

Owner-manager experience and loan default propensity of SMMEs

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Abstract: - The paper investigates the option of determining the loan default propensity of an SMME by relying on non-financial indicators associated with owner-manager experience. This is essentially because the potential of SMMEs to contribute to economic development has been reduced by a cocktail of problems of which inaccessibility to finance in the form of institutional loans is protuberant. This problem is linked to the lenders' loan default propensity estimation, often based on financial indicators which small businesses are not quite adept at using to signal their performance ability. The study, an applied research effort, is executed from a positivist standpoint. Using a deductive reasoning approach, hypotheses were formulated from a review of extant literature. A survey research strategy was then adopted and data was collected in a cross-sectional manner from a randomly selected sample of owner-managers, so as to empirically ascertain the (non)existence of a relationship between each of three dimensions of owner-manager experience and business loan default propensity. Results revealed that for all categories of small businesses, regardless of size, industry experience rather than managerial experience of the owner-manager had a significant association with business loan default propensity. On the other hand, interestingly, the association of loan experience of the owner-manager and business loan default propensity was business size-dependent. This, points to size-dependent idiosyncrasies, a reality often overlooked when the small business population is treated as a homogenous set in the loan default estimation process and this should prove invaluable for institutional lenders and SMMEs, alike.

Key-Words: - Small business; Experience; Owner-Manager; Loan Default Propensity; SMME

1 Introduction

The importance of entrepreneurship for modern societies has been widely highlighted (Pinho & Samaio de Sa, 2014). This position is linked to the fact that entrepreneurship breeds enterprises that can make appreciable contributions to the growth of a nation's economy. It is noteworthy that a huge number of these enterprises fall within the category of small, medium and micro-sized (SMME) businesses. SMMEs are renowned for the contributions that they make towards enhanced productivity and employment and this seems to have made them an important feature of the economic landscape, particularly in Africa. Indeed, Nguyen and Luu (2013) suggest that SMMEs are perceived to be the backbone of many economies. However, according to Allen-Ile and Eresia-Eke (2007), in Africa, the much touted potential of SMMEs remains inert as aggregate contributions made by the small business sector tends to fall short of expectations.

This can be attributed to a plethora of reasons, amongst which, that of inaccessibility to finance for enterprises in the small business sector, remains pre-eminent (Eyiah, 2001). The issue of inaccessibility to finance, therefore, is one that is deserving of attention if the small business sector is to attain its promised potential. Freel, Carter, Tagg and Mason (2012) opine that the issue of inaccessibility to finance faced by SMMEs, though well documented, continues to hamper the growth of small businesses. In sub-Saharan Africa, this pervasive issue of inaccessibility to institutional credit that remains a critical obstacle (Fjose, Granfeld & Green, 2010) and continues to beleaguer the development of the small business sector is linked to the challenge that lenders encounter in separating the business with a low loan default propensity from that with a high loan default propensity. This filtration exercise, in practice, is often hinged upon the estimation of the extent of success potential that the business embodies. This can be quite problematic as is

evidenced by the fact that the measurement of credit risk posed by small businesses has become a major concern worldwide (Caner & Karan, 2012)

In the environment of information asymmetry that characterizes small business lending; this exercise continues to be a challenging prospect akin to decision-making under uncertainty. Moreover, in trying to predict success or failure of an SMME and by inference, its loan default propensity, formal lenders have tended to rely immensely on historical and forecasted financial information. While such information appears suitable for the evaluation of the potential of large-scale enterprises, they seem to be ill-suited for small businesses (Keasey & Watson, 1991). This as McConnel and Pettit (1984) note is because research has found that signalling of corporate health by the use of financial data is not a strong point of small businesses. So, since financial measures may not fully represent veritable indicators of performance (Pinho & Samaio de Sa, 2014), there is a need for some recourse to the use of non-financial information in the decision process for debt-financing of SMMEs. Blackburn, Hart and Wainwright (2013) argue that an overall understanding of small business performance may be gained by a consideration of some non-financial characteristics of the organisation and the owner-manager. Consequently, such non-financial considerations can be significant indicators of the credit risk of a small business and should be adopted by formal lenders (Caner & Karan, 2012)

To this end, this study investigates the association (or lack of it) between the non-financial factors of owner-manager experience and business loan default propensity. To be sure, it is the human capital theory that provides the premise to infer that loan default propensity of a business can be linked to some characteristics of the owner-manager due to his/her pronounced influence on the overall operations of the firm (Hansen & Hamilton, 2011; Wiklund & Shepherd, 2005). The central impetus for the study stems from the fact that research specifically targeting loan default propensity in small businesses is generally lacking (Allen-Ile & Eresia-Eke, 2007); more arguably so, within the African continent.

