnect.

6.4.3 Lead times

One of the traits ascribed to entrepreneurs is their ability to identify opportunities. Some opportunities are ‘once in a lifetime’ and in order to take advantage of them they must be executed within the lifetime of the opportunity. The challenge faced by entrepreneurs is the inordinately long time it takes for funders to process loan applications. The study indicates some having to wait in excess of a year before funding was disbursed. The reasons cited are the constant request for additional information. Sometimes the same information, such as bank statements, is requested again because the application has not been processed timeously, and they have expired.

The lack of urgency from those processing loan applications is also pointed out as a reason for the long delays in fund disbursement. It seems the process is time consuming and not conducive for entrepreneurs to take advantage of opportunities they have encountered. While the funds are eventually disbursed, the process takes too long, which puts the entrepreneur at a disadvantage, and therein lies the disconnect.

6.4.4 Processing application

Entrepreneurs describe the process of applying for funding as “cumbersome” and even trying to find the application form has proven to be challenging. They complain about the amount of information and documents that need to be submitted, the many meetings that take place and constant delays. The initial engagement with people who are described as the “gate keepers” is frustrating to the extent of making them want to abandon the process. More than one entrepreneur respondent refers to “giving up” at some point in the process. One financier respondent speaks about the application process being involved and requiring quite a bit of effort, which many entrepreneurs do not seem to be interested in putting in, resulting in the application being abandoned – or declined for perceived lack of tenacity on the part of the entrepreneur.

There is consensus between entrepreneurs and financiers about the intensity of the application process and both speak about applicants abandoning it because of the amount of effort required. The findings show younger entrepreneurs also feel they are being sidelined because they lack experience, while one financier emphasises the support they provide particularly to younger entrepreneurs because they lack the experience.

One argument could be if the entrepreneur does not have the tenacity and perseverance to work through a loan application process, what are the chances of survival and business success for such entrepreneur? A counter argument would be that the entrepreneurs are far too busy closing deals, meeting with suppliers and inspiring their workforce to be standing in queues for hours or compiling files of documents in order to get a loan. Either way, there is a very definite disconnect in terms of the existing application process and the willingness or practicality of applicants to follow it.

6.5 Research Question 4: Interventions

6.5.1 Awareness

The study revealed that greater effort must be applied in creating awareness about funding opportunities available for eager entrepreneurs. The information being sought is which industry sector such funding is available to, how much of it is available and how to apply for it. Another recommendation is to organise regular information sessions, in which the lesson learnt in the funding process over the recent past can be discussed and people are made aware of the reasons certain applications are being declined. There is a need for greater visibility and for the institutions to connect with the entrepreneurs on a more tangible level, beyond the internet and e-mail.

South Africa does not have a robust entrepreneurial eco-system that allows entrepreneurs to thrive. However, there is a very definite shift from major players in the economy, i.e. government and the banking sector, to develop it. Since there are so few who want to become entrepreneurs, it is important to direct them towards the help that is available to them. It would be incorrect to say awareness is non-existent, but it certainly is very low.

Involving financial institutions in generating greater awareness about agencies available to provide support and institutions from which funding can be obtained was also suggested by (Mazanai & Fatoki, 2011). They also recommended intensive awareness campaigns be run by the business support centres.

6.5.2 Education

An analysis of the data indicates that the educational system both at secondary and tertiary level needs to incorporate entrepreneurship as an area of study. There is more to being an entrepreneur than opening up a shop and being a retailer. Entrepreneurship is a science and art form that must be studied and understood in order for it to be applied effectively and have a real impact on the economy. High impact entrepreneurs are the ones who really make significant shifts in the economy and the South African economy needs more of them and urgently. Education is an important ingredient in achieving that

goal.

The current educational system in South Africa is geared toward creating employees and not employers. Children aspire to complete school, obtain a formal tertiary qualification and climb the corporate ladder. They do not even consider starting up their own business and growing it into an empire, mainly because they do not have the skills or experience to pursue that avenue. This recommendation is consistent with the GEM report, which also identifies education as a key factor in improving the entrepreneurial eco-system (Singer et al., 2015).

