



# **Entrepreneurial funding criteria: Understanding the gap between Funders and Entrepreneurs**

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## ABSTRACT

The first objective of this research is to investigate Funders' perceived importance of the investment criteria across four stages of growth, and to identify Entrepreneurs' understanding of investment criteria across four stages of growth.

The second objective is to identify gaps between Funder application of investment criteria and Entrepreneurial understanding of application of investment criteria across four stages.

The third objective is to identify if any differences are systemic across all four stages.

The survey was undertaken in South Africa. There were 62 respondents who completed questionnaires. Two groups participated: Venture Capital firms and Entrepreneurs, and were asked to judge the importance of investment criteria.

This study found that there are differences in Funders' perceived importance of criteria across four stages of growth. Entrepreneurs, however, had a similar understanding across all four stages of growth. There are no significant differences between Funders and Entrepreneurs experience of the growth stages. However, further investigation revealed that across the criteria between the two samples there are significant differences. Criteria acted in an interactive manner, whereas the stages did not. Therefore, the proposition that there will be significant differences between Funders application of criteria and Entrepreneurs experience of funding criteria has been proven incorrect.

## KEYWORDS

Entrepreneur

Growth Stages

Funder

Start-up

Venture Capital

## 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.

Frans Sarel Jacobus Els

7 November 2012

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## CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

### 1.1 The problem statement

Mr Rob Davies addressed parliament on 18 May 2012, stressing that we should share our expertise and experience and pool access to finance as the economic power of the world is shifting from the North and West to the South and East, which offers substantial opportunities for South Africa (Davies, 2012, p. 5).

The European Private Equity and Venture Capital Association (EVCA) (2007, p. 3) claimed that private equity and Venture Capital is an increasingly important source of finance for potential companies as three quarters of Europeans consider a lack of financial support as the main reason for it being difficult to start their own business. In 2008, Venture Capital-backed firms accounted for 11 percent of jobs and 21 percent of GDP in Europe (Dos Santos, Patel & D'Souza, 2011, p. 2).

A lack of financing instruments designed for the Entrepreneurs' particular needs is one of the challenges that prevent small and medium enterprises in developing countries from expanding operations and contributing to economic growth (Leo, 2010, p. 1).

Entrepreneurs are playing an increasingly important role in the South African economy and according to the outcomes from The Entrepreneurial Dialogues in 2010, these individuals need to be identified and nurtured (Fal, Sefolo, Williams, Herrington, Goldberg & Klaassen, 2010, p. 10).

*'South Africa needs a vibrant new business ecosystem to generate the kind of job growth necessary to make a dent in the 25% unemployment rate haunting this country. We know SMEs and new businesses are the only sustainable way to create economic growth and employment, yet the environment can be particularly unfriendly to newcomers, burdened with administrative red tape and the lack of access to capital'*

*(Charalambous, 2012, p.1)*

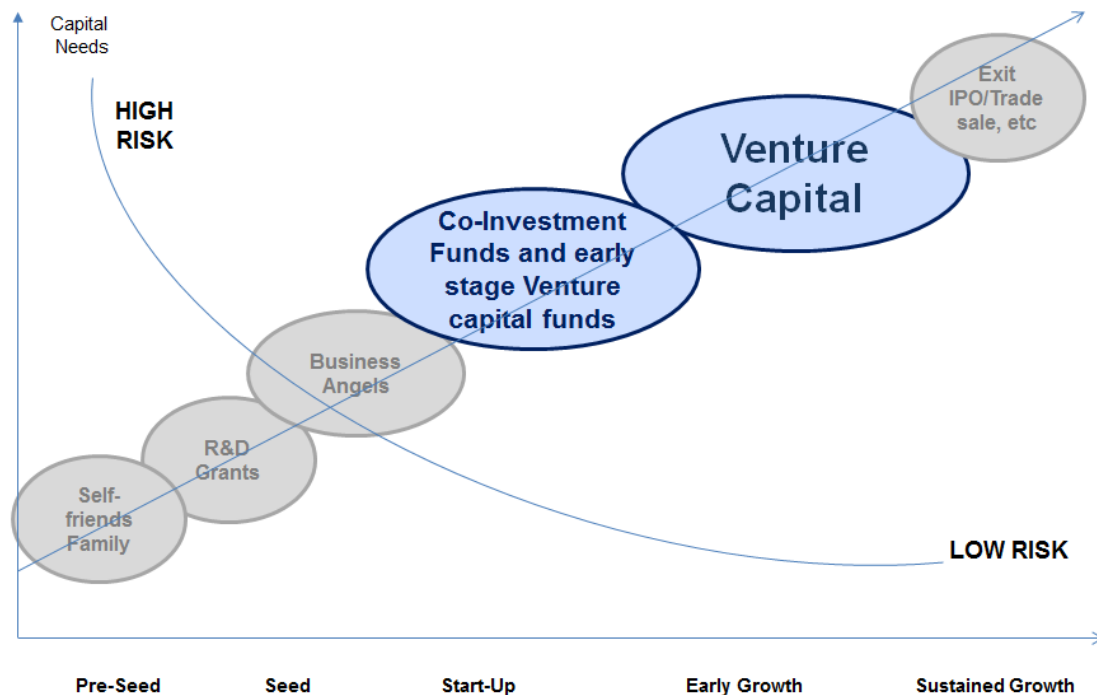
The executive officer of the Southern African Venture Capital Association (SAVCA), J P Fourie, stated that the South African Private Equity and Venture Capital industry has over R100 billion under management. The supply of Venture Capital to the Small and Medium Enterprise (SME) segment is an integral part of a healthy funding economy. The supply of risk capital enables the formation and growth of businesses that would not be able to raise other forms of finance due to the risk profile of such investments. Little is known of the exact nature, scope impediments, opportunities and associated data regarding Venture Capital activity in South Africa (Lamprecht & Swart, 2010, p. 4).

## 1.2 Venture Capital

SAVCA defines Venture Capital to be a subset of Private Equity asset class which deals predominantly with equity funding of high tech, high growth-potential businesses, the needs of which originate from the specific requirements of businesses in start-up and early growth phases (Lamprecht & Swart, 2010, p. 6).

ACCESS-ICT.com (2012, p. 3) breaks the various sources of finance down into a ladder of finance (Figure 1), indicating that Venture Capital firms expects high returns for the risk they take and is targeted at start-up, early stage, high growth companies.

**Figure 1: Ladder of finance**



Source: ACCESS-ICT.com (2012, p. 3)

Investors should have an active equity strategy to target high dividend yields in the current economic environment as high dividend yield strategies work best in deflationary environments (Hulett, 2012, p. 7).

However, it is not only newcomers who are faced with challenges. Access to capital was discussed at length in *The Entrepreneurial Dialogues* by Fal *et al.* (2010, p. 14 - 15), and the insights clearly show that there is a disconnect between the Entrepreneurs and Funders with regards to:

- Too many Entrepreneurs being in saturated markets / industries make them less attractive to Funders
- The Entrepreneurs are most often un-researched and unprepared for the lengthy process of accessing funding
- Entrepreneurs' expectations are not managed. They expect a quick and easy process and tend to become very pessimistic when this does not happen
- In the majority of cases the perception is that capital is the main reason for business success, whereas there are various factors, including the Entrepreneur him/herself which play a role in the business succeeding
- Discrepancies in matching between funding mandates, criteria applied and the Entrepreneur's eligibility to funding

Based on these insights, the recommendation was that a more direct approach is needed to address this perception gap and this could be achieved by analysing feedback from Entrepreneurial groups on their experiences in trying to access capital (Fal *et al.*, 2010, p. 15).

### **1.3 Research Objectives**

The first objective of this research was to identify firstly the Funders' perceived importance of the criteria identified in Chapter 2 across the four stages of growth: seed stage, start-up stage, early growth stage and sustained growth stage and secondly to identify the Entrepreneurs' understanding of the importance of the criteria across the four stages of growth.

The second objective was to identify gaps, if any, between the Funder usage of the investment criteria and the Entrepreneurial understanding of the investment criteria across the four stages.

The third objective was to identify if any differences are systemic across all four stages.

#### **1.4 Scope of the research**

Given this context, the aim of this study is to create a comprehensive understanding of the criteria applied for evaluating Entrepreneurial ventures within South Africa. A comprehensive understanding will be created by exploring the differences and similarities between Funders' application of evaluation criteria and Entrepreneurs' experiences and understanding in the application of these criteria during each growth stage.

The author intends contributing to the growing body of knowledge on Entrepreneurial funding, but most importantly to identify if there is a perception gap between these two stakeholders.

This study will be conducted within the boundaries of South Africa, with a specific focus on Entrepreneurs and Venture Capital Funders. In the context of this study, Funders are categorised as Venture Capital firms and Banking Institutions which invest in Entrepreneurial ventures. The focus will furthermore be on exploring all four growth phases, which are the seed stage, start-up stage, early growth stage and sustained growth stage.

#### **1.5 Research Structure**

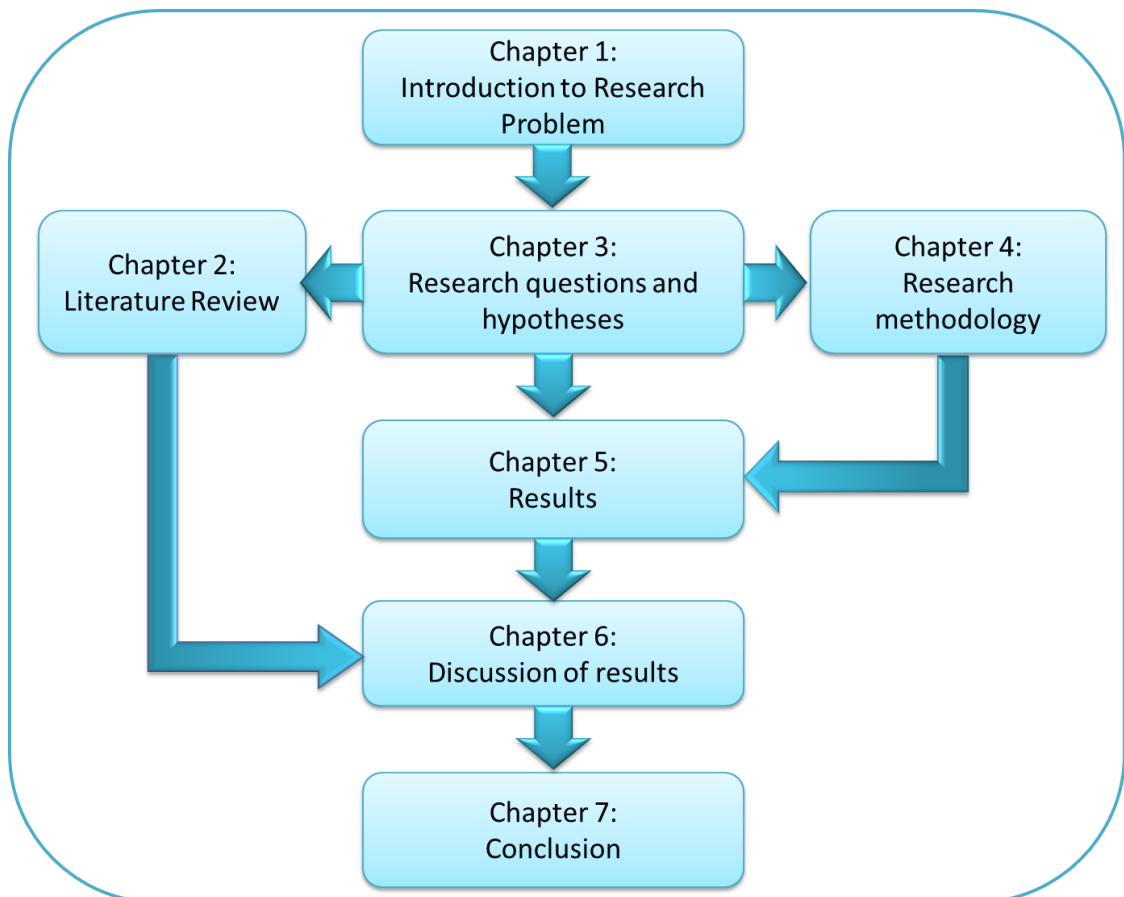
The structure of this research is depicted in Figure 2.

Chapter 2 provides insights into the existing literature and theories. Chapter 3 focuses on the specific research questions and hypotheses. Chapter 4 discusses the research methodology employed to carry out the research, a survey as well as face-to-face interview and data analysis process and finally discusses limitations with the research.

Chapter 5 presents the results of the study performed, followed by a discussion of these results in Chapter 6 relating them back to the literature as described in Chapter 2.

Chapter 7 concludes the research with recommendations for further research as well as detailing the contribution of this research to understanding the gaps between the Funder's application of funding criteria and Entrepreneurial understanding of the funding criteria across the four stages of growth.

**Figure 2: Research structure**



## CHAPTER 2: LITERATURE REVIEW

### 2.1 The Entrepreneur

The South African Entrepreneurs & Enterprise Development Initiative (SEED Insight) (2012, p. 2) explains that the key success factors of any Entrepreneur are embodied in the elements of skills, expertise and aptitude, talent, and in more detail: perseverance, commitment, creativity, a positive attitude and most importantly management skills and ability to deal with external factors.

Individuals need to be motivated to become and succeed as Entrepreneurs even though the challenge exists of a restriction of choice in a variety of risk capital (Sarasvathy, 2004, p. 708).

Challenges include a lack of access to financing instruments designed for their needs as well as Entrepreneurs facing budget constraints that limit spending on resources (Allen & Hall, 2009, p. 116). Although start-up rates differ significantly between countries and within regions of the same country, start-up ventures are important for economic growth (Gries & Naude, 2009, p. 2).

### 2.2 Forms of funding

An Entrepreneur's most likely source of outside finance is listed by Van Osnabrugge & Robinson (2000, p. 37) as being:

- Founder, family and friends
- Business angels
- Venture Capital firms
- Banking institutions
- Non-financial corporations
- Initial Public Offerings (IPOs) and equity markets

The Organisation for Economic Co-operation and Development (OECD) (2006, p. 83) argues that the Venture Capital firm may participate at any stage of the process, from seed funding, before production has begun, to expansion. EVCA (2007, p. 6) agrees with this and goes further stating that Funders have a particular emphasis on Entrepreneurial undertakings rather than on mature businesses.

This raises the question as to whether the criteria applied by Funders to evaluate companies in different growth stages are similar. ACCESS-ICT.com (2012, p. 2) lists the different growth stages:

1. **Seed capital stage**, where the Entrepreneur has an idea and Funders are willing to provide funding up to €50 000
2. **Start-up stage**, where the Entrepreneur has researched the market and established a working prototype and Funders willing to fund up to €50 000
3. **Early stage**, where the Entrepreneur has completed the product and generated sales and Funders are willing to fund between €50 000 and €1million
4. **Growth and expansion stage**, where the Entrepreneur has an established business, generating profits and needs funding to develop new products and explore new markets and Funders are willing to provide funding from €750 000 upwards

Lamprecht & Swart (2010, p. 6) defined the four stages of Venture Capital for use in their research on Venture Capital funding as follows:

1. **Seed funding** is the initial capital used to start a business, which often comes from the company founders or friends and family, which is used to pay for preliminary operations such as market research and product development
2. **Start-up capital** is funding used for setting up operations, such as employing staff, renting offices and equipping the production system, but start-up capital would also be used to commercialise intellectual property
3. **Development capital** is finance which is used after start-up capital to further launch the business and grow market share in an attempt to become profitable. This is mostly pre-revenue deals
4. **Growth capital** is equity type investments used in expanding activities such as launching into foreign markets, creating new products, creating new technology markets and accelerating production. This is mostly post-revenue deals and used to assist established but still high-risk ventures.

Venture Capital firms prefer to fund new ventures with either debt or equity which will be discussed further.

### **2.3 Debt versus Equity**

Hulett (2012, p. 6) explains that the world has relied on the developed economies to act as a last resort over the past 30 years with external debt-to-GDP levels rising from just over 50% to nearly 300%, which led to spenders not having the capacity to take on more debt, which will constrain growth potential.

Martel & Scheid (2011, p. 1) explains that an Entrepreneur has to give up something in exchange for funding from a Venture Capital firm, as most Venture Capital firms are not interested in receiving the capital that they have invested along with a standard interest rate.

Debt financing is explained by Barringer & Ireland (2008, p. 276) as getting a loan or selling corporate bonds and focuses on obtaining loans and lenders insist on ample collateral to fully protect the loan, which can include the Entrepreneur's personal assets to be collateralised as a condition of the loan.

Bank loans are one of the highly sought after options for funding of a start-up firm in the high-tech industry, but only 7 percent of such firms actually succeeded obtaining funding for their venture. For those mature firms raising a second round of funding, commercial banks become an important source of finance (Van Osnabrugge & Robinson, 2000, p. 53 - 55).

Table 1 summarises the differences between debt and equity funding. The provider for debt finance is usually banks and the risk is low, but the provider for equity finance is usually Venture Capital firms and Business Angels where the risk is usually high. The bank will usually ask for security on loans and will get its money back with interest and will stand first in line to be paid should the business fail. The Venture Capital firm could realise a high return on his investment should the business be very successful, but will stand last in the queue should the business fail (Van Eeden, 2004, p. 7).

**Table 1: Venture Capital versus Debt**

	<b>Debt financing</b>	<b>Equity financing</b>
<b>Provider</b>	Usually banks	Venture capital firms and business angels
<b>Risk</b>	Generally low	High
<b>Claims against Entrepreneur if something goes wrong</b>	None, but banks usually ask for security on loans.	None
<b>What if the business barely survives?</b>	The bank will still get its money back and the bank manager will be happy.	The Venture Capital firm will not realise its investment
<b>What if the business is very successful?</b>	The bank will only get back the borrowed amount plus interest.	The Venture Capital firm will be entitled to a portion of the business and will realise a high return on investment. The Venture Capital firm can choose to sell its stake in the business or continue its ownership in the business and share in its profits.
<b>What if the business fails?</b>	The bank will stand first in the line together with other creditors and should get back a portion of the loan.	The Venture Capital firm will stand last in the queue and will only get money after all the debtors have been paid.