The study is therefore motivated by the belief that its findings can contribute to efforts aimed at ameliorating the problem of inaccessibility to loans from formal lenders that has been identified as a prime, inhibiting factor of the performance of SMMEs, by unveiling non-financial factors that

could be considered in the loan-decision process of formal lending institutions.

2 Theoretical Foundation

SMME performance has been previously linked to different characteristics of owner-managers (Blackburn et al., 2013). This position finds an ally in Mitchelmore and Rowley (2013) who argue that the success, performance and growth of an SMME is heavily dependent on the owner-manager's competencies. Clearly, this points to the fact that the owner-manager is the single most important resource within a small business (Hansen & Hamilton, 2011). If this is the case, then owner-manager characteristics may provide tell-tale signs of things that might happen in or to the SMME.

In recognition of the human capital theory, appreciable premium is placed upon experience within the business environment. This is evident, for instance, in the area of human resources, where in many organisations, a critical selection criteria for employment is the track record of experience that a candidate possesses. The premise here, clearly, is that experience would impact upon performance. Consequently, rational thinking would suggest that the experience of the owner-manager would have some ramifications for business performance and loan default propensity. This seems reasonable as Westhead and Wright (2000) contend that the learning process which engenders performance is built from an individual's experience, among other things.

Experience may enhance the knowledge of the owner-manager about certain issues and so equip him/her to better deal with such whenever they arise. The value of experience in the organisational scheme of things can therefore be related to the potential it has, for improving knowledge, which in turn improves the decision-making capacity of the owner-manager. Decisions in the organisational context, according to Hambrick and Mason (1984) are often complex and reflect the depth of the decision-maker's cognitive base. It is worthy to note that the impact of experience on organisational performance may be positive or negative (Gasse, 1982). It may be positive in a case where lessons learnt, from prior exposure to certain circumstances, help the owner-manager to avoid or more easily resolve problems that had occurred previously. It may be negative in situations where it ossifies creativity, innovation and adaptability because

owner-managers over-rely on 'ancient' processes or solutions for problems.

For the specific purpose of this study, the interest in owner-manager experience lies along three dimensions – industry experience, managerial experience and loan experience. These dimensions are concerned with experience as it pertains to working in the same industry prior to the establishment of the small business; experience related to undertaking functions in a managerial position, regardless of the industry and then, experience associated with the process of obtaining/repaying loans from formal lenders.

2.1 Industry Experience

Industry experience is concerned with the specific technical knowledge and necessary contacts that may be required for a business organisation to operate successfully. Industry experience relates to knowledge acquired by an owner-manager while working for other businesses in the same industry as his/her current SMME. Such previous employment may allow the owner-manager acquire important knowledge, related to an understanding of the peculiar dynamics and good operational practice of that particular industry. This knowledge gained from work experience can then be put to beneficial use in the current small business established by the owner-manager, as studies have shown that knowledge contributes to SMME performance (Sawang & Unsworth, 2011; McAdam, Antony, Kumar & Hazlett, 2014)

According to Cooper, Gimeno-Gascon and Woo (1994), an owner-manager with industry know-how stands a better chance of business success. This is especially due to the fact that the owner-manager would have acquired a tacit understanding of the critical factors that are necessary for success in that specific environment. Furthermore, they may bring with them, relevant knowledge bases, experiences, contacts and relationships that significantly reduce small business frailties, for instance.

Song, Podoynitsyna, van der Bij and Halman (2008) drew the same conclusion on the nature of the relationship that exists between industry experience and organisational performance. They noted the existence of a positive relationship between industry experience and profitability in a business established. This position is supported by Dunkelberg and Cooper (1982) who argue that production of the same item or provision of the

same service as an owner-manager's previous work organisation(s) would lend itself to better SMME performance. Similarly, Ucbasaran, Westhead and Wrigh (2009) highlighted the importance of owner-experience in the arena of opportunity identification, while Siegel, Siegel and MacMillan (1993) observed that sectorial knowledge, acquired through experience, has a positive impact on business performance.