6.5.3 Government

“The government’s role is to create a fertile environment for 50-million South Africans” is the general sentiment expressed in the data. The extent of government’s involvement was examined in the study to take the form of establishing enabling policies that promote entrepreneurship. Specific reference was made to tax policies, which provide rebates or credits for those who invest in entrepreneurs. The data also indicated that government should not have a direct role in financing entrepreneurs due to the risk of having to manage cash. Existing government policies, which provided a bias to certain race groups, were criticised for taking away the entrepreneurial spirit in people, and making them feel entitled to things, which in turn, took away their fighting spirit.

The GEM report (Singer et al., 2015), provided a series of recommendations on improving the entrepreneurial eco-system in South Africa; one of them was to introduce new funding models, possibly backed by government. This is contrary to the research data where there was specific mention that government should not get directly involved in financing entrepreneurs. The GEM report (Singer et al., 2015) suggested government introduce policies aimed at facilitating funding for entrepreneurs. This recommendation is consistent with the research data. Government has introduced several initiatives to enhance the eco-system, to the extent of establishing an entire ministry dedicated to developing the eco-system so entrepreneurs can thrive.

6.5.4 Relationship-based lending

The study indicates relationship-based lending uses soft data as opposed to hard data in making lending decisions. The soft data speaks to the entrepreneurs' knowledge of the business and industry they want to venture into, their levels of co-operation and ability to be proactive as elements that build strong relationships. The data shows that the extent to which entrepreneurs complete the application form is an indicator of the level of their knowledge of the business and adds to the relationship. In a study performed by Narteh (2013), the evidence has shown that lending based on financial data, hard data, does not serve SMEs, hence an alternative form of lending based on the relationship between the client and the bank must be considered in conjunction with the financial data.

Traditional lending methodology does not cater to the circumstances of SMEs, yet 80% of banking in South Africa is performed by the big four banks who use traditional lending methods. While the South African financial institution system is one of the best in world, there is a huge gap in the market to cater to the financial needs of SMEs.

6.5.5 Alternate funding models

The study shows there is a need to move away from traditional risk assessment to more risky funding models. The data indicates that commercial banks are starting to move in that direction, but they would exercise caution as they are accountable to protect and maximise shareholder wealth.

The alternate funding models that already exist in South Africa are emphasised in the study. Opportunity-based lending as opposed to risk-based lending is currently in operation. This method engages funding if the opportunity for growth, job creation and economic impact is high, even if the risk is high. A uniquely South African model is the taxi lending model where entrepreneurs are able to obtain funding even if they have a bad credit record. Funding hinges on the probability of potential income, which lies in the strength of the taxi route the new owner has been approved for. Therefore, alternative funding models are key to the growth of entrepreneurship.

6.6 Conclusion

This chapter presented the findings of the study with reference to the existing literature. The findings indicated that the criteria for awarding funding were based on bankable contracts, collateral, entrepreneurial characteristics and entrepreneurs' experience. These findings were found to be consistent with other scholars such as Wu, Huang and Chiang (2014), Abdulsaleh and Worthington (2013), (Moro et al., 2014) and (Soriano & Castrogiovanni, 2012).

The findings of the study indicated that financiers found that there were several serious obstacles, which prevented them from providing funding to entrepreneurs. These challenges were found to be poor business planning, lack of entrepreneurial characteristics and businesses that were not viable or sustainable. The results of the study were found to be similar to those by Hopp (2015) and Ucbasaran et al. (2010).

The challenges facing the entrepreneurs owning SMEs and who are in need of finance were lack of awareness about financial options, ineffective staff at the financing institutions and the challenging application process. These results were supported by the empirical evidence by (Mazanai & Fatoki, 2011) and Abhor and Biekpe (2006).

As it was noted there are challenges encountered when accessing finance, the intervention measures such as creating awareness, providing better information, education, appropriate government policies and better alternative lending methods were suggested to be effective in improving accessibility to funding. These findings are similar to the recommendations made by Herrington and Kelly (2013).