Source: Van Eeden (2004, p. 7)

## **2.4 Venture Capital**

### **2.4.1 Venture Capital firms**

Although Venture Capital funding is not right for all Entrepreneurs, companies with high growth potential, such as electronics manufacturers, green technologies and other high tech ventures fare best with Venture Capital funding (Martel & Scheid, 2011, p. 2).

Barringer & Ireland (2008, p. 327) define Venture Capital firms as firms who encourage investors to invest, typical from \$75million to \$200million in Venture Capital Funds. The Venture Capital firms then invest in start-ups and growing ventures, typically 20 to 30 companies over a 3 to 5 year period. The Venture Capital firm manages the fund and receives an annual management fee as well as an additional 20 to 25% of the profits earned by the fund (p. 327).

ACCESS-ICT.com (2012, p. 8) explains that a Venture Capital firm will make larger investments than business angels (from 3million to 5million euros), which it will raise from institutional and individual investors and use to buy companies with high growth potential.

The OECD (2006, p. 84) explains that Venture Capital firms find individuals with strong management background. These firms diversify their investments, thereafter they screen potential deals, raise funds and then structure financing and monitor performance.

Some investors prefer a “hands-on” approach as they wish to operate very closely with the Entrepreneur and his team. Others prefer a “hands-off” approach where the Entrepreneur’s team is more experienced and the investor would prefer to be less involved in the day to day operations of the business. They will only engage in the event of a crisis. Other investors prefer to be present as board members, which allow the company the benefit of their experience. They may also take part in important committees (EVCA, 2007, p. 32).

#### **2.4.2 Advantages and disadvantages of using Venture Capital**

Martel & Scheid (2011, p. 1) explain that Venture Capital is not easy to obtain, warning that business owners who wish to apply for Venture Capital will be turned down, unless a business plan can demonstrate high rates of return within a five year period. They also explain that Venture Capital firms have a vested interest in the success of the ventures they approve and could therefore assist with legal and payroll matters as well as taxation issues.

Venture Capital firms add value by bringing investors and Entrepreneurs together, making superior investment decisions and providing non-financial assistance which enhances survival (Zacharakis & Meyer, 2000, p. 325).

The Venture Capital firm offers financial, managerial and marketing support to the venture until it materializes (Al-Suwailem, 1998, p. 4).

Venture Capital firms may also offer human resources as they often provide consultants who specialise in hiring the best talent, which can prevent a start-up from the pitfalls of hiring inappropriate people (Martel & Scheid, 2011, p. 1).

There are some disadvantages of Venture Capital funding, such as the fact that a Venture Capital firm may insist on being a member of the management team in order to ensure that the company will be successful which could create internal problems. These Venture Capital firms could also require equity of up to 60 percent in return for funding. This would mean the Entrepreneur will lose control over the venture. The Entrepreneur could also face the fact that Venture Capital firms could have access to sensitive information detailed in the business plan of the Entrepreneur as most Venture Capital firms do not agree to sign non-disclosure agreements (Martel & Scheid, 2011, p. 1).

## **2.5 Criteria for selecting investments**

The Finance Authority of Maine (FAME) (2003, p. 9) highlighted the investment principles guiding most firms, which are to be highly selective, seeking companies with the following criteria:

- Innovative products
- Outstanding management teams
- Companies with a clear and realistic strategy
- Companies where they can add value
- Ventures where they can play a significant role in the management
- Ensuring that companies have access to enough capital
- Building a diverse investment portfolio

The main investment criteria identified in studies from 1970 to 2004 as reviewed by Khanin, Baum, Mahto & Heller (2008, p. 188 - 190) are as follows:

- Top management team competency, skills, expertise, characteristics
- Market and market growth
- Uniqueness of product
- Various risks
- Projected returns from investment to justify a venture's funding
- Exit choices
- Quality of the deal
- Venture strategy
- Analysis of customers' perspective
- Competitive threat in an industry sector

Investing in teams and markets is highlighted by Engel (2011, p. 38 - 39), who stressed that one should eliminate pain, and focus on customer development and not product development and that it is more important to dedicate resources in stages.

For Venture Capital firms, the Entrepreneur and thereafter the initial impressions of the venture's feasibility remain the most important decision factor, while the management team and financials become critical in the later stages in the investment (Van Osnabrugge & Robinson, 2000, p. 141).

Hudson & Evans (2005, p. 3) analysed different researchers' view of the stages in Venture Capital firms' management process and concluded that there is agreement on the following stages:

1. Deal generation
2. Initial screening of venture proposals
3. Project evaluation and due diligence
4. Deal structuring
5. Post-investment activities or monitoring progress
6. Exit or cashing out strategy

Hudson & Evans (2005, p. 6) found that Venture Capital firms screen and assess investment opportunities during the screening stage. They analysed eight different studies conducted between 1974 and 1993 and concluded that these studies agreed on the following six investment criteria:

- Management skills and experience
- The venture team
- Product attributes
- Market size
- Market growth
- Expected return on investment

Hudson & Evans, (2005, p. 7) suggested additional criteria as being important, which approximates Porter's model of the five forces of competition, namely:

- Competitive conditions
- Market share
- Business strategy

**Table 2: Evaluation of investment criteria**

Evaluation criteria	Wells	Poindexter	Tyebee & Bruno	MacMillam et al.	MacMillam et al.	Robinson	Timmons et al.	Hall & Hofer
Year	1974	1976	1984	1985	1987	1987	1987	1993
Methodology	Personal interviews	*Ques	Phone survey & *Ques	*Ques	*Ques	*Ques	Unstructured interviews	Verbal protocols
Sample size	8	97	87	100	67	53	47	16
<b>Characteristics of the Entrepreneur</b>								
Management skill & experience	X	X	X	X	X	X	X	X
Venture team				X	X	X		X
Management Stake in Firm		X	X					
Personal motivation	X					X		
Entrepreneur Personality				X				
<b>Product Service characteristics</b>								
Product attributes	X		X	X	X			
Product differentiation			X				X	
Proprietary	X			X	X			
Growth potential			X					
Market acceptance				X			X	
Prototype				X				
<b>Market characteristics</b>								
Market size	X		X				X	X
Market growth	X		X	X	X	X	X	
Barriers to entry			X				X	
Competitive Threat				X	X		X	
Venture creates new market				X				
<b>Financial characteristics</b>								
Cash-out method	X		X					X
Expected ROI		X	X	X			X	
Expected Risk		X						
Percentage of Equity		X						
Investor provisions		X						
Size of investment	X	X						
Liquidity				X	X	X		
<b>Other characteristics</b>								
References	X					X		
Venture investment stage	X	X	X					
Venture Capitalist criteria								X

\*Ques = Questionnaire

Source: Hudson & Evans (2005, p. 8)

Rakhman & Evans (2005, p. 6) went further and managed to send a questionnaire to 450 potential respondents of which some were Venture Capital firms, some were Investees and others were Entrepreneurs. They found that Venture Capital firms deem the financial aspects and personality and experience of Entrepreneurs as most important and were less concerned with the availability of raw material, marketing skills, fair trading and legal actions (p. 32).

## 2.6 The South African Context

Davies (2012, p. 4) explained in his address to parliament that a number of new instruments were developed to create an appropriate environment for foreign direct investment into South Africa, despite increased regulations, such as:

1. The introduction of the New Companies Act, which changed the manner in which business is undertaken in the country
2. The National Consumer Protection Act to promote fairness, openness and good business practice between the supplier of goods and services and the consumers thereof
3. The review of the BBBEE Act that seeks to strengthen enterprise development and skills

SAVCA (2009, p. 1) mentions that Private Equity backed companies play an important role in South Africa. In 2009 Private Equity backed companies employed 5% of the South African formal sector or 427 000 jobs, with turnover growth of 20% and pre-tax profit growth of 16% per annum. Exports directly linked to private equity companies, increased to 31% per annum and research and development expenditure grew by 7%.

The social impact of private equity investment can be seen most clearly in the dramatic up-take of elements within the BEE scorecard whereby the number of black-empowered enterprises nearly tripled post-investment (SAVCA, 2009, p. 5).

Van Deventer & Mlambo, (2009, p. 37) mentioned that various researchers in South Africa have also analysed the criteria Venture Capital firms apply when approving funding for ventures. The four characteristics which were highlighted are:

1. Management characteristics
2. Product or service characteristics
3. Financial characteristics
4. Market characteristics

In Table 3, Van Deventer & Mlambo (2009, p. 38 - 39) list their findings regarding the criteria rated as important by participating Venture Capital firms. These were:

- The Entrepreneur being honest and having integrity
- Good market acceptance for the product or service is expected
- That the venture will provide a high internal rate of return (IRR)

**Table 3: Criteria rated as important by participating Venture Capital firms**

Criterion	Mean	Std Dev	Category
The Entrepreneur is honest and has integrity	4.9091	0.3015	Management
A good market acceptance for the product or service is expected	4.9091	0.3015	Product
The venture will provide a high internal rate of return (IRR)	4.9091	0.3015	Financial
There is a market need for the product or service	4.8182	0.4045	Market
The Entrepreneur has a great desire for success	4.7273	0.4671	Management
The product or service has a competitive advantage over competing products	4.7273	0.4671	Product
The venture has high valuation projections	4.7273	0.4671	Financial
There is potential for market growth	4.7273	0.4671	Market
The venture has significant potential for earnings growth	4.6364	0.5045	Financial
The Entrepreneur has excellent management skills experience	4.5455	0.5222	Management
The Entrepreneur is hardworking and flexible	4.5455	0.5222	Management
The Entrepreneur has good leadership ability	4.4545	0.5222	Management
The market is big	4.4545	0.6876	Market
The Entrepreneur has good risk management qualities	4.3636	0.6742	Management
The venture has high profit margin projections	4.2727	0.7862	Financial
The Entrepreneur has a good track record	4.2727	0.6467	Management
The Entrepreneur has good knowledge of the sector	4.1818	1.4709	Management
The Entrepreneur is capable of intense, sustained effort	4.1818	0.6030	Management
The venture will provide high absolute return	4.1818	0.6030	Financial
The product or service has open access to the market	4.1818	0.7508	Market
The references of the Entrepreneur are reputable	4.0909	0.9439	Management

Source: Van Deventer & Mlambo (2009, p. 39)

These criteria as outlined by Van Deventer & Mlambo (2009, p. 37) will be used in this study, namely product or service, management, market and financial. The study will identify and verify the selected criteria through extensive desk research across several authors.

## 2.7 Entrepreneurial perception of funding criteria

Rakhman & Evans (2005, p. 32) mentioned that Entrepreneurs, on the other hand, rated the following criteria as very important:

- Ability to manage risks
- The product being well accepted
- The ability to attract customers

Gladstone & Gladstone (2004, p. 122 – 125) list the characteristics which investors look for in an Entrepreneur as being:

- Working long hours to compensate for the lack of employees
- The ability to evaluate risk and analyse complex situations
- The ability to persuade banking institutions to make loans
- Carry an enormous amount of detail around with them
- Personality that is compatible with the Venture Capital firm

Vilpponen (2010, p. 1) also looked at other aspects of Entrepreneurs, such as:

- How well the people in the team are prepared to work in the face of high risk and uncertainty
- How well they are organized to pursue the opportunity
- How dynamic the team is if they need to change course

Audited financial report and the relationship with Venture Capital firms were only rated as important to Entrepreneurs, while tax benefits were rated the lowest (Rakhman & Evans, 2005, p. 32). This is consistent with Tyebjee & Bruno (1984, p. 1059), who argued that Venture Capital firms are not looking for tax shelters.

## **2.8 The evaluation of Entrepreneurial criteria in detail**

Van Deventer & Mlambo (2009, p. 40) clearly agreed with International research that Venture Capital firms view the personality and experience of the Entrepreneur as one of the decisive factors and agreed on four criteria which Venture Capital firms take into account when approving deals:

1. **Management characteristics**, which are the skills of managing several business functions by the founding team of the new venture
2. **Product or service characteristics**, which are the ability of the venture to create a unique product that will generate high profit margins
3. **Market characteristics**, which are those factors that depend on the accessibility, growth, size and existence of the market
4. **Financial characteristics**, which are the extent to which the Venture Capital firm believes the investment can be harvested in the appropriate time frame

### **2.8.1 Management Characteristics**

The trustworthiness of the Entrepreneur is rated as the most important criteria by Van Osnabrugge & Robinson (2000, p. 116), followed by the Entrepreneur's expertise and then his enthusiasm.

Extra items Gladstone & Gladstone (2004, p. 54) list as important to look for in an Entrepreneur's experience are: market knowledge, a track record, leadership and reputation.

Rakhman & Evans, (2005, p. 18) found that it is important to investees that Entrepreneurs show self-confidence. All groups rated experience as important, followed by willingness to hire staff to cover weaknesses in management as desirable and stated that attributes of importance are:

- Honesty, openness and approachability
- Entrepreneur's experience
- Risk management capabilities

Van Deventer & Mlambo (2009, p. 38) found the Entrepreneurial criteria rated important by Venture Capital firms as being:

- The Entrepreneur's honesty and integrity
- His desire for success
- His management skills
- Being hard working and flexible

Vilpponen (2010, p. 1) sees management as the single most important part of the investment criteria Investors apply to grade their potential investments. Investors look into both the depth and quality of the team, how diversified they are as well as the need for various skill sets. Investors also look for clear business focus and a very deep understanding of the market segment the company works in.

### **2.8.2 Product or Service Characteristics**

It is important for an Entrepreneur to have a good understanding of the products a company sells, its competitors as well as the seasonality which is common in most industries. The potential impact to a company's cash flow should be discussed with the marketing department as well as developments around the companies'

products. These issues are crucial when evaluating the product potential, (Gladstone & Gladstone, 2004, p. 95).

Rakhman & Evans (2005, p. 8) list the following items for consideration under the product category:

- Availability of raw materials
- Demonstrated market acceptance
- Length of time in the market
- Functioning prototype

Rakhman & Evans (2005, p. 18) found differences in ratings across various groups with the items:

- Is proprietary
- Can otherwise be protected
- Availability of raw materials
- Demonstrated market acceptance.

### **2.8.3 Financial Characteristics**

Gladstone & Gladstone (2004) are of the opinion that a Venture Capital firm will analyse the financial people before continuing to analyse financial information (p. 158). Thereafter they need to analyse various ratios, such as to calculate the sales per sales person as well as the selling expenses as a percentage of sales (p. 357).

A Venture Capital firm can get a good understanding of a business by analysing the annual report of a new venture as well as the reports management uses on a day-to-day basis (Gladstone & Gladstone, 2004, p. 158).

Venture Capital firms assessed by Van Deventer & Mlambo, (2009, p. 39) rated the following criteria under financial characteristics in the following order of importance:

- High internal rate of return
- High valuation projections
- Significant potential for earnings growth
- The venture has low overall capital requirements
- Low marketing and production costs

Gladstone & Gladstone (2004, p. 185) tabled six groupings of deals (Table 4) from “Big Winners” where about 90% or 100% return on investment is received to “Wipeout” deals, where investors lose all of their investment if it cannot be avoided.

**Table 4: Types of deals**

Category	Return on Investment (%)	Probability of making projection (%)	Weighted average (Return on Investment probability) (%)
Big Winner	100	10	10
Winner	30	50	15
Sideways	10	20	2
Workout	0	10	0
Loser	(50)	5	(2.5)
Wipeout	(100)	5	(5)

Source: Gladstone & Gladstone (2004, p.185)

#### **2.8.4 Market Characteristics**

Venture Capital firms look for Entrepreneurial ventures which are market driven, as these companies are usually high-growth companies. They also want to understand the motivation behind the sales-force and if it is sufficient to sell the product. Entrepreneurial companies must be able to produce strategies which show an understanding of their market growth, market trends and supply marketing strategies (Gladstone & Gladstone, 2004, p. 129).

When receiving an investment request for a new venture, McKaskill (2009, p. 83) highlights that the Venture Capital firm will ask about market segmentation, customer buying patterns and pricing models.

Zinecker & Rajchlova (2010, p. 645) found the following criteria more relevant during the initial stages of growth, after launching of the product: the market is growing fast enough and the competition on the market is weak.

#### **2.8.5 Other required Entrepreneurial characteristics**

Other characteristics identified by Van Eeden (2004, p. 32) were contributions to the community, BEE credentials and adherence to industry-specific laws.

Van Deventer & Mlambo, (2009, p. 35) discuss environment threat resistance as another important criteria and explain that this refers to the Venture's resistance to uncontrollable pressures from the environment.

Zinecker & Rajchlova (2010, p. 645) found that *the business opening access to international or new markets* was not seen as an important criterion when evaluating business proposals by respondents.

## 2.9 Differences in investment criteria for the different stages of growth

Not a lot of research has been done in order to understand if there are any gaps between the Venture Capital firms' application of the investment criteria across the four stages of growth and the Entrepreneurs' understanding of the investment criteria across the four stages of growth.

Eisele, Haecker & Oesterle (2002, p. 87) focused on the German Venture Capital market and found that the relative importance of the criteria varies across the investment growth stages, but the Entrepreneurial management characteristic was found to be the most important. This was found to be in agreement with prior studies.

Eisele, *et al.*, (2002, p. 88) definition of the three stages was:

1. **Stage one:** the seed stage
2. **Stage two:** expansion of domestic production and distribution system stage
3. **Stage three:** growing sales and positive cash flow stage
4. **Stage four:** degeneration stage in the original product's life cycle and bridge finance stage until additional finance secured through an IPO

Entrepreneurial criteria such as product and market characteristic are less important. The importance of individual criteria varies across the four growth stages, with the importance of criteria being similar in expansion and late stage. The importance of criteria deviates across the early stage and later stages, indicating that start-ups face different conditions regarding funding (Eisele, *et al.*, 2002, p. 100).

Zinecker & Rajchlova (2010, p. 641) researched Private Equity and Venture Capital firms' investment criteria in Czech Republic and found that management characteristics were the highest rated in all stages of growth, but emphasis that investors also consider other characteristics of market and product when evaluating deals for funding.