While there are studies that suggest the absence of a link between experience and performance (West & Noel, 2009; Brush & Changati, 1998; Kallberg & Leicht, 1991) the predominance of studies that have found existing relationships, largely positive in nature, encourages this study to hypothesise that:

There is a relationship between Industrial experience of the owner-manager and small business loan default propensity

2.2 Managerial Experience

Management of an enterprise can be tasking given the complex nature of decision-making in the organisation, which takes consideration of elements in the micro, market and macro environments. Cooper et al. (1994) contend that it is reasonable to expect that prior experience of managerial processes, on the part of the owner-manager, would be relevant and valuable to an organisation.

The primary challenge of management is to enable effective and efficient realisation of goals or objectives of an organisation through the use of available resources. This implies that management bears a primary responsibility for organisational performance. Management experience therefore would have an impact on organisational performance (Srinivasan, Woo & Cooper, 1994).

The impact that managerial experience may have is likely to emanate from acquaintance with better management strategies or methods that may improve the chances of success of the SMME. An owner-manager who has acquired managerial experience from participating in management processes in a prior employment may be more equipped to hone better strategies, motivate employees and make good decisions in an organisation because of the background knowledge that he may draw from.

While previous functional experience aids the acquisition and development of expertise that should

contribute to business performance (Brush & Chaganti, 1998), empirical evidence resulting from studies that investigated the impact of managerial experience on organisational performance is mixed. There are findings that point to the existence of a positive relationship between managerial experience and organisational performance (Bates, 1990; Stuart & Abetti, 1990; Storey, Keatson & Watson, 1987). This is supported by the findings of an inter-industry study of the relationship between managerial experience of the owner-manager and firm performance, where Dyke, Fischer and Reuber (1992) established the existence of a positive relationship existed between the variables.

While no studies that suggest a negative association between managerial experience and organisational performance were found, Sandberg and Hofer (1987) failed to establish any significant relationship between the two variables. In alignment with the results of empirical studies that impute some degree of organisational performance to an owner-manager's managerial experience, the study therefore proposes that:

There is a correlation between the managerial experience of the owner-manager and a small business' loan default propensity

2.3 Loan Experience

The issue of loan experience is similar to those of industry and managerial experience. It is therefore expected that exposure to formal lending processes would equip an individual with the necessary knowledge pertaining to how to obtain and manage loans. Loan experience encompasses lessons that may have been learnt from previous loans obtained. Such lessons would typically equip an individual to avoid certain pitfalls that may cause repayment problems for the business.

This is more so, because lack of experience of the way that formal financial institutions operate lending systems, is a major problem for small businesses (Keasey & Watson, 1991; McConnel & Pettit, 1984). This problem and its consequences are therefore expected to wane if the small business owner-manager has some experience in the way that loans are sought and how the funds obtained may be managed for optimal results. On this premise, therefore, this study proposes that:

There is an association between an owner-manager's loan experience and a small business' loan default propensity.

3 Methodology

From a philosophical perspective, the study has been undertaken with a positivist inclination and so the phenomenon of interest is studied, reliant upon scientific evidence. A deductive approach has been followed particularly for formulating the hypotheses contained in the study. The survey research method was employed due to the large population of SMMEs. Indeed, the study population comprised all enterprises operating in the small business sector but this was however delimited to the formal sector. Only registered small businesses that had bank accounts and were run by owner-managers were considered for the study. While it was desirable to reach all elements that met the study population criteria, it was impracticable and this made the utilization of a sample, imperative. The absence of a comprehensive compendium of small businesses gave impetus to the use of a sample drawn from the database of a chamber of commerce.

Data for the study were collected using the cross-sectional method and analysed with the aid of some quantitative statistical tools. Though the study was a primary research, it was one of an applied nature because it is problem-oriented and directed towards solving particular intellectual puzzles with practical implications. In this specific case, it focuses its attention on a problem in small business lending that has demand-side as well as the supply-side ramifications.