CHAPTER 7

CONCLUSION

7.1 Introduction

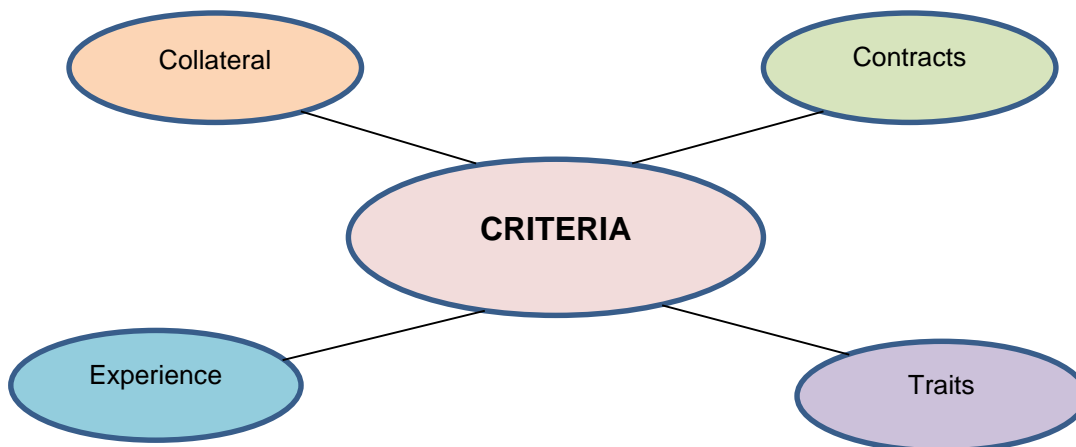
The previous chapter discussed the findings of the study into the reasons for the disconnect between financiers and entrepreneurs. This chapter will present a summary of the key findings of the results and pose some recommendations for future research. The chapter then goes on to discuss the limitations of the study.

7.2 Summary of Findings

The primary objective of this study is to understand the reasons for the disconnect between financiers and entrepreneurs regarding access to finance. The summary of results is presented as follows:

7.2.1 Criteria used by financiers to fund SMEs

Figure 7-4: Financier criteria



A bankable contract should secure funding; however, entrepreneurs who have exercised their entrepreneurial spirit and obtained such written and signed contracts, were still rejected in their efforts to secure funding against such contracts. Organisations have been established, whose primary purpose is to fund those who have signed contracts in place, which secures future income, yet they do not seem to be servicing the intended client or the wrong institution (such as commercial banks) was approached instead of one of the more appropriate alternatives.

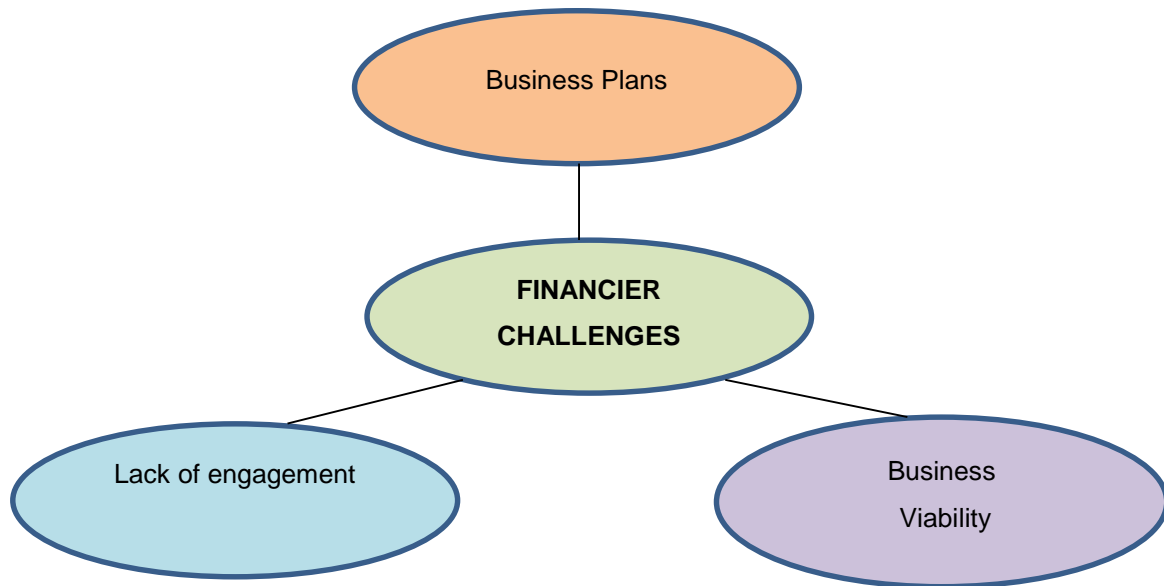
The weight of collateral on entrepreneurs is so burdensome that it acts as a deterrent for some and leading them to abandon the process of applying for finance. Financial institutions realise this and have introduced products that do not ask for collateral from SMEs. However, entrepreneurs have had applications for funding declined for not having the required collateral.