## **2.10 Conclusion**

From the literature review, it is clear that there are certain core criteria and characteristics which are common to both the Venture Capital firm and the Entrepreneur, however more research needs to be done in South Africa, given our first world/third world environment to evaluate if there is a gap between the Venture Capital firms' application of the investment criteria and the Entrepreneurs' perception of how Venture Capital firms apply the criteria across the growth stages.

### **2.10.1 Growth stages**

The literature review clearly identifies that there is agreement on the four stages, which for the purpose of this research are:

1. Seed stage
2. Start-up stage
3. Early growth stage
4. Sustained growth stage

### **2.10.2 Entrepreneurial investment criteria**

From the literature review it is clear that there is a common list of Entrepreneurial investments criteria evaluated by Venture Capital firms when evaluating a new business opportunity:

1. Management characteristics
2. Product or service characteristics
3. Market characteristics
4. Financial characteristics

### **2.10.3 Sub investment criteria**

For the purpose of this research an additional sub investment criteria list has been compiled for use in the research survey. This list has been compiled from the literature review:

1. Management characteristics
  - a. Desire for success
  - b. Intellectual capital
  - c. Risk management qualities

- d. Honesty and integrity
  - e. Track record of the Entrepreneur
  - f. Management stake in the company
  - g. Hardworking and flexibility
  - h. Knowledge of the sector
  - i. Skills and expertise
  - j. Leadership capabilities
2. Product or service characteristics
- a. Market acceptance for product or service
  - b. Product differentiation
  - c. Competitive advantage
  - d. Product growth potential
  - e. Product stage of development
3. Market characteristics
- a. Market need for the product or service
  - b. Potential for growth
  - c. Existing market size
  - d. Market acceptance
  - e. Venture will create new market
  - f. Competitor environment
4. Financial characteristics
- a. No follow up investment required
  - b. Security available
  - c. Significant potential for earnings growth
  - d. Will be tax benefit in financing the venture
  - e. High profit margin projections
  - f. Size of investment
  - g. Will provide high internal rate of return
  - h. Low overall capital requirements
  - i. Will provide a high absolute return
  - j. Require low monitoring and administration costs
  - k. High valuation projections
  - l. Require low marketing and production costs

#### **2.10.4 Other investment criteria**

Additional investment criteria selected for this research:

1. Global potential
2. Venture has BEE status

#### **2.10.5 Aim of this research**

The researcher's aim is to test the investment criteria drawn from the literature review against responses from both Venture Capital firms and Entrepreneurs operating in the South African market. The perceived importance of the investment criteria across the four stages of growth: seed stage, start-up stage, early growth stage and sustained growth stage, and to identify the Entrepreneurs' understanding of the application of the investment criteria across the four stages of growth, will be evaluated. The purpose of this research is to identify potential gaps between the Funders application of the investment criteria and the Entrepreneurial understanding of the application of the investment criteria across the four stages.

## CHAPTER 3: RESEARCH QUESTIONS, OBJECTIVES AND HYPOTHESES

From Chapter 2 it is clear that there is an abundance of Eurocentric literature, but a dearth of South African contextualised literature. The purpose of this research is to better understand South African environment and to compare this to Eurocentric data, thus establishing the relevance or divergence from stated findings within the South African environment. Following on from conclusions drawn from the preceding review of the pertinent literature, the research objectives will be discussed in greater depth in this Chapter. This includes the formulation of research questions, detailed research hypotheses and the specific statistical hypotheses formulated for testing.

### 3.1 The Research Questions

Following on from the review of the literature contained in Chapter 2 and the propositions put forward at the end of the Chapter, the three key questions that this study sought to address are:

#### 3.1.1 Research Question 1

Are there differences between Funders application of funding criteria across the different growth stages?

#### 3.1.2 Research Question 2

Are there differences between the Entrepreneurs experience of criteria applied across the growth stages?

#### 3.1.3 Research Question 3

Are there differences between the Funders application of, and the Entrepreneurs experience and understanding of funding amongst the growth stages?

These three research questions were addressed using a survey to be completed by Funders and a survey to be completed by Entrepreneurs. The responses were compared and the third research question was answered by comparing the responses of the two surveys.

## **3.2 Research Objectives**

The first objective of this research was to identify firstly the Funders' perceived importance of the investment criteria identified in Chapter 2 across four stages of growth: seed stage, start-up stage, early growth stage and sustained growth stage and identify the Entrepreneurs' perception of the investment criteria across the four stages of growth.

The second objective was to identify potential gaps, if any, between the Funder application of the investment criteria and the Entrepreneurial understanding of the application of the investment criteria across the four stages.

The third objective was to identify if any differences are systemic across all four stages.

## **3.3 Research Hypotheses**

Based on the stated objectives of the research, the hypotheses were:

### **3.3.1 Hypothesis 1**

Investigate Funders' application of criteria across the growth stages and determine whether significant differences exist across the stages:

- $H_{01}$ : There are no differences in how Funders apply criteria across the growth stages.
- $H_{A1}$ : There are differences in how Funders apply criteria across the growth stages.

### 3.3.2 Hypothesis 2

Investigate Entrepreneurs experience of criteria applied across the growth stages and determine whether significant differences exist across the stages:

- $H_{02}$ : There are no differences in how Entrepreneurs experience the application of criteria by Funders across the growth stages.
- $H_{A2}$ : There are differences in how Entrepreneurs experience the application of criteria by Funders across the growth stages.

### 3.3.3 Hypothesis 3

Determine whether significant differences exist between Funders' application of and Entrepreneurs' experience of the application of the criteria across the growth stages:

- $H_{03}$ : There are no differences in how Funders' apply and Entrepreneurs' experience the application of criteria by Funders across the growth stages.
- $H_{A3}$ : There are differences in how Funders' application and Entrepreneurs' experience the application of criteria by Funders across the growth stages.

## CHAPTER 4: RESEARCH METHODOLOGY AND DESIGN

### 4.1 Introduction

This study was conducted within quantitative paradigm boundaries and is descriptive in nature. This chapter discusses the survey method and semi-structured nature of the questionnaire as well as the on-line and face-to-face data collection tools used. The process of and techniques used during analysis of data is also described as well as the aspects of validity and reliability which were addressed during study design.

### 4.2 Research Paradigm and Approach

Collis & Hussey (2003, p. 46) identify two research paradigms, namely the positivistic paradigm and the phenomenological paradigm. The positivistic approach attempts to explain social phenomena by establishing a relation between variables, which is information converted into numbers and was applied in this study. According to Neuman (1997, p. 63) positivist researchers 'prefer precise quantitative data and often use experiments, surveys and statistics'. As such a quantitative research methodology was used for the purposes of this research, which entails a formal, systematic process of data collection (Burns & Grove, 2005, p. 23).

According to Neuman (1997, p.83) quantitative research assumes that:

- Hypotheses and propositions form the basis from which to start
- Concepts investigated are in the form of distinct variables
- Before data collection, measurements are systematically constructed
- In most cases, measurements are standardised
- Numbers represent data
- Analysis is done through statistics, tables or charts and how these relate to the hypotheses or propositions tested.

This study was structured within a descriptive research dimension (Neuman, 1997, p. 74) as a cross-sectional design (Wiid & Diggins, 2009, p. 57). According to Cant, Gerber-Nel, Nel & Kotzé (2003, p. 36) descriptive research can be used to describe the attitudes of consumers and various other phenomena under study. More appropriately, Wiid & Diggins (2009, p. 57), define descriptive research as 'to describe characteristics of certain groups, estimate proportion of people in a population who behave in a certain way and to make specific predictions'.

Cross-sectional design means that this study provides a snapshot of the phenomenon being studied at one point in time (Wiid & Diggins, 2009, p. 57). Thus information from a sample of the population was collected only once (Cant *et al.*, 2003, p. 198). A cross-sectional design has important implications for the reliability of the study which are discussed later in this chapter.

### **4.3 Units of analyses**

The units of analyses were qualifying criteria for Venture Capital investment as used by Van Deventer & Mlambo (2009, p. 37), which are: management characteristics, product or service characteristics, financial characteristics, market characteristics and other characteristics: BEE status and global potential (refer to Chapter 2).

### **4.4 Population**

There are two populations of relevance in this study: Funders and Entrepreneurs.

#### **4.4.1 Funder population**

Although the total Funder population in South Africa cannot accurately be defined, for the purposes of this study the Funder population consisted of n=80 full members and n=37 associate members of SAVCA.

#### **4.4.2 Entrepreneur population**

Ressel (2012, p. 1), mentions that the quarterly Labour Force Survey conducted by Statistics SA indicates the number of new businesses being registered dropped to 58 000 in 2011. This figure indicates that there is a significant population of Entrepreneurial enterprises in South Africa, however, similar to the Funder population in South Africa; the exact Entrepreneur population cannot be accurately defined.

For this study the Entrepreneurs population consisted of Entrepreneurs who have applied for and / or received funding and was accessed through the following representative associations:

- The South African Institute for Entrepreneurship (SAIE)
- South African Black Entrepreneurs forum (SABEF)
- The Venture Capital division of the IDC

#### 4.5 The sample

Van Deventer & Mlambo (2009, p. 36) identified the small sample, i.e.  $n=16$  in their study as a serious limitation. Given the timelines and budgetary constraints inherent in this proposed study, as well as the fact that the populations for each of the groups were either unknown or very small the total population(s) was / were targeted through using the snowball sampling technique (Dillon, Madden & Firtle, 1993, p. 130).

Respondents were selected based on their experience or participation in funding activities. Thus by using selection criteria in order for the sample(s) to meet the needs of the study judgemental sampling was applied (Dillon *et al.*, 1993). The achieved sample for Entrepreneurs is  $n=32$  and Funders is  $n=30$ .

#### 4.6 Data collection tool

A survey method of research was used in this research. A survey is defined by Zikmund (2003, p. 218) as 'a method of primary data collection in which information is gathered by communicating with a representative sample of people'. Primary data, which is described as data that does currently exist (Cant *et al.*, 2003, p. 76) because it has not been collected before (Wiid & Diggins, 2009, p. 57), was collected by using a self-completion questionnaire for each of the respective populations (Appendix A & B).

The semi-structured questionnaire design was based on the criteria used by Van Deventer & Mlambo (2009, p. 37). The questionnaire contained both open-ended and closed questions, thus enabling descriptions of the characteristics or phenomena that were measured as well as further exploration on the topic.

Closed questions are described as itemised questions requiring respondents to select an answer from a range of possible answers (Dillon *et al.*, 1993). In order to capture the relative or perceived importance of the evaluation criteria, a 5-point Likert-type scale (Neuman, 1997) was used. Respondents were required to provide an importance rating based on the following options:

- 1: Totally unimportant
- 2: Not very important
- 3: Average importance
- 4: Important
- 5: Very important

Dillon *et al.* (1993, p. 173) states that open-ended questions capture respondents' own verbatim responses to a question and are usually included when a more in-depth description or explanation for a specific answer given, is needed. Both Funders and Entrepreneurs were asked: "Is there anything else which you feel you would like to mention which has not been addressed in this questionnaire?"

#### **4.7 Data collection process and method**

The self-completion questionnaires were administered in two ways:

1. through an on-line survey tool, i.e. Survey Monkey ([www.surveymonkey.com](http://www.surveymonkey.com))
2. by means of face-to-face interviews after which the data was captured into Survey Monkey.

Survey Monkey is an on-line research tool which enabled easy questionnaire formatting, distribution of surveys via email and website links, as well as descriptive analyses of data. It provided the added advantage of having been able to monitor and track responses of each individual email address. The on-line survey posed a better method for Entrepreneurs than Funders, who preferred face-to-face interviews. This is typically referred to as the different sample / different mode method (De Leeuw, 2005, p. 15).

#### **4.8 Reliability and Validity**

Survey type research has a tendency to have weak validity due to its artificiality, whereas reliability on the other hand tends to be stronger in survey type research (Colorado State University, 2009, p. 1). It needs to be noted however that high reliability does not imply high validity (Dillon *et al.*, 1993). Internal and external validity (Neuman, 1997), as well as construct, conclusion and measurement validity (Trochim, 2006, p. 1) are the five categories of validity in research.

The aim of this study is not to generalize the findings to other populations, e.g. markets or countries – it is simply to describe the current situation in South Africa based on the stated hypotheses, i.e. investigating whether there are differences. As such, external validity's importance in this study is insignificant.

Internal validity means that there are no errors to the design of the research (Neuman, 1997) and according to the Colorado State University (2009, p. 1) it relates to how rigorous the study was designed and conducted, in other words, the attention paid to measurements, and decisions concerning what was and wasn't measured.

In this study validity was addressed by firstly conducting a pilot study with a few Funders and Entrepreneurs, as well as experts in the industry to establish whether there are any challenges that need to be addressed. The questionnaire was designed to ensure that there was no misunderstanding related to terms used, e.g. seed-stage versus start-up stage. It was clear from this pilot study that the questions were easy to understand and that there were no misconceptions as to the definitions of criteria being tested, thus increasing validity.

Furthermore, in order to reduce response bias, in particular the order effect, the statements (questions) were randomized, thus each respondent was presented with items in a different order.

According to Lewis (1999, p. 3), the definition of reliability assumes that the act of measuring does not affect the characteristic or variability of interest. Reliability refers to the degree with which measurements taken under identical circumstances or repeated measurements will yield the same results.

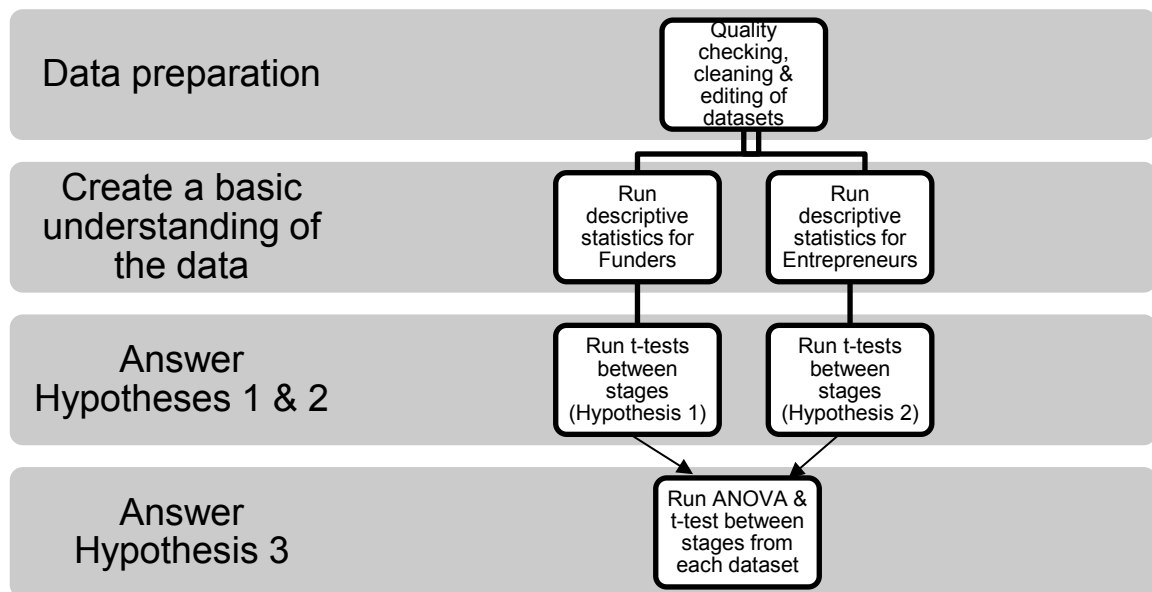
Van Deventer & Mlambo (2009, p. 37) also proposed, if done at another point in time, their study might reveal different results which will indicate the dynamic nature of Entrepreneurial funding. It is therefore argued that although repeat measurement of this study at a different point in time might reveal low reliability, the dynamic nature of Entrepreneurial venture on the one hand and Venture Capital Funders on the other hand need to be taken into account.

Furthermore, Colorado State University (2009, p. 1) is of the opinion that reliability in survey research is much easier to establish, especially when respondent bias is reduced by providing respondents with a standardised stimulus. All respondents within the different samples were given the same set of statements (questions) and thus it is argued that reliability was enhanced.

## 4.9 Data analysis

Figure 3 below is an outline of the process followed during data analysis. Due to the fact that two different samples were analysed, it was imperative to become familiar with the nature of the data collected for each of the samples. This was done in two steps. Firstly, time was spent cleaning the data, e.g. fixing spelling errors in open-ended responses, and identifying potential outliers. Also, as will be shown in the next chapter, the data descriptions were recoded into smaller, user-friendly codes, e.g. Early-growth stage was recoded into EGS.

**Figure 3: Data analysis process**



Secondly, descriptive statistics were run to understand the distribution of the two different datasets as well as for application during the t-tests – where means are required. In order to address the research objectives, and to determine whether or not there are differences across stages in the two samples, two different types of t-tests and an Analysis of Variance (ANOVA) were applied during the analysis of the data.

The one sample for means t-test was applied in order to address hypotheses 1 and 2. The ANOVA and t-test for independent samples were applied to answer hypothesis 3, because the samples are independent. In all tests, the confidence level was set at 95% to manage potential Type II and / or Type II errors. Thus, the p-value, i.e.  $p \leq 0.05$ , was used to determine whether the null hypothesis was to be accepted or rejected.

#### **4.10 Potential Research Limitations**

This study attempted to address the concern raised by Van Deventer & Mlambo (2009, p. 37) regarding the small sample in their study. Although the samples were increased considerably, i.e. n=30 Funders and n=32 Entrepreneurs, the unknown population sizes and the use of non-probability sampling techniques make it difficult to have established whether the samples represent the populations.

In addition, a factor which influences validity of interpretations, i.e. conclusion validity, is the possibility of alternative explanations for the results. Within the context of this study, it needs to be acknowledged that Funders are driven by business strategy whereas Entrepreneurs are the group who are on the receiving side of this business strategy. The one limitation this poses lies in the fact that Entrepreneurs would have relied more on memory (which is fallible) to provide ratings on the criteria, whereas Funders relied on business processes and experience of using the criteria on a daily basis.