116 of the 350 questionnaires distributed to businesses in the small business sector were returned. This represents a response rate of about 33.1%. This response rate is considered satisfactory especially as Curran and Blackburn (2001) confirm that small business research is typically characterized by low response rates.

The questionnaire contained a loan default propensity scale which had a Cronbach alpha index of 0.83, suggesting that its component items are highly correlated with one another and the scale can be considered to be a single construct scale. Correlation analysis that sought to establish hypothesised associations between the dependent variable of propensity to default and the independent variables was undertaken. Cross

tabulation of loan default propensity categories with actual loan default records was also carried out.

4 Presentation of results

The respondent group of the study comprised different organizations across the small business enterprise spectrum. The dispersion of the members of the sample is shown in Table 1.

Table 1: Size of business organisation

Size of Business	No. of Employees	Frequency	Percentage
Micro	1 – 10	29	25.00
Small	11 – 50	52	44.83
Medium	51 - 100	35	30.17
Total		116	100

In keeping with the SMME terminology, the study separated small businesses into three categories - micro, small and medium. Businesses employing less than ten people were considered to be micro enterprises. Businesses employing between 11-50 persons and those employing between 51-100 persons were categorized as small and medium enterprises respectively. The study population comprised 25% micro-sized enterprises, 44.83% small-sized enterprises and 30.17% medium-sized enterprises.

Measures of central tendency and dispersion were determined for the loan default propensity (LDP) scale. The loan default propensity scale was a 5-point Likert-type scale. Scores obtained by the 116 respondents on the propensity to default sale ranged between 1.3 and 4.5. The mode and median for this scale were 2.3 and 2.9 respectively. The mean score indicates that a typical score in the data set was between 2 and 3, tending towards 3. A standard deviation of 0.709 from the mean score of 2.985 was established. The measure of skewness of the graph depicting the distribution of responses on the propensity to default scale was 0.037. This measure is not only less than 1, but it is quite close to 0, which is indicative of the fact that the distribution of responses is symmetric. The associated kurtosis measure for this scale is -0.891 .

Industry experience and specifically the degree to which the businesses current operations are similar

to what the owner-manager had hitherto been exposed to while working in other organizations, was cross tabulated with the default record of the small business. 86% of businesses that were under owner-managers whose current businesses were 'not at all similar' to any work that they had engaged in, in the past, had a record of default. A similar measure for SMMEs with owner-managers that had previously worked for businesses whose operations were 'not very similar', 'fairly similar', 'very similar' and 'extremely similar' was 79%, 75%, 56% and 35% respectively. These measures indicate a progressive reduction in the percentage of businesses with default record as similarity between current and previous businesses increased.

In terms of managerial experience, cross tabulation of this independent variable with the loan default record of the business showed that out of the 25 SMMEs that were founded by owner-managers without prior managerial experience, 20 or 80% of them had a record of loan default. For the 90 businesses, which had owner-managers with prior managerial experience, 61% of the SMMEs had a record of default. Comparatively, this figure is less than that for businesses with owner-managers that lack managerial experience. Though inconclusive, the cross-tabulation results seem to suggest that owner-manager managerial experience augurs well for loan repayment.

Experience obtained from previous loan dealings with a bank, on the part of the owner-manager was compared to the SMME's loan default record through cross tabulation. The highest percentage realised, as it concerns records of default, was that for the group of SMMEs that had obtained about 3 loans. 85% of SMMEs in the category of organisations that had obtained 3 loans had a record of default. The lowest percentage of 27% was realised for establishments that had already obtained more than 5 loans. The nature of the results from this cross-tabulation provides no room for any relationship conclusions to be drawn.

4.1 Test of hypothesis 1

The study proposed that there is an association that exists between industry-specific prior-experience of an owner-manager and small business loan default propensity. This hypothesis, expressed in null form suggests that:

H_1 (null) *There is no relationship between Industrial experience of the*

*owner-manager and small
business loan default propensity*

Table 2 is a correlation matrix for the explanatory variable of industry experience and the dependent variable of loan default propensity. Results obtained reveal that a statistically significant relationship exists between both variables. This deduction is based on the p-value of 0.046 obtained, at a 95% confidence level. However, the existing relationship is a very tenuous one, going by the value of the correlation coefficient.