Funding applications are also rejected because the entrepreneur does not embrace the qualities that inspire confidence among the financiers. Those entrepreneurs give up during the loan application process due to it being too arduous, as they do not have the tenacity or perseverance to work through the lengthy application process, convincing the funders that they would also lack such traits to steer a business successfully. The disconnect here lies with aspiring entrepreneurs who do not fit the mould.

Experience is a criterion that financiers look for as it serves as a platform from which the entrepreneur can make informed and timeous decisions to take advantage of opportunities. Aspirant entrepreneurs are often exuberant and ambitious, but lacking in experience or specific skills. This poses a risk to the business.

7.2.2 Limiting factors experienced by financiers in extending finance

Figure 7-5: Financier challenges



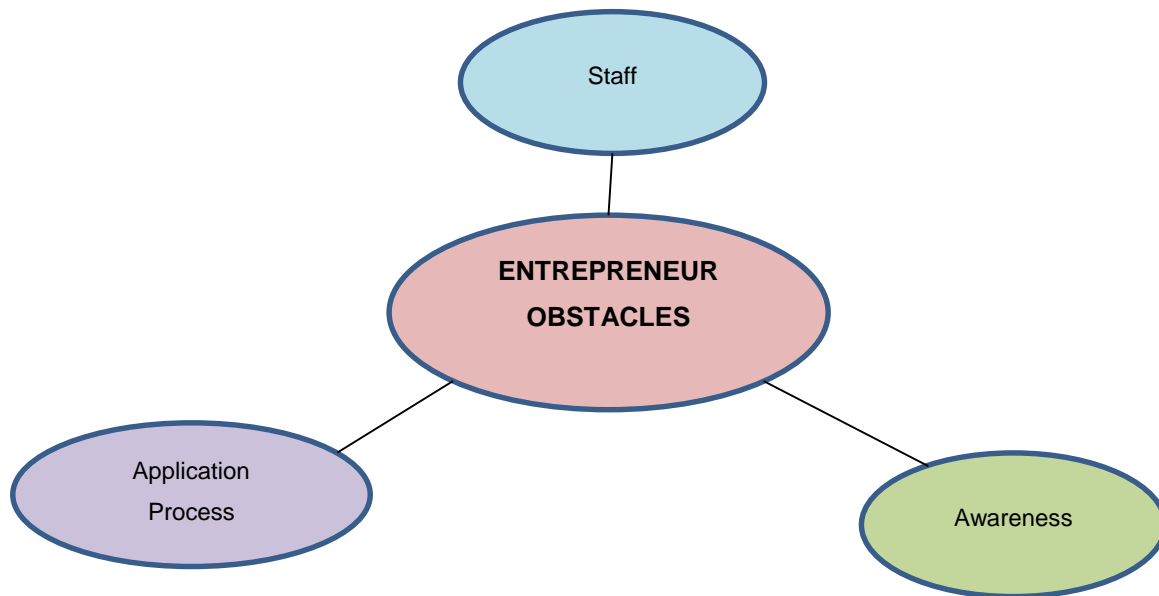
While there are differing perspectives as to the value of business plans, they are the point of departure for the funding application process. They provide financiers with information required for their assessments about the intended business and the entrepreneur. Entrepreneurs, however, are reluctant or incapable of producing them, largely because they wear many hats in their role as business owner and do not feel they have the time, forgetting that such plans can be produced after hours, when they are not busy running their businesses. The other reason offered is they are not equipped with the skills and resources to compile a professionally prepared business plan.