The second aspect relates to the emotional involvement of the Entrepreneur versus Funders in the process. It is argued that Entrepreneurs have a stronger emotional connection to the process than Funders and it is therefore likely that the ratings given and differences identified are due to these emotions subconsciously influencing perceptions.

#### **4.11 Conclusion**

Primary data collected through on-line and face-to-face survey methods were analysed using ANOVA and t-tests to determine the existence of significant differences. The results are presented and discussed in detail in the next chapter.

## CHAPTER 5: RESULTS

### 5.1 Introduction

In this chapter, the results leading to the acceptance or rejection of the three null-hypotheses will be discussed. Context is provided first, by focusing on the nature of the samples through descriptive statistics after which the t-test results will be discussed.

### 5.2 Key considerations

There were 17 responses to the online survey from Entrepreneurs and 10 responses from Funders. Thereafter various Entrepreneurs and Funders were visited and a further 15 Entrepreneurs and 20 Funders were interviewed face-to-face and their responses were captured on survey monkey.

#### 5.2.1 Entrepreneur responses

Data extracted from Entrepreneurial responses indicated that:

- 33% were in the early growth stage
- 56% were in sustained growth
- 40% has been operational between 1 and 5 years
- 36,67% had been operational between 6 and 10 years
- 38,7% were in the financial industry
- 46,67% have a turnover of under R5million per annum.

The researcher targeted the whole South Africa and received:

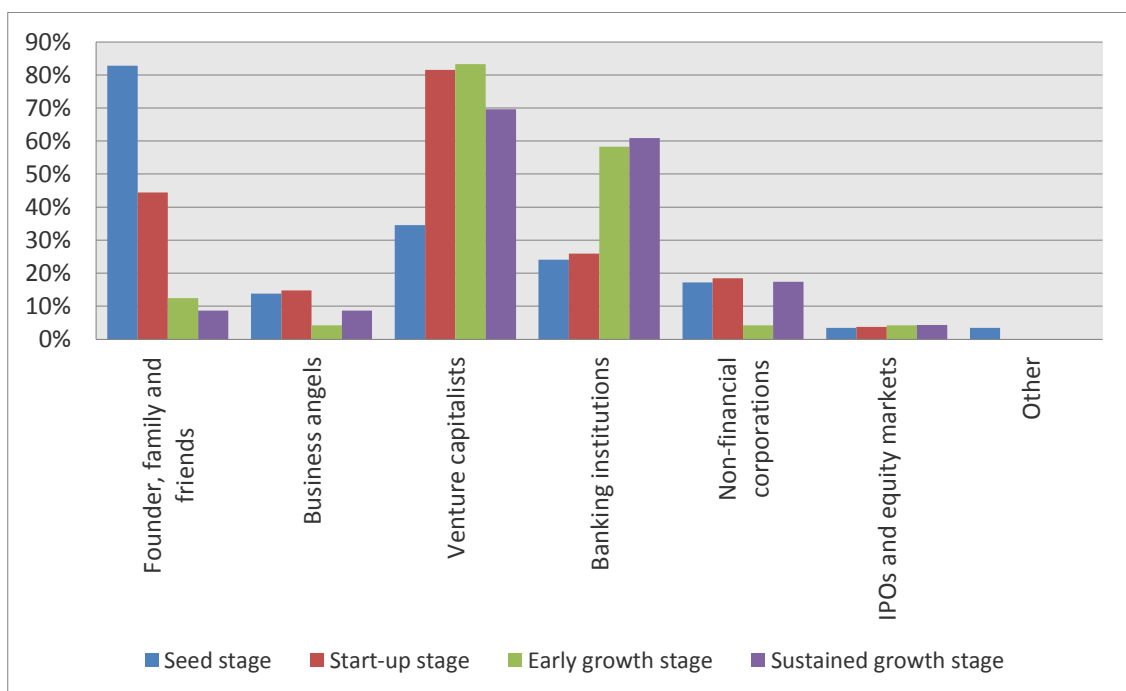
- 76,7% responses from the Gauteng province
- 10% from Mpumalanga province
- 6,7% from the Limpopo province
- a response from each of the Western Cape and Kwazulu-Natal provinces

Entrepreneurs were asked which Funders or Investors they approached when seeking funding, and the responses correlated with the literature review in certain stages. When evaluating the following responses it must be remembered that ten of the respondents indicated that they were in the early growth stage of their business.

The responses from Entrepreneurs, as per Figure 4, were as follows:

1. During the seed stage of their businesses 82,8% of the 29 Entrepreneurs who answered the question stated that they received funding from founders, family and friends and 34,5% received funding from Venture Capital firms.
2. During the start-up stage of their businesses 81,5% of the 27 Entrepreneurs who answered the question stated that they received funding from Venture Capital firms and 44,4% from founders, family and friends.
3. Only 24 of the 32 Entrepreneurs answered the question of where they received funding during the early growth stage of their business and answered that they received 83,3% funding from Venture Capital firms and 58,3% received funding from banking institutions, which overtook founders, family and friends at this stage of growth.
4. Only 23 of the 32 Entrepreneurs answered the question of where they received funding during the sustained growth stage of their business and informed that they received 69,6% funding from Venture Capital firms of their business and 60,9% from banking institutions.

**Figure 4: Entrepreneur responses: Funder/Investors approached**



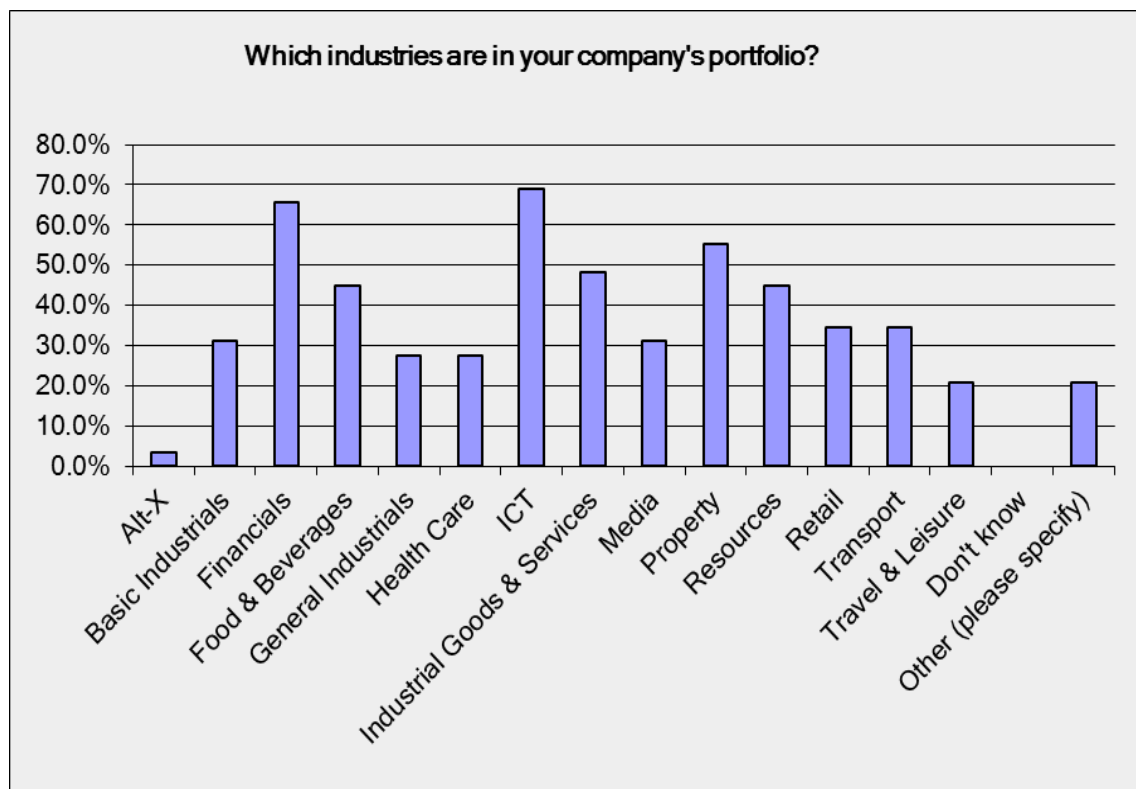
### 5.2.2 Funder responses

Data extracted from Funder responses indicated that:

- 50% of Funders prefer a minimum investment of R1 million
- 80% prefer a maximum of over R10 million
- 66% answered that the average age of their portfolios were 2 to 5 years - this indicates the early growth stage of funding
- 66% have less than 10 portfolios
- 13,79% have more than 50 portfolios

Funders were asked which industries they target and a balanced response was received with the majority targeting Financials, ICT and Property as per Figure 5.

**Figure 5: Funder responses: Target Industries**



### 5.3 Metadata and descriptive statistics

Due to the lengthy names and descriptions used in the questionnaire, the data had to be transformed into an easily usable and recognizable format for analysis in *Excel* and *STATISTICA*. The table below outlines the metadata used during analysis and reporting and provides an example of the combination of codes.

**Table 5: Sample analysis metadata**

CRITERIA		GROWTH STAGES	
Item	Code	SS	Seed Stage
<b>MANAGEMENT CHARACTERISTICS</b>	<b>MC</b>	SUS	Start-up stage
Knowledge of the sector	A	EGS	Early-growth stage
Intellectual capital	B	SGS	Sustained Growth
Leadership capabilities	C	<b>SAMPLES</b>	
Honesty and integrity	D	ENT	Entrepreneur
Management stake in the company	E	FUN	Funder
Desire for success	F	<b>COMBINATIONS – EXAMPLE</b>	
Hardworking and flexibility	G	MCSUSFUN	Management characteristics in the Start-up stage in the Funder sample
Risk management qualities	H		
Track record of the Entrepreneur	I		
Skills and expertise	J		
<b>PRODUCT OR SERVICE</b>	<b>PC</b>		
Market acceptance for product or service	K		
Competitive advantage	L		
Product differentiation	M		
Product stage of development	N		
Product growth potential	O		
<b>MARKET CHARACTERISTICS</b>	<b>MAC</b>		
Market need for the product or service	P		
Potential for growth	Q		
Existing market size	R		
Market acceptance	S		
Competitor environment	T		
Venture will create new market	U		
<b>FINANCIAL CHARACTERISTICS</b>	<b>FC</b>		
Will provide high internal rate of return	V		
High valuation projections	W		
Significant potential for earnings growth	X		
High profit margin projections	Y		
Will provide a high absolute return	Z		
Will be tax benefit in financing the venture	AA		
No follow up investment required	BB		
Require low monitoring and administration	CC		
Require low marketing and productions costs	DD		
Size of investment	EE		
Security available	FF		
Low overall capital requirements	GG		
<b>OTHER CHARACTERISTICS</b>	<b>OC</b>		
Venture has BEE status	HH		
Global potential	II		

### 5.3.1 Descriptive statistics - Funders

The descriptive statistics for Funders (Table 8, Appendix C) reveal that the data for each of the stages is close to normal distribution, although slightly negatively skewed for SS, SUS and EGS. The mean for each of the stages ranges between 3.62 and 3.88.

### 5.3.2 Descriptive statistics - Entrepreneurs

The descriptive statistics for Entrepreneurs (Table 10, Appendix C) also reveal that the data for each of the stages is close to normal distribution, with mean scores ranging between 3.75 and 3.86.

## 5.4 Testing for significant differences across growth stages - Funders sample

Hypothesis 1 relates to investigating whether there are differences across the stages in the Funders sample, where:

- $H_{01}$ : There are no differences between how Funders apply criteria across the growth stages;
- $H_{A1}$ : There are differences between how Funders apply criteria across the growth stages.

The results from the 6 t-tests conducted (Table 12, Appendix C) indicate that the Funders' application of criteria across SS and SUS (Test 1), across SS and EGS (Test 2) and across SS and SGS (Test 3) are significantly different.

Test 4 (SUS and EGS), Test 5 (SUS and SGS) and Test 6 (EGS and SGS) show no significant differences.

As such,  $H_{01}$ : There are no differences between how Funders apply the criteria in different stages, will be rejected and  $H_{A1}$ : There are differences between how Funders apply the criteria in different stages, will be accepted.

Further investigations reveal where these differences occur in the different criteria categories in Test 1, Test 2 and Test 3.

#### 5.4.1 Differences across Seed stage and Start-up stage - Funders

Table 13, Appendix C, compared MCSS and MCSUS (Test 7) at a 95% confidence level, which reveal that there is a significant difference ( $p=0.01$ ) in how Funders apply the Management criteria. Similarly, there are significant differences across PCSS and PCSUS (Test 8), as well as MACSS and MACSUS (Test 9), with  $p=0.03$  and  $p=0.00$  respectively, which means that the Product Characteristics criteria and the Market Characteristics criteria are not applied similarly amongst Funders.

Test 10 (FCSS and FCSUS) and Test 11 (OCSS and OCSUS) reveal no significant differences.

Figure 6, Appendix D, illustrates the difference in importance ratings given by Funders to each of the Management Characteristic criteria in SS and SUS. Nine out of ten criteria are rated as more important in SUS than in SS, with particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities* as well as *hardworking and flexible*.

Related to Product Characteristics, Figure 7, Appendix D, illustrates the largest difference in importance ratings relate to *market acceptance of the product / service*. There is a slightly smaller difference in terms of *product stage of development*.

Highlighted in Figure 8, Appendix D, shows the large differences in importance rating, where out of six criteria measured in the Market Characteristics category, all six tend to be more important in SUS than in SS. In particular, large differences are noted for *existing market size* and *market acceptance* perceived by Funders as more important in SUS than in SS.

#### 5.4.2 Differences across Seed stage and Early-growth stage - Funders

In terms of comparing SS and EGS in Table 14, Appendix C, Test 12 (MCSS and MCEGS) indicate significant differences ( $p=0.01$ ), as well as in Test 14 (MACSS and MACEGS) with  $p=0.00$ . Thus, the criteria in Management Characteristics and Market Characteristics categories are not similarly applied in SS and EGS. No significant differences were noted for PCSS and PCEGS (Test 13), Test 15 (FCSS and FCEGS) or Test 16 (OCSS and OCEGS).

Figure 9, Appendix D illustrates the differences in importance ratings given by Funders to each of the Management Characteristic criteria in SS and EGS. All ten criteria are rated as more important in EGS than in SS, with particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities* as well as *hardworking and flexible*.

Highlighted in Figure 10, Appendix D are the large differences in importance ratings in Market Characteristic criteria where out of six criteria measured, five tend to be more important in EGS than in SS. In particular, large differences are noted for *existing market size* and *market acceptance*. These are perceived by Funders as more important in EGS than in SS. Of less importance in EGS is *venture will create new market* which is perceived by Funders as more important in SS than in EGS.

#### **5.4.3 Differences across Seed stage and Sustained growth stage - Funders**

Testing for differences across SS and SGS reveal in Table 15, Appendix C, that there are significant differences across MCSS and MCSGS (Test 17,  $p=0.03$ ), MACSS and MACSGS (Test 19,  $p=0.00$ ) as well as OCSS and OCSGS (Test 21,  $p=0.01$ ). Thus, the application of Management Characteristics, Market Characteristics and Other Characteristics are applied differently across SS and SGS.

Figure 11, Appendix D, illustrates the differences in importance ratings given by Funders to each of the Management Characteristic criteria in SS and SGS. All ten criteria are rated as more important in SGS than in SS, with particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities* as well as *hardworking and flexible*.

Highlighted in Figure 12, Appendix D, are the large differences in importance ratings of the Market Characteristic criteria, where out of six criteria measured, five tend to be more important in SGS than in SS. In particular, large differences are noted for *existing market size, competitor environment* and *market acceptance*. These are perceived by Funders as more important in SGS than in SS. Of less importance in the SGS is *venture will create new markets*, which is perceived by Funders as more important in SS than in SGS.

Figure 13, Appendix D, illustrates the differences in the Other Characteristics category. There is a significant difference across SS and SGS. Both *venture had BEE status* and *global potential* are deemed by Funders as more important in the SGS than the SS, with particularly higher importance for *global potential*.

#### 5.4.4 Summary for Hypothesis 1

Given the above results  $H_{01}$  will be rejected and  $H_{A1}$  accepted. In other words, the results indicate that there are significant differences between Funders usage of criteria in the different growth stages.

### 5.5 Testing for significant differences across stages - Entrepreneurs sample

Hypothesis 2 relates to investigating Entrepreneurs' experience of criteria applied by Funders across the growth stages, where:

- $H_{02}$ : There are no differences in how Entrepreneurs experience the application of criteria by Funders across the growth stages.
- $H_{A2}$ : There are differences in how Entrepreneurs experience the application of criteria by Funders across the growth stages.

Table 16, Appendix C, outlines the results of t-test 22-27 conducted to test for differences across stages in the Entrepreneurs sample. The results indicate that in terms of how Entrepreneurs experience the usage of criteria by Funders, there are no significant differences across the four growth stages.

#### 5.5.1 Summary for Hypothesis 2

Thus,  $H_{02}$  will be accepted. In other words, the results indicate that there are no significant differences between how Entrepreneurs experience the usage of funding criteria in the different growth stages.

## 5.6 Comparing significant differences across stages

The final hypothesis – hypothesis 3 – relates to comparing Funders’ application of and Entrepreneurs’ experience of the application of the criteria across the growth stages, where:

- $H_{03}$ : There are no differences in how Funders’ apply and Entrepreneurs’ experience the application of criteria by Funders across the growth stages.
- $H_{A3}$ : There are differences in how Funders’ apply and Entrepreneurs’ experience the application of criteria by Funders across the growth stages

There are no significant differences across the stages between Entrepreneurs and Funders, i.e.  $p=0.96$  (Table 6) and thus  $H_{03}$  will be accepted. However, due to the possible interactive effects of the measured funding criteria, differences are noticed in the descriptive statistics of the funding criteria categories, a further ANOVA was run to test for differences across categories of funding criteria between Entrepreneurs and Funders (Figure 14, Appendix D).