Table 2: Correlation matrix for owner-manager industry experience (IE) and loan default propensity (LDP)

		IE
All SMMEs	LDP r p-value (2-tailed) df	-0.197 0.046 102
Medium-sized Enterprises	LDP r p-value (2-tailed) df	- 0.141 0.492 24
Small-sized Enterprises	LDP r p-value (2-tailed) df	- 0.341 0.027 40
Micro-sized Enterprises	LDP r p-value (2-tailed) df	0.174 0.462 18

The same pattern of a statistically significant association existing between both variables remained when the sub-group of “small-sized” businesses was subjected to a similar test. For this sub-group, the p-value was 0.027. The results obtained for the two other sub-groups of “micro” and “medium” sized establishments were different. The p-values for both sub-groups were above 0.05, which suggests that the association between both variables bears no statistical significance. In the light of the fact that the study hypotheses were formulated with all small businesses considered as a single group, the null hypothesis is rejected and the alternate hypothesis, which expresses the existence of an association between the two variables is accepted.

4.2 Test of hypothesis 2

The interest here relates to the possibility of an association between the managerial experience that the owner-manager garnered in previous places of work and how this relates with the small business’ loan default propensity. In its null form, the hypothesis suggests that:

H_2 (null) *There is no correlation between the managerial experience of the owner-manager and a small business’ loan default propensity*

As shown in Table 3, results obtained for the test of association between managerial experience of the owner-manager and the small business’ propensity to default, reveal a p-value of 0.997 ($p > 0.05$). This result paves the way for the study to conclude that there is no statistically significant relationship that exists between both variables. The same procedure was undertaken for the sub-groups of “micro”, “small” and “medium” sized business with basically the same result, which indicates the non-existence of a statistically significant association between both variables.

Table 3: Correlation matrix for owner-manager managerial experience (ME) and loan default propensity (LDP)

		ME
All SMMEs	LDP r p-value (2-tailed) df	0.000 0.997 102
Medium-sized Enterprises	LDP r p-value (2-tailed) df	- 0.040 0.844 24
Small-sized Enterprises	LDP r p-value (2-tailed) df	0.003 0.984 40
Micro-sized Enterprises	LDP r p-value (2-tailed) df	- 0.101 0.671 18

It is based upon these results that the study accepts the null hypothesis and rejects the alternate hypothesis as they relate to the association between managerial experience and loan default propensity.

4.3 Test of hypothesis 3

The study was interested in investigating the existence of a relationship between the loan-experience of an owner-manager and the propensity to default that a small business would embody. To this end an informed suggestion of the existence of an association between both variables of interest was formed. It is hypothesised, in its null form that:

H_3 (Null) *An owner-manager’s loan experience is not correlated with the loan default propensity of the business.*

Table 4 shows that a p-value of 0.837 was obtained in the process of statistical analysis of the supposed association between loan experience of the owner-manager and loan default propensity of the small business. This result indicates that the relationship between both variables is not statistically significant.

Table 4: Correlation matrix for owner-manager loan experience (LE) and loan default propensity (LDP)

		LE	
All SMMEs	LDP	r	- 0.020
		p-value	0.837
		(2-tailed)	
		df	102
Medium-sized Enterprises	LDP	r	- 0.370
		p-value	0.063
		(2-tailed)	
		df	24
Small-sized Enterprises	LDP	r	0.041
		p-value	0.796
		(2-tailed)	
		df	40
Micro-sized Enterprises	LDP	r	0.348
		p-value	0.133
		(2-tailed)	
		df	18

When businesses in the sub-groups of “micro” and “small” categories were similarly examined, the results obtained also pointed towards the non-existence of a statistically significant relationship between the variables of interest. However, the p-value obtained for medium-sized businesses was 0.063, which suggests statistical significance at a 90% confidence level. Based upon the results obtained for the all-inclusive group of small businesses, the null hypothesis is accepted and the alternate hypothesis is rejected.

4.4 Cross tabulation and correlation of propensity to default scores and actual default

An attempt was made to determine if businesses that scored high on the propensity to default scale did actually default and vice-versa. In order to do this all the companies were categorised into two groups on the basis of the scores they obtained on the propensity to default scale. The mean score for this scale was 2.9. Those who obtained scores above 2.9 were considered to belong in the low-propensity to default category and those that obtained scores lower than 2.9 were considered to be in high-propensity to default group.