Rescue finance is available to entrepreneurs on condition they identify the threats they face and approach funding institutions timeously for assistance. The disconnect in this context results from the entrepreneurial spirit that summons the entrepreneur to persevere in times of trouble without seeking help. Unfortunately, when funding houses are eventually approached, the business is in such poor health that it can often not be resuscitated.

Business viability and sustainability is a reason cited for rejecting funding applications. Financiers deem it improbable for business proposals to have the potential to thrive if the financials are inflated and do not look reasonable or are not sizable enough. The perception of the entrepreneurs' leadership skills or lack thereof carries with it the uncertainty of business success, and in turn, business viability. The disconnect here lies with entrepreneurs believing they have a solid business concept. Had they conducted market research into their potential target market, they would have been able to substantiate their perceptions and aspirations.

7.2.3 Obstacles faced by entrepreneurs in securing funding

Figure 7-6: Entrepreneurial obstacles



Entrepreneurs are unaware about the all organisations that exist from which funding is available. They do not know what kind of funding is available, who it is available from and for what or how to go about applying for it. Some financial institutions host conferences to bring both parties – funders and entrepreneurs – together and hold special events to create awareness around the resources that are available and support structures in place.

Incompetent staff are a source of frustration for entrepreneurs. They find themselves having to explain the details of their well-considered and calculated business plans to people who have no understanding of the industry the business will be operating in. This

causes delays and even abandonment of applications. Financing houses have invested in establishing specialist departments and centres to support and guide entrepreneurs through the financing process; however, the staff – particularly front line – do not have the skills necessary to perform their roles effectively. The facility is in place, but is not operating at maximum capacity.

The loan application process is long and tedious. The process requires several documents to be submitted, many meetings to be held and can extend over a period of a year. Business opportunities could be missed due to the delayed processing time.

7.3 Contribution of study

Existing literature identifies access to funding as a stumbling block for entrepreneurs, without providing detail of the issues on granular level. This study has contributed by providing an in depth analysis of the specific obstacles which are barriers to accessing funding. The research provided insight from both financiers and entrepreneurs simultaneously.

This study also highlighted the need for a shift in the banking institutional framework to adapt to the context of an emerging market economy.

7.4 Recommendations

Aggressive awareness campaigns should be run by funding institutions and business development centres, to inform aspiring and active entrepreneurs about the financial resources, financial organisations and support structures available at their disposal to assist in their initiatives.

The problem is not so much the lack of structures to support the application process, as it is the manner in which the process is managed. Existing staff in financing institutions must be provided with the correct training to improve their levels of knowledge about the significant industries in South Africa. Industry knowledge must be a criterion in recruiting new staff.

The loan application process must be streamlined and simplified to make it less intimidating to entrepreneurs.

Secondary and tertiary education institutions must introduce entrepreneurship into their syllabus. This will provide students with the opportunity to learn about the art of entrepreneurship and help grow and nurture young adults who choose to be entrepreneurs for the opportunities that present themselves, as opposed to out of necessity as and when they cannot find a job.

Government must introduce entrepreneurial enabling policies, which contribute to the enhancement of the eco-system. It is almost accepted that business failure is part of the entrepreneurial journey, a consequence of which is negative credit ratings. Entrepreneurs are however penalised for having adverse credit ratings and denied access to finance as a result. Policy should address this shortcoming by allowing a reasonable number of business failures within a defined period.

The lack of technical knowledge is has come through as a significant reason for the rejection of funding applications. Policies should be introduced for funding applicants to be provided with the required training should their application otherwise be successful.

Funding models that move away from traditional lending criteria must be used to cater to the peculiarities that exist within the SME framework. Relationship-based lending can be used in conjunction with transactional lending and be given a weighting that is consistent with the financial organisations' risk appetite.

7.4 Limitations of the Research

While 13 interviews were conducted, six were conducted with financiers and seven with entrepreneurs. The financiers interviewed were bankers, fund managers and venture capitalists, hence the number of interviewees per sector were not sufficient to gain a robust perspective from that sector.