**Table 6: One-Way ANOVA table: Entrepreneurs and Funders**

ANOVA: Single Factor						
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
EGS-ENT	32	120.7156	3.772361	0.289213		
SGS-ENT	32	120.6122	3.76913	0.327225		
SS-ENT	32	119.0106	3.71908	0.292312		
SUS-ENT	32	120.8138	3.775432	0.295273		
EGS-FUN	30	112.3917	3.746389	0.138346		
SGS-FUN	30	113.7167	3.790556	0.214362		
SS-FUN	30	105.0455	3.501515	0.360345		
SUS-FUN	30	111.1	3.703333	0.121555		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.87108	7	0.267297	1.04263	0.40	2.05
Within Groups	61.52838	240	0.256368			
Total	63.39946	247				

These results reveal that, although not across stages, there are in fact significant differences between Entrepreneur and Funder experiences, i.e.  $p=0.00$ , in terms of the criteria categories. In other words, the results indicate that criteria might not be applied differently or experienced differently across the different stages, yet the criteria are applied differently by Funders to how the Entrepreneurs experience the application of these criteria.

Understanding the gap between Entrepreneurs and Funders relies on identifying where the differences are, which could potentially be addressed:

### **5.6.1 Management Characteristics**

Figure 15, Appendix D, illustrates the differences in importance ratings given to Management Characteristics, by Entrepreneurs and Funders. Out of the ten criteria measured, Funders rate all then as more important than Entrepreneurs do. In particular, *intellectual capital*, *management stake in the company*, *desire for success* are the three criteria with the largest difference.

### **5.6.2 Product or service Characteristics**

The difference in importance ratings given to Product Characteristics, by Entrepreneurs and Funders is shown in Figure 16, Appendix D. Of the five criteria measured, Funders rate all five criteria as more important than Entrepreneurs do. A particularly large difference is noted for *product differentiation*.

### **5.6.3 Market characteristics**

Highlighted in Figure 17, Appendix D, are the difference in importance ratings given to Market characteristics, where of six criteria measured, four are seen as more important by Funders and two rated are rated as more important by Entrepreneurs, which are: *existing market size* and *venture will create new markets*.

### **5.6.4 Financial Characteristics**

Figure 18, Appendix D, highlights the difference in importance as perceived by the two samples related to Financial Characteristics. The large difference in perceptions of importance relates to *no follow-up investment*, *require low monitoring / admin costs*,

require low marketing / production costs as well as the availability of security. All of these are deemed of greater importance by Entrepreneurs than by Funders.

### 5.6.5 Other characteristics

The results in Figure 19, Appendix D provide further evidence of the significant differences between Funders and Entrepreneurs created by the criteria used for measurement. Of the two criteria measured in Other Characteristics category, there is a very large difference between the importance rating related to *the venture has BEE status*. Funders give this criterion far less importance compared to what Entrepreneurs report to have experienced.

### 5.6.6 Summary for hypothesis 3

Statistical significance testing indicates that there are no significant differences between Funders application of funding criteria across different growth stages and Entrepreneurs experience of the application of funding criteria across different growth stages.

However, further investigation reveals that across the two samples, when evaluating the criteria, there are significant differences. Criteria act in an interactive manner, whereas the growth stages do not. Therefore, the proposition that there will be significant differences between Funders' application of criteria across the growth stages and Entrepreneurs' experience of the criteria across the growth stages has been proven incorrect.

## 5.7 Results of hypotheses

$H_{01}$ : There are no differences between how Funders apply the criteria in different stages, is rejected and  $H_{A1}$ : There are differences between how Funders apply the criteria in different stages, is accepted.

$H_{02}$  is accepted. In other words, the results indicate that there are no significant differences between how Entrepreneurs experience Funders application of criteria across the different growth stages.

There are no significant differences across the stages between Entrepreneurs experience and Funders application of the criteria and therefore  $H_{03}$  is accepted. However, further investigation has revealed that amongst the criteria there are significant differences attached to the importance to the criteria evaluated between the two sample groups. Criteria act in an interactive manner, whereas the stages do not. Therefore, the proposition that there will be significant differences between Funders' application and Entrepreneurs' experience has been proven incorrect. The interpretation and recommendations from this statistical significance testing is discussed in the following chapter.

**Table 7: Results of hypotheses**

Hypothesis	Description	Result
Null hypothesis: $H_{01}$	There are no differences between how Funders apply criteria across growth stages	Reject
Alternative hypothesis: $H_{A1}$	There are differences between how Funders apply criteria across growth stages	Accept
Null hypothesis: $H_{02}$	There are no differences in how Entrepreneurs experience the application of criteria by Funders across growth stages	Accept
Alternative hypothesis: $H_{A2}$	There are differences in how Entrepreneurs experience the application of criteria by Funders across growth stages	Reject
Null hypothesis: $H_{03}$	There are no differences in how funders apply and how Entrepreneurs experience the application of criteria by Funders across growth stages	Accept
Alternative hypothesis: $H_{A3}$	There are differences in how Funders apply and Entrepreneurs experience the application of criteria by funders across growth stages	Reject

## CHAPTER 6: DISCUSSION OF RESULTS

### 6.1 Introduction

The purpose of this chapter is to analyse the results of Chapter 5 within the context of the stated objectives of the research. The literature review findings in Chapter 2 compared with the results of the research findings in Chapter 5 are analysed.

Rob Davies from the Department of Trade and Industry addressed parliament on 18 May 2012, stating that the department started, through the Small Enterprise Development Agency, to improve Entrepreneurial capacity. He went further stressing that funding is earmarked for green economy, agro-processing, energy efficiency and distressed companies and that the protection of jobs and the creation of new jobs must be done in a sustainable and responsible manner (Davies, 2012, p. 3).

### 6.2 Hypothesis 1

Hypothesis 1 relates to investigating whether there are differences across the four growth stages in the Funders sample.

#### 6.2.1 Literature comparison for Hypothesis 1

The finding of Van Deventer & Mlambo (2009, p. 38) support those of researchers who found management criteria to be the most important, with the *entrepreneur is honest and has integrity* rated as most important by South African Venture Capital firms.

Eisele, *et al.* (2002, p. 94) found that management abilities are highly important investment criteria and that early investment decision of almost all Venture Capital firms depend on management's ability to present the business concept in a convincing way.

Unlike the above research findings, Rakhman & Evans (2005, p. 23) indicated that Venture Capital firms considered *projected cash flow* to be essential. They rated as very important *items that used conventional methods of evaluation* and *items for financial control* and rated other items: *personality, product or service and market* as less important.

## 6.2.2 Evaluation from study for Hypothesis 1

The results conducted indicate that the Funders' application of criteria is significantly different across the following stages:

- (a) Seed stage and start-up stage;
- (b) Seed stage and early growth stage; and
- (c) Seed stage and sustained growth stage.

The following stages did not show significant differences across:

- (a) Start-up stage and early growth stage;
- (b) Start-up stage and sustained growth stage; and
- (c) Early growth stage and sustained growth stage.

Further investigations reveal where in the difference can be found across the different criteria categories.

## 6.2.3 Differences across Seed stage and Start-up stage - Funders

When comparing the management characteristics in the seed stage and the start-up stage it was found that there is a significant difference in how Funders apply the management criteria. Similarly, there are significant differences between the product or service characteristics as well as the market characteristics for the seed stage and start-up stage, which means that the product characteristics criteria and the market characteristics criteria are not applied the same way by Funders across these two stages.

Differences between the financial characteristics and the other characteristics across the seed stage and start-up stage were not significant.

### (a) Management Characteristics

Of the ten criteria of the management characteristics, nine were rated as more important in the start-up stage than in the seed stage, with particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities as well as hardworking and flexible.*

This study does not agree with Eisele, *et al.* (2002, p. 94) finding that the criteria: *thorough experience of management* is viewed as less important by Funders. This

study has identified that Funders see this as one of the most important criteria in the seed stage, start-up stage and early growth stage.

### **(b) Product Characteristics**

The *development stage of the product* was identified by Eisele, *et al.* (2002, p. 95) as a low ranked item, which agrees with this research for both seed stage and start-up stage, where it received the lowest ranking.

The largest difference in importance ratings in the product characteristics in the seed stage and the start-up stage relate to *market acceptance of the product / service* with a slightly less difference in terms of *product stage of development*.

*Market acceptance of the product* as identified by Eisele, *et al.* (2002, p. 95), to become increasingly important aligns itself with this study.

### **(c) Market Characteristics**

Eisele, *et al.* (2002, p. 95), found that all the criteria within the market characteristics segment to be less relevant. This does not align itself with this research, which found *market need for the product or service* and *potential for growth*, to be highly important across all growth stages.

In this study, all market characteristics criteria tend to be more important in the start-up stage than in the seed stage. In particular, Funders indicate large differences for *existing market size* and *market acceptance* where they perceived it as more important in the start-up stage than in the seed stage.

#### **6.2.4 Differences across Seed stage and Early-growth stage - Funders**

In terms of comparing seed stage and early-growth stage, significant differences were indicated for management characteristics and market characteristics. Therefore, the criteria in management characteristics and market characteristics categories are not applied similarly in the seed stage and early-growth stage.

No significant differences are noted for the product characteristics, financial characteristics or the other characteristics across the seed stage and early-growth stage.

### (a) Management Characteristics

All the criteria of the management characteristics are rated by Funders as more important in the early growth stage than in the seed stage. There are particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities* as well as *hardworking and flexible*.

This study agrees with Eisele, *et al.* (2002, p. 94), in their findings that, because expansion stage involves the expansion of production, pertinent experience gains in importance and that some 'soft' criteria: *the personality of management*, are considered more important in the seed stage than 'harder' management experience criteria, such as *experience*.

### (b) Market characteristics

Funders indicated that the criterion: *there is sufficient access to the market targeted by a business* is more important in later stages of growth, which correlate with the rising volume of sales in later stages of growth Zinecker & Rajchlova (2010, p. 645).

Of the six market characteristics criteria measured, five tend to be more important in the early-growth stage than in the seed stage. In particular, Funders indicate large differences for *existing market size* and *market acceptance*. These are rated as more important in the early-growth stage than in the seed stage. Of less importance in the early-growth stage is *venture will create new markets*. This is perceived by Funders as more important in the seed stage than in the early-growth stage.

### 6.2.5 Differences across Seed stage and Sustained growth stage - Funders

Testing for differences across the seed stage and sustained growth stage reveal that there are significant differences between management characteristics, market characteristics and other characteristics. Therefore, the application of management characteristics, market characteristics and other characteristics are applied differently across the seed stage and the sustained growth stage.

**(a) Management characteristics**

Average weight was given to *high level of performance and perseverance* by Funders in the individual stages of business life cycle. Funders regarded *a high level of performance and perseverance by senior management* as the most important criterion in early stage of growth. The order of importance was the same across the growth stages (Zinecker & Rajchlova, 2010, p. 644).

Funders indicated that the criteria in the management characteristic are more important in the seed stage than in the sustained growth stage, with particularly large differences *between track record of the entrepreneur, management stake in the company, risk management capabilities, leadership capabilities* as well as *hardworking and flexible*.

**(b) Market characteristics**

Five market characteristics were indicated by Funders to be more important in the sustained growth stage than in the seed stage. In particular, large differences are noted for *existing market size, competitor environment* and *market acceptance*. These are perceived by Funders as more important in sustained growth stage than in the seed stage. Of less importance in the sustained growth stage is *venture will create new markets*, which is perceived by Funders as more important in the seed stage.

**(c) Other characteristics**

Van Eeden (2004, p. 46) included corporate citizenship as other criteria and found that BEE credentials are only marginally important when a new venture opportunity is screened.

Rakhman & Evans (2005, p. 13) found that Venture Capital firms and Entrepreneurs rated *targeting foreign market* as desirable, while investees rated it as important.

*The business opening access to international or new markets* was not seen as an important criterion when evaluating business proposals Zinecker & Rajchlova (2010, p. 645).

The study reveals that the other characteristics play a significantly different role across the seed stage and the sustained growth stage. Funders deem both *venture had BEE*

*status* and *global potential* as more important in the sustained growth stage than in the seed stage, with particularly higher importance for *global potential*.

### **6.2.6 Overall findings for Hypothesis 1**

Table 2 in Chapter 2 shows that all listed studies found management characteristics to be a dominant investment criterion. While this research also highlights this finding, it also shows that the product or service characteristic plays a more significant role across all stages of growth.

Given the above results  $H_{01}$  will be rejected and  $H_{A1}$  accepted. In other words, the results indicate that there are significant differences between Funders application of criteria in the different growth stages.

## **6.3 Hypothesis 2**

Hypothesis 2 relates to investigating Entrepreneurs' experience of criteria applied by Funders across the growth stages.

### **6.3.1 Literature comparison for Hypothesis 2**

In Rakhman & Evans, (2005, p. 32) *the ability to manage risks, the product being well accepted and the ability to attract customers* were rated by the Entrepreneurs as very important. *The relationship with the venture capital firm and the audited financial report* were rated as important by Entrepreneurs.

### **6.3.2 Evaluation from study for Hypothesis 2**

The results indicate that, in terms of how Entrepreneurs experience in Funder application of criteria, there is no significant experiential difference across the various growth stages of their businesses.

### **6.3.3 Overall findings of Hypothesis 2**

Thus,  $H_{02}$  will be accepted. In other words, the results indicate that there are no significant differences between how Entrepreneurs experience the application of funding criteria across the different growth stages.

## **6.4 Hypothesis 3**

The final hypothesis relates to comparing Funders' application of and Entrepreneurs' experience of criteria across the growth stages.

### **6.4.1 Literature comparison for Hypothesis 3**

Rakhman & Evans (2005, p. 32) found that the Venture Capital firms pay a lot of attention to the financial aspects and personality and experience of the Entrepreneur when assessing the proposed businesses. They are concerned with the availability of raw material, marketing skills, fair trading and legal action.

Respondents advised that business proposals were rejected as management were unsuitable for the business. Other reasons highlighted are that their proposals foresee insufficient returns and that they are unrealistic, uncompetitive, too risky, to mention a few Zinecker & Rajchlova (2010, p. 650).

### **6.4.2 Evaluation from study for Hypothesis 3**

The study indicates that there are no significant differences across the growth stages between Entrepreneurs and Funders and therefore  $H_{03}$  will be accepted. However, due to the possible interactive effects of the measured funding criteria, differences are noticed in the descriptive statistics of the funding criteria categories.

Further tests performed reveal that, although not across growth stages, there are in fact significant differences experienced between Entrepreneurs and Funders in terms of the criteria categories. In other words, the results indicated that criteria might not be applied differently or experienced differently across the different growth stages, yet the Funders' application criteria are significantly different to the Entrepreneurs' experiential criteria.

Understanding the gap between Entrepreneurs experience and Funders application relies on identifying where the differences are and what potentially needs to be addressed.

### 6.4.3 Management Characteristics

Entrepreneurs and Venture Capital firms rated *experience* as important. *Willingness to hire staff to cover weaknesses in management* is desirable with *honesty, openness and approachability* and *capability of managing risks* rated very high by both Funder and Entrepreneur. Both respondent groups rated *honesty, openness and approachability, entrepreneur's experience and risk management* as very important (Rakhman & Evans, 2005, p. 16).

In this study Funders rate the importance of all of the criteria measured in the management characteristics as more important than the Entrepreneurs do. The three criteria with the largest difference are *intellectual capital, management stake in the company, and desire for success*.

### 6.4.4 Product Characteristics

Rakhman & Evans (2005, p. 18) found that four of the seven items of the product characteristics showed similarities for Venture Capital firms and Entrepreneurs, being less important for *functioning prototype* and *has been in the market for many years and may be described as high-tech* as desirable.

Of the five criteria measured in this study under the product characteristics, Funders rate all criteria as more important than Entrepreneurs do. A particularly large difference is noted for *product differentiation*.

### 6.4.5 Market characteristics

Of the twelve items rated, seven show similarities. *Reasonable market plan* was rated as very important by both Venture Capital firms and Entrepreneurs (Rakhman & Evans, 2005, p. 28).

Zinecker & Rajchlova (2010, p. 649) found that *the market is growing fast enough* and *the competition on the market is weak* as the most significant criteria for early stage of growth, but the crucial criterion in later stages of growth is that *there is sufficient access to the market targeted by a business*.

Of the six criteria measured in this study under market characteristics, four are seen as more important by Funders and two are rated more important by Entrepreneurs.

#### 6.4.6 Financial Characteristics

Zinecker & Rajchlova (2010, p. 648) found that the financial criteria were observed to be indispensable in early stages of growth, but were not considered to be that important in later stages of growth.

Venture Capital firms and Entrepreneurs rated *monthly financial report* and *audited financial report* as important and rated a *5% higher return than national interest rate* as desirable (Rakhman & Evans, 2005, p. 23).

In this study, there are large differences in perceptions of importance between Funders and Entrepreneurs under financial characteristics. Entrepreneurs rate *no follow-up investment, require low monitoring / admin costs, require low marketing / production costs* and *the availability of security*, of greater importance than Funders.

#### 6.4.7 Other characteristics

Van Eeden (2004, p. 46) included corporate citizenship under other criteria and found that BEE credentials are only marginally important when a new venture opportunity is screened.

Indications from this research show that there is a large difference between Funders and Entrepreneurs with regard to the importance given to *the venture has BEE status*. Entrepreneurs indicate that this criterion is of greater importance than indicated by Funders.

#### 6.4.8 Overall findings of Hypothesis 3

H<sub>03</sub> will be accepted, therefore there are no differences in how Funders' apply and Entrepreneurs' experience the application of criteria by Funders across the growth stages of a business.

Further tests performed reveal that, although not across growth stages, there are in fact significant differences experienced between Entrepreneurs and Funders in terms of the criteria categories. In other words, the results indicated that criteria might not be applied differently or experienced differently across the different growth stages, yet the

Funders' application criteria are significantly different to the Entrepreneurs' experiential criteria.

Understanding the gap between Entrepreneurs experience and Funders application relies on identifying where the differences are and what potentially needs to be addressed.

## **6.5 Research Questions and Research Objections**

The purpose of this study was to address three key questions:

### **6.5.1 Research Question 1**

Are there differences in Funders application of funding criteria across the different growth stages of a start-up business?

### **6.5.2 Research Question 2**

Are there differences in Entrepreneurs experience of Funder criteria applied across growth stages of business?

### **6.5.3 Research Question 3**

Are there differences between the Funders application of funding criteria and the Entrepreneurs experience of the application of funding criteria across the growth stages of a start-up business?

Data for the analysis of these three research questions was collected using a survey which was completed by Venture Capital Funders and Entrepreneurs. An analysis was done on data collected for the first and second questions. These responses were compared with data collected for the third research question. Three research objectives were pursued in order to answer these research questions:

### **6.5.4 Research Objective 1**

The first objective of this research was to identify firstly the Funders' perceived importance of the investment criteria identified in chapter two across the four stages of growth: seed stage, start-up stage, early growth stage and sustained growth stage and

identify the Entrepreneurs' perception of the investment criteria across the four stages of growth.

This research objective has been met. Funders' perceived importance of the investment criteria is different across the four stages of growth. Entrepreneurs' experience of the investment criteria is not significantly different across the four growth stages.

#### **6.5.5 Research Objective 2**

The second objective was to identify gaps, if any, between the Funder application of the investment criteria and the Entrepreneurial experience of the investment criteria across the four growth stages.

There are no differences in how Funders apply and Entrepreneurs experience the application criteria by Funders across the growth stages.

#### **6.5.6 Research Objective 3**

The third objective was to identify if any differences are systemic across all four stages.

The research revealed that across the two sample groups, there are systematic differences. While criteria acted in an interactive manner, application of criteria across the four growth stages were not significant. Therefore, the proposition that there will be significant differences between Funders application of criteria and Entrepreneurs experience of said application of criteria has been proven incorrect.

Recommendation and future research will be discussed in the next chapter.

## CHAPTER 7: CONCLUSION

### 7.1 Introduction

- Hudson & Evans (2005, p. 14) concluded that Venture Capital and Entrepreneurship have a significant impact on the creation of new technologies, economic growth and employment, which will have a knock on impact on standards of living. Access to capital was discussed at length in The Entrepreneurial Dialogues by Fal *et al.* (2010, p. 15), and the insights clearly show that there is a disconnect between the Entrepreneurs and Funders.

Given this context, the aim of this study was to create a comprehensive understanding of the criteria used for evaluating Entrepreneurial ventures within South Africa by addressing three objectives: Objective one and two looked at both the Funders and Entrepreneurs experience with regards to the application of investment criteria and their importance across the four growth stages of a business, namely: seed stage, start-up stage, early growth stage and sustained growth stage. These experiences were then compared. The third objective was to identify if any differences were systemic across all four stages in the South African economic market.

### 7.2 Research contributions

The research contributed to the growing body of knowledge on Entrepreneurial funding by creating a greater understanding of the differences in perceptions and usage of funding criteria through comparing Funders and Entrepreneurs. Funders' perceived importance of the investment criteria is different across the four stages of growth. Entrepreneurs' experience of the investment criteria is not significantly different across the four growth stages.

The author is of the opinion that the research conclusively shows that there are systematic differences across the two sample groups: Funders and Entrepreneurs. While criteria acted in an interactive manner, application of criteria across the four growth stages was not significantly different.

### 7.3 Recommendation for future research

Essential to validity, reliability and potential practical application of results is an enhancement to the methodology. This could be done by an:

- Increase in samples for both Funders and Entrepreneurs to be more demographically representative by geographical region and growth stage;
- Increase in samples for both Funders and Entrepreneurs to be more demographically representative of industry segmentation;
- Increase in samples for both Funders and Entrepreneurs to be more demographically representative of business size, i.e. employee size/turnover;

Furthermore it is necessary to understand the interactive effects that the results indicated the criteria to have. In other words, most of the research done to date was to statistically measure the criteria used by Funders, yet a more in-depth / qualitative understanding is necessary as the perceptions of Entrepreneurs and Funders are different, simply because they have different strategic priorities.

### 7.4 Conclusion

Through collecting primary data on the usage of and experiences of funding criteria from both Funders and Entrepreneurs, a greater understanding was created regarding Entrepreneurial funding. The final conclusion is that it is not so much the growth stage that determines whether capital is awarded or not, but rather the fulfilment of the numerous criteria used by Funders. It is recommended that greater effort be made in order to create awareness amongst Entrepreneurs, to educate them on these criteria and to provide assistance in the practicalities of the application process.

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## Appendix A: Draft Questionnaire: Entrepreneurs

**Note:** This is a general outline of the questionnaire. However, the structure of the questionnaire was adapted to accommodate the scripting criteria in Survey Monkey.

**Introduction:** An introductory email message will be constructed to invite them to participate in the study:

Dear respondent,

I am a second year MBA student @ GIBS, conducting integrative research under the supervision of Judi Sandrock, CEO and Co-Founder - Micro Enterprise Development Organisation MEDO (Pty) Ltd.

The study focuses on the Entrepreneurial funding criteria and aims to bridge the gap between Funders and Entrepreneurs.

To that end you are kindly requested to complete an anonymous survey that would take approximately 15 minutes.

Your participation is voluntary and can be withdrawn at any time without penalty.

The data you provide will only be used for the dissertation, and will not be disclosed to any third party, except as part of the dissertation findings, or as part of the supervisory or assessment processes of the University of Pretoria's Gordon Institute of Business Science (GIBS).

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_

Researcher name: Frans Els

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## Appendix A: Draft Questionnaire: Entrepreneurs (Continued)

### Screening question:

1. Are you in a position whereby you actively participate in Venture Capital / Entrepreneurial funding activities for your company?

### Section 1: Experience of applying for funding

Listed below are criteria that Funders (Venture Capital firms and Banking Institutions) apply when evaluating applications for funding. These criteria may differ between Funders and across company growth stages. We would like to understand what your experience has been with regards to these criteria and how Funders apply them during different growth stages.

2. During which of the growth stages did your company apply for funding?  
Seed, Start-up, Early Growth, Sustained growth.
3. [Question to be repeated for each of the answers in Q2]. Thinking about the application process in <<<<answer in Q2>>>>, please indicate how important each of these were in your application process (1: Totally unimportant, 2: Not very important, 3: Average importance, 4: Important, 5: Very important)

[The list of items was randomised for each respondent and category headings excluded from questionnaire]

#### Management characteristics

- Desire for success
- Intellectual capital
- Risk management qualities
- Honesty and integrity
- Track record of the entrepreneur
- Management stake in the company
- Hardworking and flexibility
- Knowledge of the sector
- Skills and expertise
- Leadership capabilities

#### Product or service characteristics

- Market acceptance for product or service
- Product differentiation
- Competitive advantage
- Product growth potential
- Product stage of development

#### Market characteristics

- Market need for the product or service
- Potential for growth
- Existing market size
- Market acceptance
- Venture will create new market
- Competitor environment

## Appendix A: Draft Questionnaire: Entrepreneurs (Continued)

### Financial characteristics

- No follow up investment required
- Security available
- Significant potential for earnings growth
- Will be tax benefit in financing the venture
- High profit margin projections
- Size of investment
- Will provide high internal rate of return
- Low overall capital requirements
- Will provide a high absolute return
- Require low monitoring and administration costs
- High valuation projections
- Require low marketing and production costs

### Other

- Global potential
- Venture has BEE status

4. Which types of Funders did you consider / approach for funding? List here [Repeat for each answer in Q2].
5. If there is anything you feel that you have experienced but that has not been captured in this questionnaire, please tell us about it. [Repeat for each answer in Q2].

### Section 2: Company information

- What is your company name?
- In which province is your head office located? [in a dropdown box]
  - Gauteng, North West, Northern Cape, Western Cape, Eastern Cape, Limpopo, Mpumalanga, Free State, KZN
- What is the current turnover (not profit) of your company? [in a dropdown box]
  - R0 to R5million, R6million to R10million, R11million to R15million, R16million to R25million, R26 million to R50million, R51million to R100million, R101million to R300million, R301million and above
- What is the current growth stage of your company? [in a dropdown box]
  - Seed, Start-up, Early growth, Sustained growth
- How long has your company been operational? [in a dropdown box]
  - Less than 1 year, 1 – 5 years, 6 – 10 years, 11 – 15 years, more than 15 years, do not want to disclose
- What is the current growth stage of your company?: [in a dropdown box]
  - Seed, Start-up, Early Growth, Sustained growth
- In which industry is your company positioned?: [in a dropdown box]
  - Alt-X, Basic Industrials, Financials, Food & Beverages, General Industries, Health Care, ICT, Industrial Goods & Services, Media, Property, Resources, Retail, Transport, Travel & Leisure, Don't know, Other.

## Appendix B: Draft Questionnaire: Funders

Note: This is a general outline of the questionnaire. However, the structure of the questionnaire was adapted to accommodate the scripting criteria in SurveyMonkey.

**Introduction:** An introductory email message will be constructed to invite them to participate in the study:

Dear respondent,

I am a second year MBA student @ GIBS, conducting integrative research under the supervision of Judi Sandrock, CEO and Co-Founder - Micro Enterprise Development Organisation MEDO (Pty) Ltd.

The study focuses on the Entrepreneurial funding criteria and aims to bridge the gap between Funders and Entrepreneurs.

To that end you are kindly requested to complete an anonymous survey that would take approximately 15 minutes.

Your participation is voluntary and can be withdrawn at any time without penalty.

The data you provide will only be used for the dissertation, and will not be disclosed to any third party, except as part of the dissertation findings, or as part of the supervisory or assessment processes of the University of Pretoria's Gordon Institute of Business Science (GIBS).

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

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Research Supervisor name: Judi Sandrock

Email: [js@medo.co.za](mailto:js@medo.co.za)

Phone: 010 500 5000

## Appendix B: Draft Questionnaire: Funders (Continued)

### Screening question:

1. Are you in a position whereby you actively participate in Venture Capital / Entrepreneurial funding activities for your company?

### Section 1: Application of evaluation criteria

Listed below are criteria that Funders (Venture Capital firms and Banking Institutions) apply when evaluating applications for funding. These criteria may differ between Funders and across company growth stages. We would like to understand what how your company apply them during different growth stages.

2. Which growth stages do your company fund / invest in? Seed, Start-up, Early Growth, Sustained growth.
3. [Question to be repeated for each of the answers in Q2]. Thinking about the application process in <<<<answer in Q2>>>>, please indicate how important each of these are to your company in application process (1:Totally unimportant, 2: Not very important, 3:Average importance, 4: Important, 5: Very important)

[The list of items was randomised for each respondent and category headings excluded from questionnaire]

### Management characteristics

- Desire for success
- Intellectual capital
- Honesty and integrity
- Risk management qualities
- Track record of the entrepreneur
- Management stake in the company
- Hardworking and flexibility
- Knowledge of the sector
- Skills and expertise
- Leadership capabilities

### Product or service characteristics

- Market acceptance for product or service
- Product differentiation
- Competitive advantage
- Product growth potential
- Product stage of development

### Market characteristics

- Market need for the product or service
- Potential for growth
- Existing market size
- Market acceptance
- Venture will create new market
- Competitor environment

## Appendix B: Draft Questionnaire: Funders (Continued)

### Financial characteristics

- No follow up investment required
- Security available
- Significant potential for earnings growth
- Will be tax benefit in financing the venture
- High profit margin projections
- Size of investment
- Will provide high internal rate of return
- Low overall capital requirements
- Will provide a high absolute return
- Require low monitoring and administration costs
- High valuation projections
- Require low marketing and production costs

### Other

- Global potential
- Venture has BEE status

4. If there is anything interesting about your company's funding and application of criteria you feel are important, please tell us about it. [Question to be repeated for each of the answers in Q2].

### Section 2: Company information

- What is the total number of portfolio's your company has? [in a dropdown box]
  - 1 – 10, 11 – 20, 21 – 30, 31 – 40, 41 – 50, More than 50, Don't know
- What is the average age of these portfolios? [in a dropdown box]
  - Under one year, one to 2 years, 2 to 5 years, 5 to 10 years, above 120 years, Don't know
- What is the preferred minimum and maximum investment of your company? [in a dropdown box]
  - Minimum: Below R100k, R100k, R500k, R1 million, R5 million, R10 million, above R10 million, Don't know
  - Maximum: Below R100k, R100k, R500k, R1 million, R5 million, R10 million, above R10 million, Don't know
- Which industries are your company's portfolios? [in a dropdown box]
  - Alt-X, Basic Industrials, Financials, Food & Beverages, General Industries, Health Care, ICT, Industrial Goods & Services, Media, Property, Resources, Retail, Transport, Travel & Leisure, Don't know, Other.

## Appendix C: Tables

**Table 8: Funders: Descriptive statistics per stage**

Descriptive statistics: Funders				
	<b>SS</b>	<b>SUS</b>	<b>EGS</b>	<b>SGS</b>
Mean	3.62	3.84	3.84	3.88
Standard Error	0.11	0.06	0.06	0.08
Median	3.62	3.84	3.84	3.88
Mode	3.62	3.84	3.84	3.88
Standard Deviation	0.61	0.32	0.33	0.43
Sample Variance	0.38	0.10	0.11	0.18
Kurtosis	11.53	4.89	4.03	1.11
Skewness	-2.63	-0.38	-0.29	0.14
Range	3.60	1.86	1.91	2.09
Minimum	1.00	2.77	2.77	2.77
Maximum	4.60	4.63	4.69	4.86
Sum	108.70	115.11	115.18	116.39
Count	30.00	30.00	30.00	30.00
Confidence Level(95.0%)	0.23	0.12	0.12	0.16

**Table 9: Funders: Descriptive statistics per stage per criteria category**

	<b>SS</b>					<b>SUS</b>					<b>EGS</b>					<b>SGS</b>				
	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC
Mean	3.95	4.18	3.52	3.36	2.50	4.29	4.46	3.85	3.42	2.50	4.28	4.43	4.00	3.34	2.69	4.23	4.34	3.97	3.51	2.90
Median	3.95	4.20	3.52	3.36	2.50	4.29	4.46	3.85	3.42	2.50	4.28	4.41	4.00	3.33	2.69	4.23	4.34	3.97	3.47	2.90
Mode	3.95	4.18	3.52	3.36	2.50	4.29	4.46	3.85	3.42	2.50	4.28	4.40	4.00	3.34	2.00	4.23	4.60	3.83	3.51	2.90
Skewness	-3.21	-2.90	-2.04	-0.80	0.54	-0.67	-2.72	-0.85	1.09	-0.15	-0.68	-1.62	-1.47	1.23	0.32	-0.15	-0.78	-0.76	0.47	0.12
Minimum	1.00	1.00	1.00	1.00	1.00	3.30	3.00	2.33	2.58	1.00	3.30	3.00	2.33	2.58	1.00	3.30	3.00	2.33	2.42	1.00
Maximum	4.80	5.00	4.67	5.00	5.00	5.00	5.00	4.83	4.58	4.00	5.00	5.00	4.83	4.67	4.50	5.00	5.00	4.83	4.75	5.00

### Appendix C: Tables (Continued)

**Table 10: Entrepreneurs: Descriptive statistics per stage**

Descriptive statistics: Entrepreneurs				
	<b>SS</b>	<b>SUS</b>	<b>EGS</b>	<b>SGS</b>
Mean	3.83	3.86	3.80	3.75
Standard Error	0.09	0.09	0.09	0.10
Median	3.83	3.86	3.80	3.75
Mode	4.40	3.86	3.80	3.75
Standard Deviation	0.48	0.52	0.53	0.59
Sample Variance	0.23	0.27	0.28	0.34
Kurtosis	0.01	-0.38	0.06	0.07
Skewness	0.09	0.13	0.48	0.31
Range	2.14	2.20	2.20	2.23
Minimum	2.77	2.77	2.77	2.77
Maximum	4.91	4.97	4.97	5.00
Sum	122.58	123.60	121.60	120.09
Count	32.00	32.00	32.00	32.00
Confidence Level(95.0%)	0.17	0.19	0.19	0.21

**Table 11: Entrepreneurs: Descriptive statistics per stage per criteria category**

	<b>SS</b>					<b>SUS</b>					<b>EGS</b>					<b>SGS</b>				
	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC	MC	PC	MAC	FC	OC
Mean	4.0	4.0	3.9	3.8	3.0	4.0	4.0	3.9	3.7	3.1	3.9	4.0	3.9	3.6	3.4	3.8	3.8	3.8	3.6	3.8
Median	4.0	4.0	3.9	3.8	3.0	4.0	4.0	3.9	3.7	3.1	3.9	4.0	3.9	3.6	3.4	3.8	3.8	3.8	3.6	3.8
Mode	4.6	4.6	3.5	4.1	2.5	4.0	4.0	3.9	3.5	2.5	3.9	4.0	3.9	3.6	3.4	3.8	3.8	3.8	3.6	3.8
Skewness	-0.3	-0.2	-0.1	-0.1	0.4	-0.6	-0.2	-0.2	0.2	0.2	-0.8	0.1	0.0	0.8	-0.5	-0.7	0.4	0.0	-0.1	-0.7
Minimum	2.9	3.0	2.7	2.8	1.0	2.5	3.0	2.7	2.8	1.0	2.0	3.0	2.7	2.8	1.0	1.8	2.6	2.7	2.1	1.5
Maximum	5.0	5.0	5.0	4.8	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

## Appendix C: Tables (Continued)

**Table 12: Funders: t-tests 1-6 – testing for differences across stages**

t-Test: Paired Two Sample for Means												
	Test 1		Test 2		Test 3		Test 4		Test 5		Test 6	
	ss	sus	ss	egs	ss	sgs	sus	egs	sus	sgs	egs	sgs
Mean	3.62	3.84	3.62	3.84	3.62	3.88	3.84	3.84	3.84	3.88	3.84	3.88
Variance	0.38	0.10	0.38	0.11	0.38	0.18	0.10	0.11	0.10	0.18	0.11	0.18
Observations	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Pearson Correlation	0.48		0.40		0.37		0.89		0.70		0.80	
Hypothesized Mean Difference	0.00		0.00		0.00		0.00		0.00		0.00	
df	29.00		29.00		29.00		29.00		29.00		29.00	
t Stat	-2.17		-2.08		-2.32		-0.08		-0.76		-0.86	
P(T<=t) one-tail	0.02		0.02		0.01		0.47		0.23		0.20	
t Critical one-tail	1.70		1.70		1.70		1.70		1.70		1.70	
<b>P(T&lt;=t) two-tail</b>	<b>0.04</b>		<b>0.05</b>		<b>0.03</b>		<b>0.94</b>		<b>0.45</b>		<b>0.40</b>	
t Critical two-tail	2.05		2.05		2.05		2.05		2.05		2.05	
<b>p&lt;=0.05 (significant)</b>												
Confidence level set at 95%												

**Table 13: Funders: t-tests 7-11: testing for differences across SS & SUS categories**

Testing for differences between SS & SUS (t-Test: Paired Two Sample for Means)										
	Test 7		Test 8		Test 9		Test 10		Test 11	
	mcss	mcsus	pcss	pcsus	macss	macsus	fcss	fcus	ocss	ocsus
Mean	3.95	4.29	4.18	4.46	3.52	3.85	3.36	3.42	2.50	2.50
Variance	0.43	0.08	0.55	0.12	0.42	0.21	0.52	0.18	0.98	0.69
Observations	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Pearson Correlation	0.30		0.42		0.55		0.65		0.69	
Hypothesized Mean Difference	0.00		0.00		0.00		0.00		0.00	
df	29.00		29.00		29.00		29.00		29.00	
t Stat	-2.92		-2.27		-3.33		-0.60		0.00	
P(T<=t) one-tail	0.00		0.02		0.00		0.28		0.50	
t Critical one-tail	1.70		1.70		1.70		1.70		1.70	
<b>P(T&lt;=t) two-tail</b>	<b>0.01</b>		<b>0.03</b>		<b>0.00</b>		<b>0.55</b>		<b>1.00</b>	
t Critical two-tail	2.05		2.05		2.05		2.05		2.05	
<b>p&lt;=0.05 (significant)</b>										
Confidence level set at 95%										

### Appendix C: Tables (Continued)

**Table 14: Funders: t-tests 12-16: testing for differences across SS & EGS categories**

Testing for differences between SS & EGS (t-Test: Paired Two Sample for Means)										
	Test 12		Test 13		Test 14		Test 15		Test 16	
	<i>mcss</i>	<i>mcegs</i>	<i>pcss</i>	<i>pcegs</i>	<i>macss</i>	<i>macegs</i>	<i>fcss</i>	<i>fcegs</i>	<i>ocss</i>	<i>ocegs</i>
Mean	3.95	4.28	4.18	4.43	3.52	4.00	3.36	3.34	2.50	2.69
Variance	0.43	0.10	0.55	0.14	0.42	0.22	0.52	0.19	0.98	1.00
Observations	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Pearson Correlation	0.28		0.36		0.50		0.41		0.67	
Hypothesized Mean Difference	0.00		0.00		0.00		0.00		0.00	
df	29.00		29.00		29.00		29.00		29.00	
t Stat	-2.78		-1.91		-4.61		0.13		-1.28	
P(T<=t) one-tail	0.00		0.03		0.00		0.45		0.11	
t Critical one-tail	1.70		1.70		1.70		1.70		1.70	
<b>P(T&lt;=t) two-tail</b>	<b>0.01</b>		<b>0.07</b>		<b>0.00</b>		<b>0.90</b>		<b>0.21</b>	
t Critical two-tail	2.05		2.05		2.05		2.05		2.05	
<b>p&lt;=0.05 (significant)</b>										
Confidence level set at 95%										

**Table 15: Funders: t-tests 17-21: testing for differences across SS & SGS categories**

Testing for differences between SS & SGS (t-Test: Paired Two Sample for Means)										
	Test 17		Test 18		Test 19		Test 20		Test 21	
	<i>mcss</i>	<i>mcsqs</i>	<i>pcss</i>	<i>pcsgs</i>	<i>macss</i>	<i>macsgs</i>	<i>fcss</i>	<i>fcsgs</i>	<i>ocss</i>	<i>ocsgs</i>
Mean	3.95	4.23	4.18	4.34	3.52	3.97	3.36	3.51	2.50	2.90
Variance	0.43	0.15	0.55	0.22	0.42	0.25	0.52	0.37	0.98	1.22
Observations	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Pearson Correlation	0.25		0.25		0.44		0.25		0.75	
Hypothesized Mean Difference	0.00		0.00		0.00		0.00		0.00	
df	29.00		29.00		29.00		29.00		29.00	
t Stat	-2.25		-1.14		-4.07		-1.05		-2.88	
P(T<=t) one-tail	0.02		0.13		0.00		0.15		0.00	
t Critical one-tail	1.70		1.70		1.70		1.70		1.70	
<b>P(T&lt;=t) two-tail</b>	<b>0.03</b>		<b>0.26</b>		<b>0.00</b>		<b>0.30</b>		<b>0.01</b>	
t Critical two-tail	2.05		2.05		2.05		2.05		2.05	
<b>p&lt;=0.05 (significant)</b>										
Confidence level set at 95%										

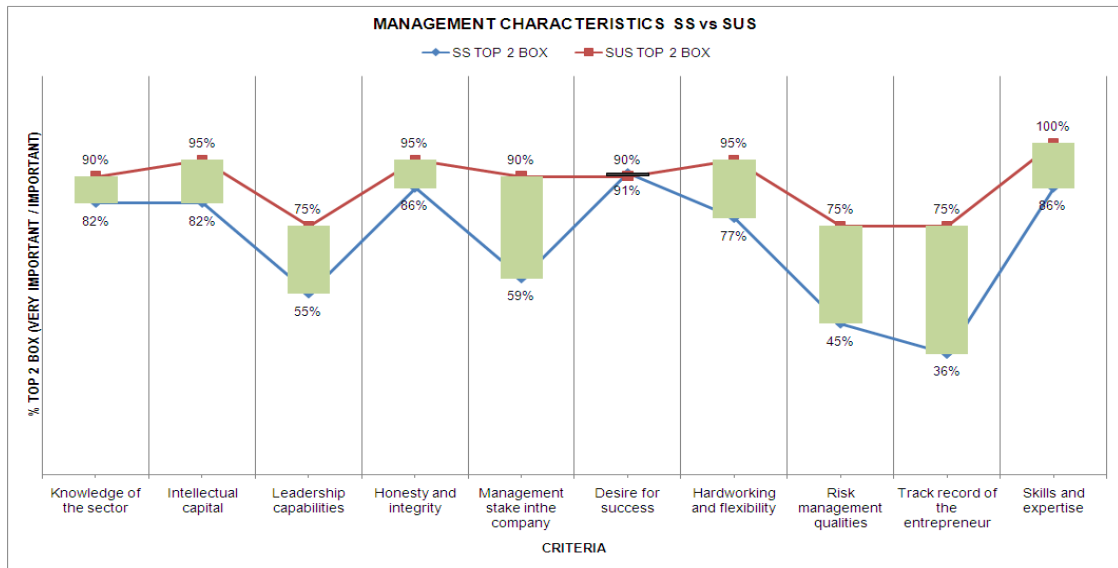
## Appendix C: Tables (Continued)

**Table 16: Entrepreneurs: t-tests 22-27 – testing for differences across stages**

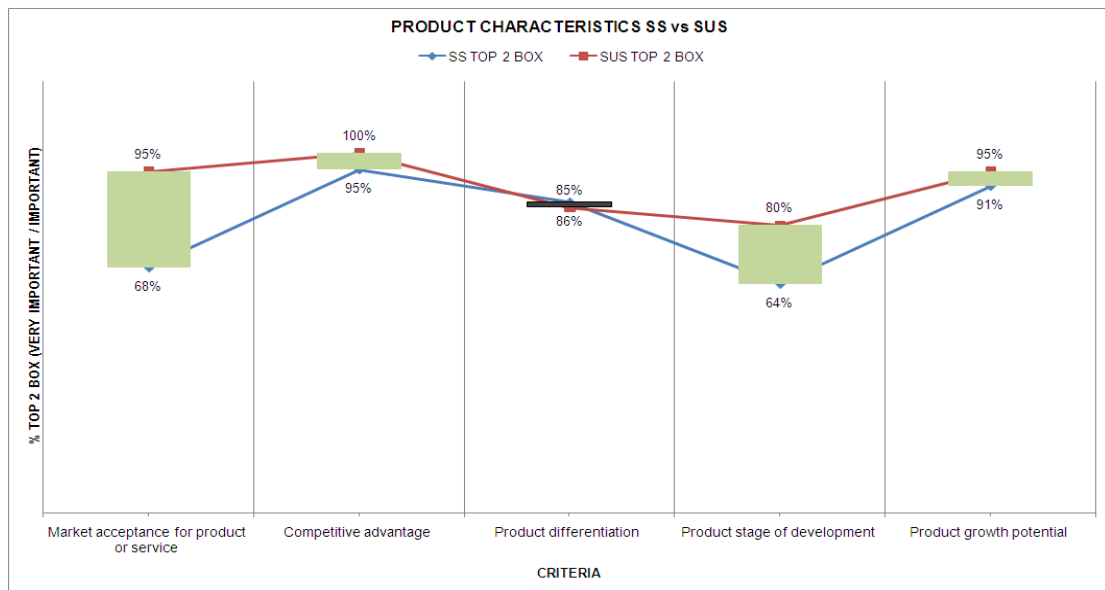
t-Test: Paired Two Sample for Means												
	Test 22		Test 23		Test 24		Test 25		Test 26		Test 27	
	ss	sus	ss	egs	ss	sgs	sus	egs	sus	sgs	egs	sgs
Mean	3.83	3.86	3.83	3.80	3.83	3.75	3.86	3.80	3.86	3.75	3.80	3.75
Variance	0.23	0.27	0.23	0.28	0.23	0.34	0.27	0.28	0.27	0.34	0.28	0.34
Observations	32.00	32.00	32.00	32.00	32.00	32.00	32.00	32.00	32.00	32.00	32.00	32.00
Pearson Correlation	0.78		0.75		0.67		0.84		0.78		0.92	
Hypothesized Mean Difference	0.00		0.00		0.00		0.00		0.00		0.00	
df	31.00		31.00		31.00		31.00		31.00		31.00	
t Stat	-0.54		0.48		0.99		1.18		1.65		1.16	
P(T<=t) one-tail	0.30		0.32		0.17		0.12		0.05		0.13	
t Critical one-tail	1.70		1.70		1.70		1.70		1.70		1.70	
<b>P(T&lt;=t) two-tail</b>	<b>0.59</b>		<b>0.64</b>		<b>0.33</b>		<b>0.25</b>		<b>0.11</b>		<b>0.26</b>	
t Critical two-tail	2.04				2.04		2.04		2.04		2.04	
<b>p&lt;=0.05 (significant)</b>												
Confidence level set at 95%												

## Appendix D: Figures

**Figure 6: Funders: Differences in criteria across MCSS & MCSUS**

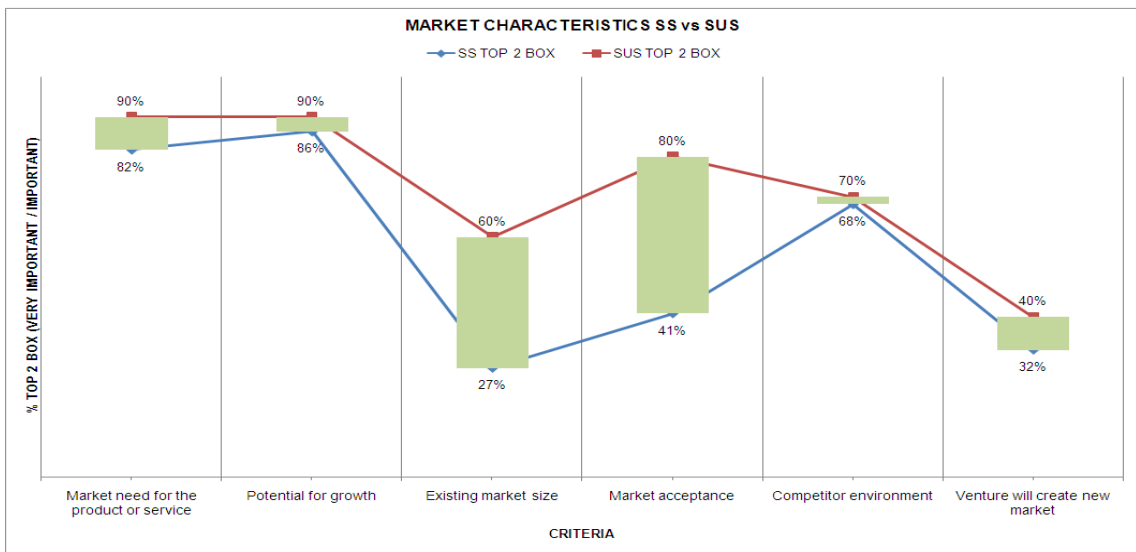


**Figure 7: Funders: Differences in criteria across PCSS & PCSUS**

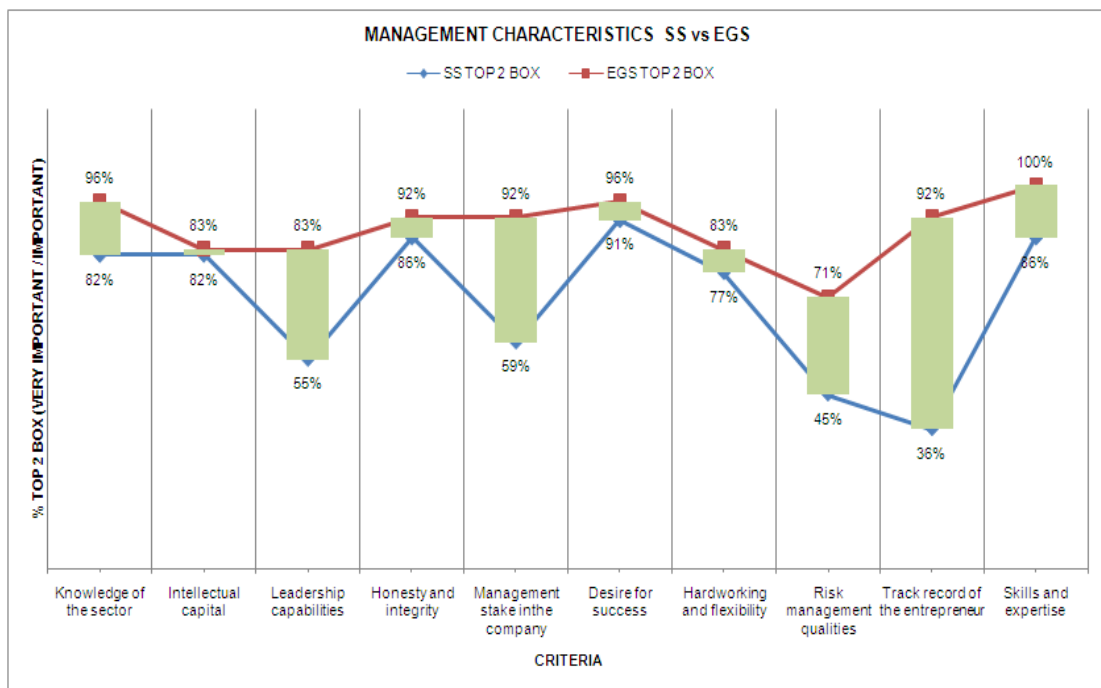


## Appendix D: Figures (Continued)

**Figure 8: Funders: Differences in criteria across MACSS & MACSUS**

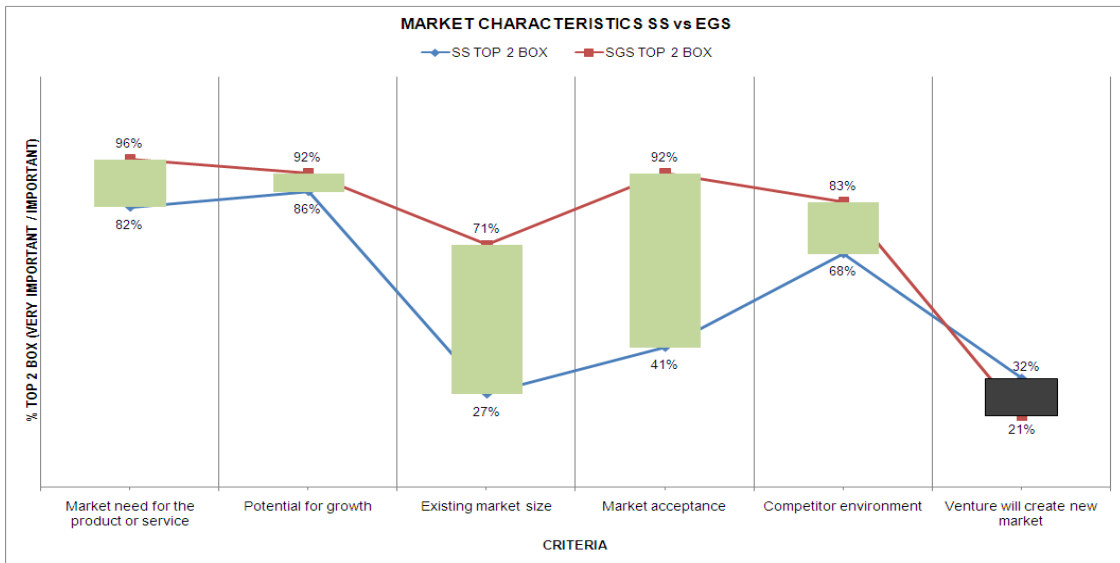


**Figure 9: Funders: Differences in criteria across MCSS & MCEGS**

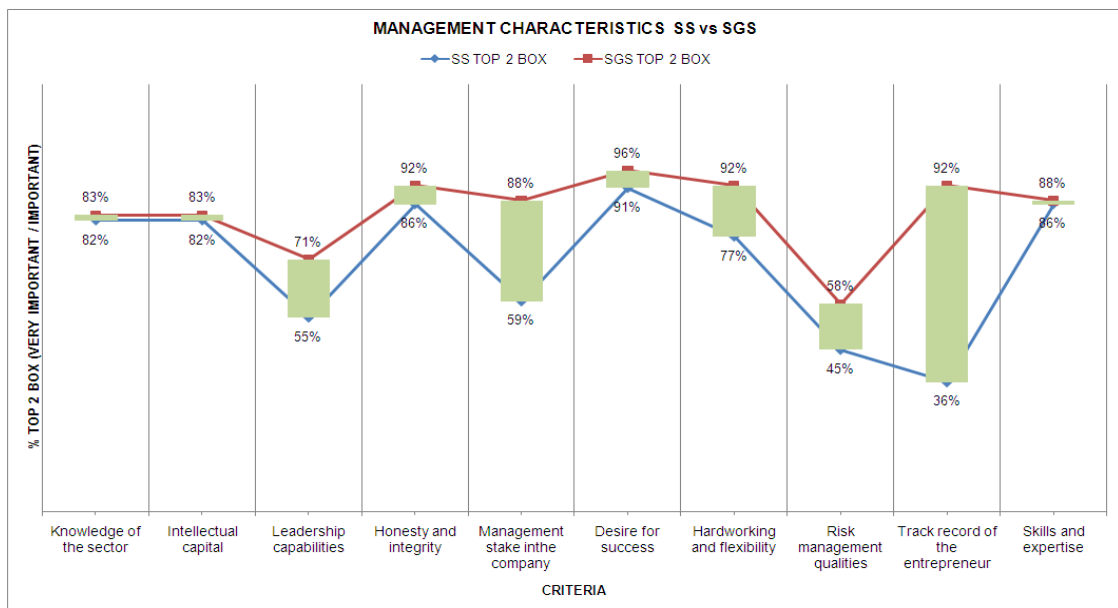


## Appendix D: Figures (Continued)

**Figure 10: Funders: Differences in criteria across MACSS & MACEGS**

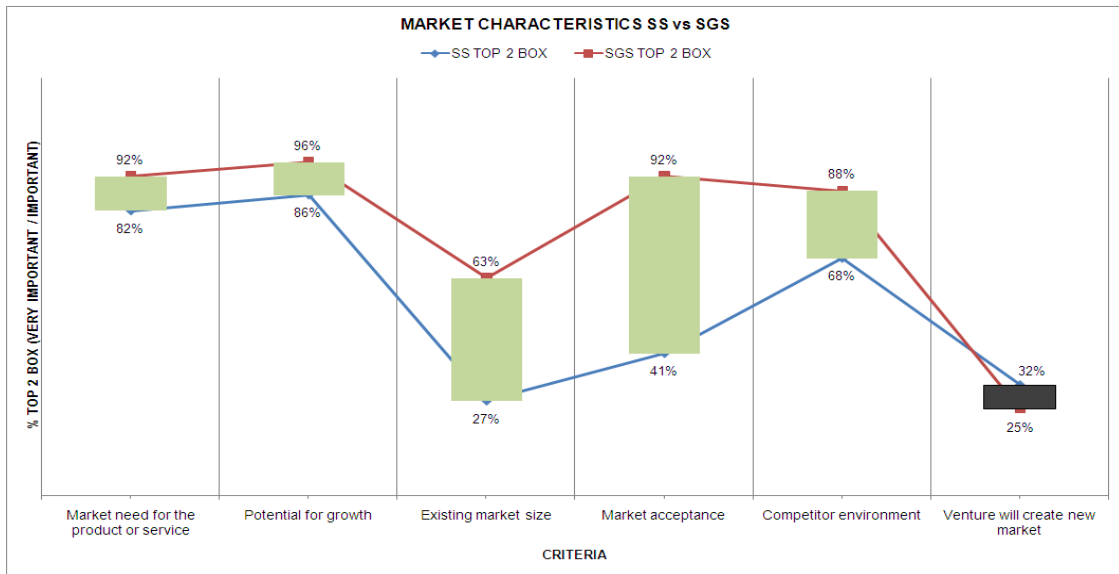


**Figure 11: Funders: Differences in criteria across MCSS & MCSGS**

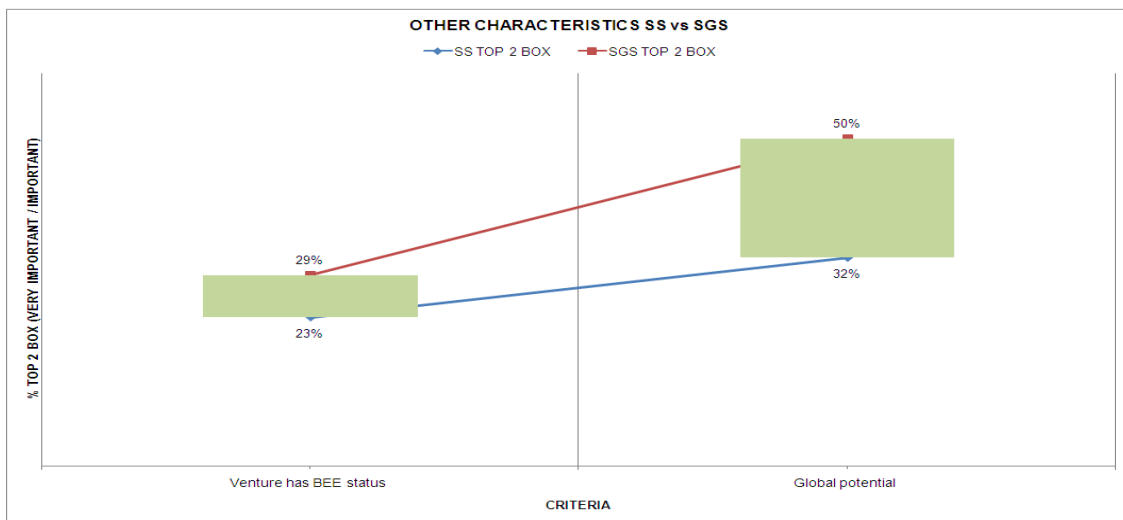


### Appendix D: Figures (Continued)

**Figure 12: Funders: Differences in criteria across MACSS & MACSGS**

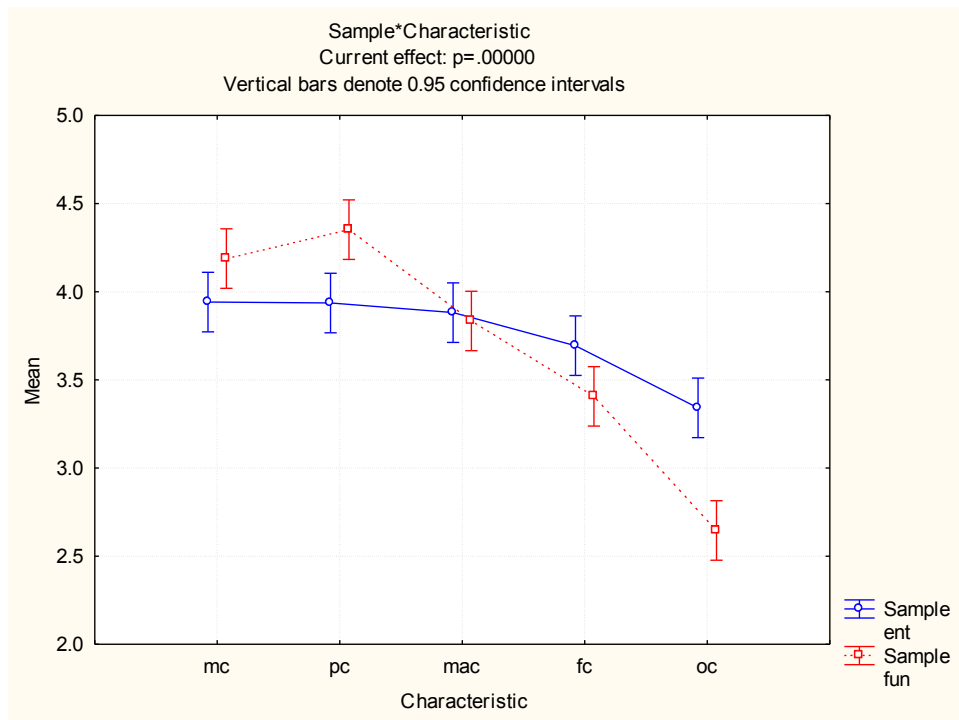


**Figure 13: Funders: Differences in criteria across OCSS & OSGS**

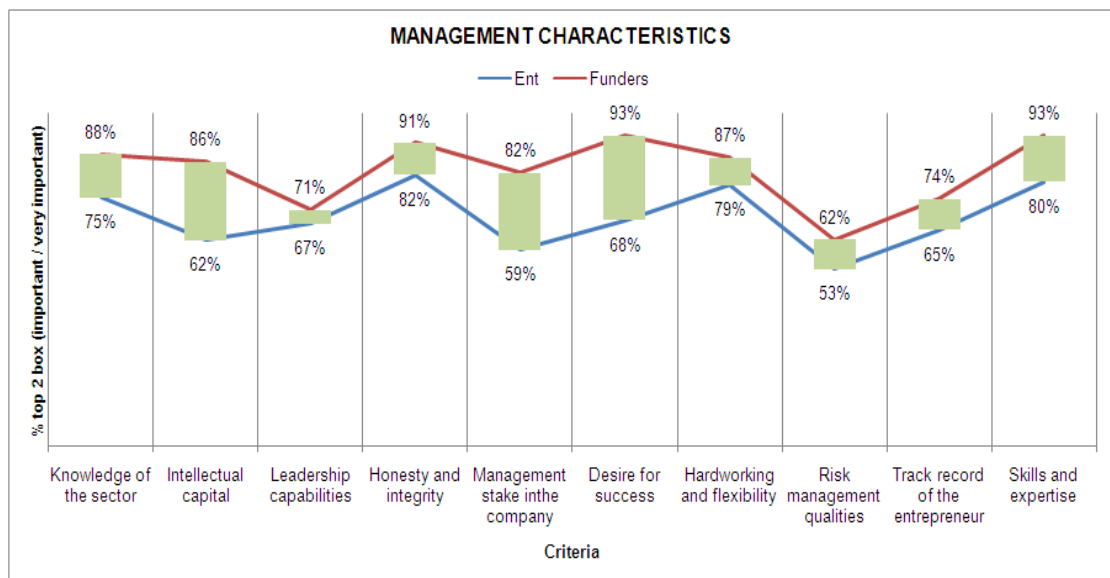


### Appendix D: Figures (Continued)

**Figure 14: One way ANOVA: Entrepreneurs and Funders criteria categories**



**Figure 15: Management characteristics: Entrepreneurs and Funders**



Appendix D: Figures (Continued)

Figure 16: Product characteristics: Entrepreneurs and Funders

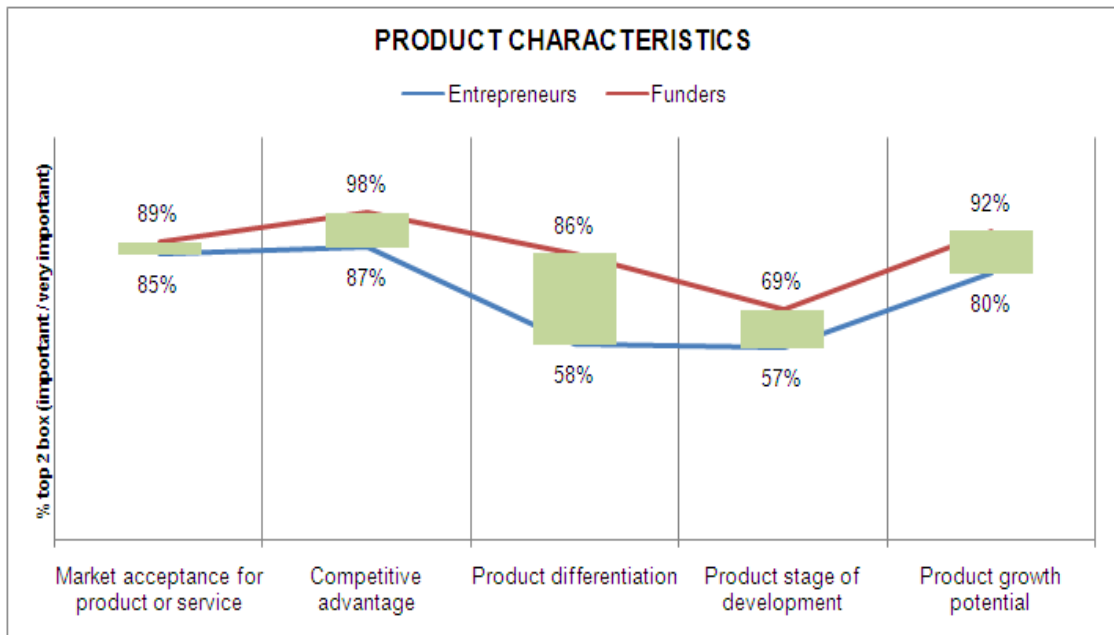
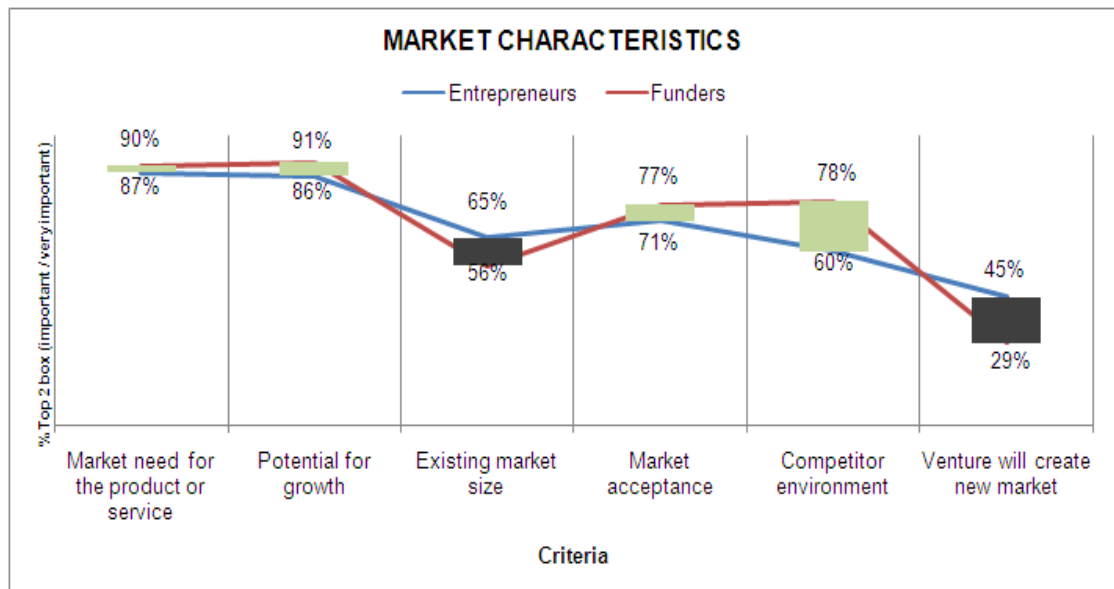
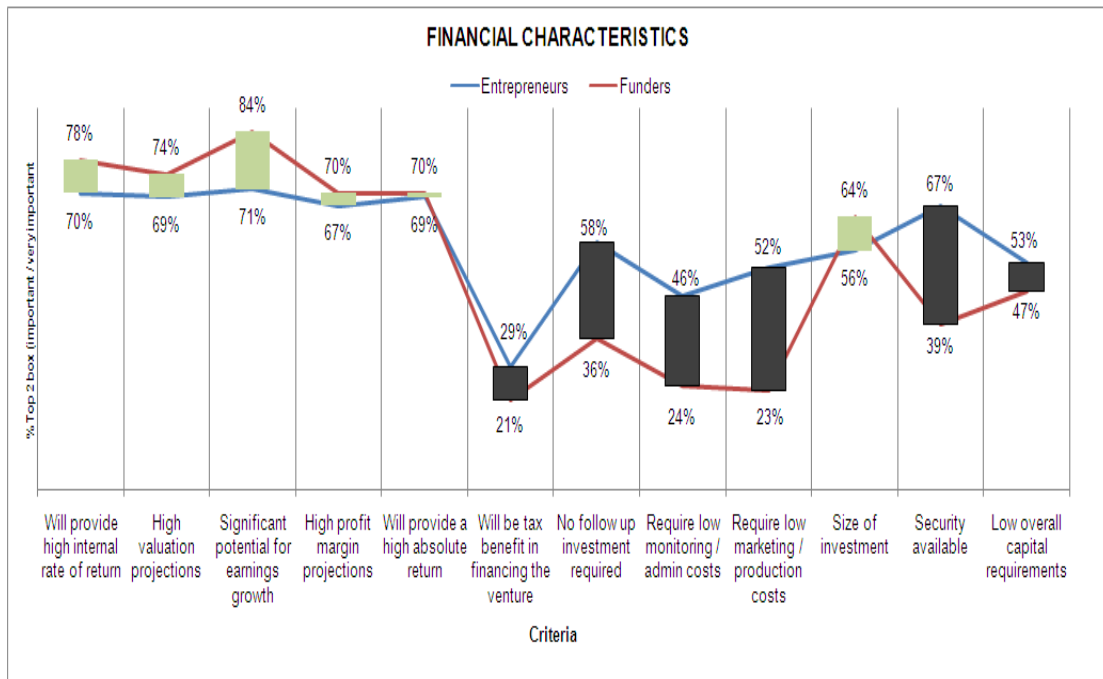


Figure 17: Market characteristics: Entrepreneurs and Funders



## Appendix D: Figures (Continued)

**Figure 18: Financial characteristics: Entrepreneurs and Funders**



**Figure 19: Other characteristics: Entrepreneurs and Funders**