Table 5 shows the cross-tabulation of companies’ loan default propensity categories against the incidence of actual default. The table indicates that 76 or 66% of the 116 businesses that constituted the relevant sample for the study had a record of actual default while 40 (34%) did not. Of the entire lot, 45 (76%) of the 59 companies in the high propensity to default category had defaulted on their bank loans at some point in time. 24% of companies in this category however did not appear to have any record of default.

Table 5: Cross tabulation of Loan default propensity (LDP) category with actual default

		Company has no default record	Company has a record of default	
High LDP category	<i>Freq</i>	14	45	59
	<i>%</i>	12.07	38.79	50.86
Low LDP category	<i>Freq</i>	26	31	57
	<i>%</i>	22.41	26.72	49.14
Total	<i>Freq</i>	40	76	116
	<i>%</i>	34.48	65.52	100

There were 57 companies that were categorised as having a low propensity to default. 26 (or 46%) of the small businesses in this category had no record of default while 31 (or 54%) of them had defaulted sometime in the past.

Correlation tests were undertaken to further ascertain the relevance of the propensity to default score obtained by small business organisations by

relating them to actual defaults in the form of default ratios. The default ratio was determined by dividing the number of default incidents by an organisation with number of loans obtained.

$$\text{Default ratio} = \frac{\text{No. of loan defaults}}{\text{No. of loan obtained}}$$

The results of the correlation analysis are shown in Table 6. The table indicates that the correlation between LDP and default ratio was significant in all cases except for micro-sized businesses employing between 1 and 10 persons. The closest relationship was identified among medium-sized organisations where the Pearson correlation coefficient was 0.708 indicating a strong and positive association between the variables of interest. Among small-sized organisations, this relationship also existed even though in a weaker form as the associated Pearson correlation coefficient was 0.409.

Table 6 Correlation between loan default propensity and default ratio (DR)

		DR
All SMMEs	LDP r	0.277
	p-value(2-tailed)	0.003
	n	116
Medium-sized enterprises	LDP r	0.708
	p-value (2-tailed)	0.001
	n	35
Small-sized enterprises	LDP r	0.409
	p-value (2-tailed)	0.003
	n	52
Micro-sized enterprises	LDP r	-0.172
	p-value (2-tailed)	0.371
	n	29

When all the organisations were subjected to similar examination, the relationship between propensity to default score and default ratio remained positive though quite tenuous in this case. These results underline the relevance of the propensity to default score of an organisation in trying to gauge the likelihood of a business defaulting on a bank loan.

5 Discussion

In pursuit of the aim of the study, three relationships were hypothesized expressing a possible association between the dependent variable of loan default propensity and an experience explanatory variable.

The relationship between experience of the owner-manager gained in the same industry as the one in which the small business operates and the business' loan default propensity was investigated. Results of statistical tests suggest the existence of a significant association between both variables. This result was the case when all respondent businesses were investigated as a single homogenous grouping. The association between both variables is negative but weak.

Similar results were also obtained for establishments in the small-sized businesses category. The findings suggest that the more experience an owner-manager of an SMME has from the industry in which the business he currently oversees, operates, the lower the loan default propensity that the business would embody. This finding is in agreement with those of Agrawal, Echambadi, Franco and Sarkor (2004), Klepper and Sleeper (2005), Pinho and Sampaio de Sa (2014) as well as Ucbasaran et al (2009) who all found that industry experience facilitates the acquisition of 'know-how' which on the part of the small business owner-manager should lend itself to better business performance and inferentially lower default propensity.

It was also projected that there would be a relationship between the managerial experience of the owner-manager of a small business and the business' propensity to default on a loan. Results of the statistical analysis that examined this proposition indicate that no statistically meaningful association between both variables exists. This was the situation with all the categories of businesses investigated. These results suggest that from a statistical perspective, the loan default propensity of a small business cannot be inferred from knowledge of the managerial experience of the owner-manager of the business.

The absence of an association between both variables differs, somewhat, from the findings of Soriano and Castrogiovani (2012), Dyke et al. (1992), Stuart and Abetti (1990) as well as Brush and Chaganti (1998) that found that managerial experience enhances performance in SMMEs. It nonetheless aligns with the research results obtained

by Sandberg and Hofer (1987) that failed to establish any significant relationship between managerial experience and organisational performance.

The expectation of the study was that experience of the owner-manager of an SMME as it relates to loans would lower the probability of the business managed by such an individual to default on a loan. This was the rationale that underpinned the postulation of hypothesis 3. The results of this investigation indicate that at the 5% level of significance, both variables of interest demonstrate no relationship. The implication of this is that the explanatory variable of loan experience bears no association with the dependent variable of a business' loan default propensity.

However, when only medium-sized businesses were investigated for the possible existence of this relationship, the results obtained pointed to the fact that an owner- manager's loan experience is related to the business' loan default propensity. Though significant at a 90% confidence level, the relationship was not a strong one and it was a reverse association. In effect, for this group of businesses, higher loan experience of the owner-manager correlates with lower loan default propensity.

6 Implications and recommendations

The results of the study point to the existence of size-related similarities and dissimilarities in the existence of associations between independent variables of experience and the dependent variable of loan default propensity across the entire spectrum of small businesses. These results therefore provide no grounds for lenders to deal with SMMEs as a single homogenous sect. It would appear that it might be beneficial to consider the sub-categories of businesses in the broad SMME band separately. In this way, specific lending practices or procedures can be developed which would be more efficacious as far as small business lending is concerned.

With respect to the investigated association of industry-experience with loan default propensity, the study's finding of a statistically significant relationship at a 95% confidence level is instructive. The results highlight the importance of the work-experience of the owner-manager of the business given that the relationship between industry experience and loan default propensity is an inverse

one. On the part of the formal lenders, it would seem reasonable to be favourably disposed towards SMMEs with owner-managers that have some experience in the industry in which they have established a business. This kind of experience is expected not only to have equipped them with the technical know-how of operations, but also, may have enabled access to intra-industry business networks where relationships cultivated should inadvertently contribute to business success. On the part of the small business owner, the implication of the result is that the acquisition of technical experience prior to the establishment of a business in the same industry would augur well for the enterprise.

Contrary to the situation with industry-experience, the result of the study was that there was no statistically significant relationship at a 95% confidence level between business loan default propensity and its owner-manager's managerial experience or indeed, loan experience. In effect, prior experience as a manager acquired by the owner of a business, would not necessarily improve the potential of the business to meet its loan obligations. The implication is therefore that in the small business lending process, little attention could be paid to prior managerial experience, if the intent is to estimate loan default propensity.

The findings of the study also suggest that the likelihood of loan default is neither enhanced nor inhibited by experience acquired through the obtaining of other loans in an individual or organisational capacity. It is interesting however that at a 10% significant level, there is an identified statistically significant relationship between loan experience and loan default, for medium-sized enterprises. Since this identified relationship is an inverse one, it would appear that owner-managers that have some loan experience would be sufficiently acquainted with proper loan management practices and this should help the businesses they oversee meet loan repayment obligations. It therefore appears beneficial that small business owner-managers acquaint themselves properly with all of the broad issues associated with small business lending before securing loans.

The identified positive correlations between loan default propensity and default ratio show that small businesses who ultimately default often embody some propensity to do so. The need for tangible support in terms of education and training for owner-managers of small business in a bid to

improve technical know-how that enhances business performance which should in turn, reduce business loan default propensities is therefore, imperative.

The importance of research that focuses on the problem of estimating loan default propensity of small business cannot be overemphasised. While the current study was conducted in South Africa, it might be interesting to attempt to validate some of the findings in other countries as some of the variables considered may be subject to geographical nuances.

Furthermore, it is believed that the value of a study of this nature can be enhanced if the research is a longitudinal rather than a cross-sectional one so it is pertinent that a similar study is conducted with a longitudinal approach. The strange finding of an association of higher propensity to default with lower default ratios in micro- sized businesses that employ less than 10-people is worthy of further investigation. This is especially because further study with a larger sample population would provide more impetus for substantive conclusions to be drawn, which this study is unable to do because of the small number of sample elements that belong in this specific category.

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