The entrepreneurs interviewed were referred by family and friends within the researcher's network. Therefore, they may not be representative of the larger South African entrepreneurial perspective.

7.5 Suggestions for Future Research

A respondent in one of the interviews spoke about an unintended consequence of colour-based legislation in South Africa. The respondent perceives legislation that intends to benefit South Africans based on colour, as having the opposite effect and penalising them instead.

The view is South Africans who fall into that group feel a sense of entitlement, which robs them of their own drive and ambition, the essential seeds of entrepreneurship, the absence of which hampers future entrepreneurial growth.

A recommended future study is to assess the impact of race-based legislation on entrepreneurial growth in South Africa.

The application process has come through as an extreme deterrent for entrepreneurs. A further study into the necessity for each step in the process and alternative ways to navigate through them should be undertaken.

This study did not investigate the possibility of gender bias on funding applications. An investigation into the perceived strengths and weaknesses of either sex that influence access to funding should be undertaken.

The research was limited to the network of the researchers family and friends, therefore the applicability of the findings to the larger South African entrepreneurial population has not been validated and should be investigated.

A country to country comparison in order to understand the criteria used by financiers and obstacles faced by entrepreneurs across the African continent would provide insights into the best practices in access to finance on the continent.

7.6 Conclusion

This study set out to understand the reasons for the disconnect between financiers and entrepreneurs. The criteria used by financiers were analysed and compared to the challenges faced by entrepreneurs. The resultant effect was their disconnect.

Strides are being made within the South African context to accommodate SME lending; however, the lack of awareness of these initiatives is the greatest contributor to the disconnect. The financing sector recognises SMEs as a high growth area and is investing actively in developing products that meet their unique circumstance. This effort also forces them to move away from traditional transactional lending.

Various government initiatives have been implemented to grow entrepreneurship; however, the absence of effective financial management may be impeding its objective.

The Ministry of Small Business Development is crucial to creating a fertile eco-system, but the disconnect cannot be bridged by government alone. The private sector has an imperative role to play in connecting entrepreneurs and financiers.

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APPENDICES

APPENDIX A: FINANCIER INTERVIEW SCHEDULE

1. What policy or criteria do you use to fund entrepreneurs? Is it specific to any particular industry or phase of business?
2. What are the steps you follow in order to grant entrepreneurs funding?
3. What is your risk definition and assessment of SMEs and how is it different from larger organisations?
4. Do you look for any particular characteristics in the entrepreneur?
5. How do you test for these abilities?
6. Does an entrepreneur's lack of education and training lead to applications being declined?
7. Do business plans meet the required standards?
8. What are some of the main reasons applications for funding are rejected?
9. What can be done to address these shortcomings?
10. Do you think different funding models are required for SME entrepreneurs? If so, what do these models look like?
11. What initiatives do you believe should be implemented to ease the funding gap at a national level?
12. Would you like to add anything else?

APPENDIX B: ENTREPRENEUR INTERVIEW SCHEDULE

1. How long has your business been in existence for?
2. How big is your firm?
3. What is the nature of your relationship with the financier?
4. Have you had any experience in running a business before?
5. Did you have to raise capital?
6. How much capital were you trying to raise?
7. Was the interest rate high, low or average? What determined that?
8. What working experience do you have in your particular industry? What role did you fulfil?
9. What is your educational background?
10. What entrepreneurial characteristics do you embrace?
11. What is the process you had to follow to obtain funding?
12. What are the sources from which you are able to obtain funding?
13. Has it been difficult for you to raise capital? How long have you tried and who have you approached?
14. What are the greatest problems you encountered in obtaining finance?
15. What should be done to make it easier to access funding?
16. Are there places you can go to guide you through the funding process?
17. Would you like to add anything else?
18. What can be done at a national level to improve funding access?

APPENDIX C: CODE LIST

Profiling: Education
Profiling: Years in existence
Profiling: Start age
Profiling: Education

Process: Use of experts
Process: Types of funds
Process: Term sheet
Process: Start-up
Process: Start with business plan
Process: Risks
Process: Paperwork financials
Process: Not asset backed
Process: Monitor financials
Process: Meetings
Process: Mandate fit step 1
Process: Information required - inefficiencies on their side
Process: Financial forecast
Process: Equity model
Process: Entrepreneur assessment
Process: Entrepreneur development
Process: Entrepreneur credit check - discuss double edge sword in chapter 6
Process: E: Funding
Process: Due diligence
Process: Debt model
Process: Business understanding
Process: Business structure
Process: Business plan-strategy, risks, marketing
Process: Business plan - gather more information
Process: Business plan
Process: Business idea evaluation
Process: Business evaluation - suppliers, sales channels
Process: Meetings

Policy: Risk appetite

Obstacles: reasons for rejected business plans
Obstacles: Process - time taken to process
Obstacles: Process
Obstacles: Lack of understanding from financiers
Obstacles: Lack of awareness
Obstacles: Funding
Obstacles: Entrepreneur - funding requirements
Obstacles: E: Unclear requirements communicated
Obstacles: E: Time taken to raise funds
Obstacles: E: Rejection
Obstacles: E: Process
Obstacles: E: Misaligned vision with venture capital
Obstacles: E: Long processing time - missed opportunities?
Obstacles: E: Ineffectual staff
Obstacles: E: Fear of failure

Obstacles: E: experience in running a business - but in different industry making no difference

Obstacles: E: Even with customer commitment - no funding

Obstacles: E: Collateral

Obstacles: Corruption/Government

Obstacles: No relationship

Obstacle: Prioritising time to complete application forms

Obstacle: Long period - opportunity may have past

Obstacle: Long period - opportunity may have past

New theme: Support

New theme: Separation of business and personal accounts

New theme: Non profit lenders

New theme: Money available

New theme: Labour legislation

New theme: Incubation

New theme: funding bad credit record

New theme: Focus on SME development

New theme: Existing banks work well

New theme: Equity requirements

New theme: Enterprise development centers

New theme: Ecosystem

New theme: Culture

New theme: Crime

New theme: Business rescue

New theme: Affirmative action

Interventions: Financiers

Interventions: Eco system - communities

Interventions: E: Legislation

Interventions: E: Entrepreneur

Interventions: E: Entrepreneur

Interventions: E: better skilled staff

Interventions: E: Awareness

Interventions required: process simpler

Interventions required: Government

Interventions required: Education

Interventions required: Collective

Interventions required: Changing the narrative/mindset

Interventions required: Change perspective - create a job not get a job

Intervention: Relationship based lending

Intervention: Interest rates

Intervention: Financing models

Intervention: Financier - education

Intervention: Entrepreneur

Intervention: Engagement and transparency

Intervention: Change process - omni channel

Intervention: Business plans

Intervention: Banks

Def SME: turnover and employees

Def SME: Risk

Def SME: New business

Criteria: Track record

Criteria: start-ups, Opportunity
Criteria: start-ups, Bankable orders
Criteria: start ups, Entrepreneur
Criteria: SME + Corporates
Criteria: Risk
Criteria: Job creation
Criteria: Industrial impact
Criteria: Fund what no one else will
Criteria: Financial feasibility
Criteria: Entrepreneur characteristics - testing
Criteria: Entrepreneur characteristics - tenacity
Criteria: Entrepreneur characteristics - Leadership
Criteria: Entrepreneur characteristics - experience
Criteria: Education
Criteria: E: Forms of funding
Criteria: E: Experience
Criteria: E: Education
Criteria: E: Characteristics
Criteria: E: Entrepreneur
Criteria: Disadvantaged people access economy
Criteria: Country needs
Criteria: Corporates
Criteria: Collateral
Criteria: Business types
Criteria: Bankable contracts
Criteria: Mandate of fund

Challenges: Financiers - Numbers don't make sense
Challenges: Financiers - lack of engagement
Challenges: Financiers - lack of business experience
Challenges: Financiers - Lack of access to market
Challenges: Financiers - Entrepreneurs
Challenges: Financiers - business plans

APPENDIX D: ETHICAL CLEARANCE REPORT



Dear Thashnee Padiaychee

Protocol Number: **Temp2015-02292**

Title: **Enabling Access to SME Entrepreneurial Funding**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker