Human, social and financial capital factors that influence the success of black-owned small business in South Africa

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DECLARATION

I, Susan Lubita, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Susan Lubita

Signed at Johannesburg

On the 31st day of August 2017

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Table of Contents

List of Figures

ABSTRACT

In South Africa, developing small businesses is one of the strategies that the government is using to reduce unemployment and by doing so alleviate poverty and inequality (National Planning Commission, 2011). According to the National Development Plan, 90% of new jobs will be created by Small and Medium Enterprises (SMEs) by 2030 (National Planning Commission, 2011) yet the Global Entrepreneurship Monitor (GEM) South African Report for 2015/2016 reveals that conditions in South Africa remain unsupportive of small business. It is therefore imperative to address the shortcomings within the entrepreneurial ecosystem in order to improve the success rates of small businesses in South Africa. This qualitative study is a case study of human, social and financial capital factors that influence business success of small black-owned business. Twelve (12) participants, who represented previous or current small business owners, were selected to be interviewed as part of the study. The study's main findings were that Entrepreneurship specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital. Strong social capital ties positively impact business performance more in the start-up phase of a business. Weak social capital ties positively impact business performance more in the growth phase of a business and that financial capital positively impacts overall business performance. The research also found an interplay between human, social and financial capital as they relate to business performance. There is a requirement for future research to investigate which human, social and financial capital factors maximise business success.

Chapter 1. Introduction

1.1. Purpose of the Study

This paper seeks to probe and document the experiences and challenges faced by small business owners in order to propose sustainable and entrepreneur-sensitive ways to develop small businesses in South Africa.

The next section of this paper is a comprehensive review of literature that investigates the effect of human, social and financial capital factors on business success as well as the interplay of these types of capital on business success. This is then followed by an explanation of the research methodology used, after which a summary of our research findings is presented before overall conclusions are drawn.

1.2. Context of the Study

The ushering in of a democratically elected dispensation in 1994 brought about an opportunity for the newly elected South African government to create policy and legislation which would unite a deeply divided population, and create new opportunities for large sections of society which had previously been legislated out of the opportunity to participate fairly in the economy. Government was tasked with doing this against the backdrop of the inherited triple challenge of poverty, unemployment and inequality, which continues to plague society today.

Government policy, from the Reconstruction and Development Programme through to the current National Development Plan, has recognised the role that both big and small business have to play in the economy if South Africa is to overcome the triple threat of poverty, unemployment and inequality. In support of these policy directives, numerous legislative instruments have been utilised in order to create statutory bodies which seek to render different forms of assistance to small businesses, on the one hand, and to create legislation which incentivises medium to large enterprises to diversify their workforce and develop small black-owned businesses simultaneously.

The Broad-Based Black Economic Empowerment (BBBEE) legislation ("Broad-Based Black Ecomonic Empowerment Act," 2003) has provided opportunities to allow small businesses the space to grow through the provision of opportunities for preferential procurement and enterprise development. The legislation incentivises both the public and private sector to develop and support small black-owned businesses in order to score BBBEE points which make them preferred vendors for large government contracts. Such legislation is necessary to promote equality and increase participation of black people in the country's economy, and recognises the role that both the private and public sectors should play to ensure the success of small business.

The National Development Plan projects that by 2030, 90% of jobs in the South African economy will come from small and expanding businesses (National Planning Commission, 2011). In addition, the NDP recognises that in order to create sustainable economic growth that creates employment and alleviates poverty, both the public and private sector must come to the fore in supporting sustainable small businesses.

In 2014, the Department of Small Business Development was formed with the aim of promoting the development of small businesses and cooperatives which contribute to inclusive economic growth and job creation. The Department sought to bring all government-mandated bodies tasked with the development of small businesses under one department. These various agencies provide a combination of financial and non-financial support.

Despite this, the Global Entrepreneurship Monitor (GEM) South African Report for 2015/2016 reveals that conditions in South Africa remain unsupportive of small business, with stark deficiencies in enabling government policy, access to finance for small business and insufficient education and training for aspirant entrepreneurs (Herrington & Kew, 2016).

1.3. Problem Statement

1.3.1. Main Problem

In South Africa, developing small businesses is one of the strategies that the government is using to reduce unemployment and by doing so alleviate poverty and inequality (National Planning Commission, 2011). According to the National Development Plan, 90% of new jobs will be created by Small and Medium Enterprises (SMEs) by 2030 (National Planning Commission, 2011) yet the Global Entrepreneurship Monitor (GEM) South African Report for 2015/2016 reveals that conditions in South Africa remain unsupportive of small business. It is therefore imperative to address the shortcomings within the entrepreneurial ecosystem in order to improve the success rates of small businesses in South Africa.

Given that the majority of small businesses in South Africa are black-owned (Bureau for Economic Research, 2016), it then follows that initiatives to improve small business success be targeted mainly at black-owned small businesses. As a means of getting beyond just establishing a relationship between human, social and financial capital factors and business success, this qualitative research study aims to understand from black small business owners, the human, social and financial capital factors that they think contribute to small business success and the context in which these factors contribute to business success.

1.3.2. Sub-problems

In trying to understand the human, social and financial factors that contribute to small black-owned business success, the first sub-problem is to understand the human capital factors that influence small black-owned business success. The second sub-problem is to understand the social capital factors that influence small black-owned business success and the last sub-problem is to understand financial capital factors that influence small black-owned business success.

1.4. Significance of the Study

The outcome of this research is significant both for those providing non-financial and financial support for small businesses as part of the entrepreneurial ecosystem, including government departments and agencies, as well as for future and current small business owners. Findings may reveal important insights pertaining to specific investments in human, social and financial capital that maximise value by having a positive and significant impact on business success. These insights can then inform small business development programmes aimed at improving the chances of business success for small black-owned South African businesses. Similarly, small business owners could draw insights that inform their investment in human, social and financial capital in order to maximise value of investment initiatives. The research findings may also be used to influence policy changes that lead to positive effects on the South African entrepreneurial ecosystem pertaining to small business development.

1.5. Delimitations of the Study

The research conducted includes black small business owners (previous and current) based in South Africa from which perspectives will be gathered through in-depth interviews. In keeping with the definition of "small (and micro) business" as detailed in the Broad-Based Black Economic Empowerment Act ("Broad-Based Black Ecomonic Empowerment Act," 2003), only businesses with turnover less than R10 million per annum were included in this study. The study was conducted with entrepreneurs that live and conduct their business operations mainly in the city of Johannesburg, Gauteng as these are more easily accessible to the researcher. The study was conducted over a one-month period with all twelve (12) participants being interviewed within this time period.

1.6. Definition of Terms

The following terms are used extensively in this paper and for the purposes of this research will be defined as follows:

Black – The definition of black mirrors the one detailed in the Broad-Based Black Economic Empowerment Act ("Broad-Based Black Ecomonic Empowerment Act," 2003) and includes Black African, Coloured and Indian South Africans.

Business success – Adapted from Criaco, Minola, Migliorini, and Serarols-Tarrés (2013), this research defines business success in terms of economic performance of the business. This is the monetary return obtained from the business by the business owners as a result of the business's activities.

Financial capital - This research defines financial capital as the ability to secure funding (Coleman, 2007).

Human capital - Knowledge and skills acquired from investments in schooling, on-the-job training and other experiences (Unger, Rauch, Frese, & Rosenbusch, 2011).

Small business – In line with the National Small Business Act, this research defines small business as any business with turnover less than R10 million per annum ("National Small Business Act," 1996).

Social Capital – Relationships that an entrepreneur has from which he/she can access information, opportunity, support and resources (Bosma, Praag, Thurik, & Wit, 2004).

1.7. Assumptions

- Business owners to be engaged understand drivers of business success; this affects usefulness of study.
- Black small business owners in South Africa have unique entrepreneurial experiences and challenges owning to the political history of the country where black persons were limited in terms of access to knowledge and skills, networks and finances.

Chapter 2. Literature Review

2.1. Introduction

Literature focused on small business in South Africa has mostly covered government policy, the role of the private and public sector in small business development and entrepreneurial culture in South Africa (Bureau for Economic Research, 2016). Focus is typically on high-level support initiatives for small business development with little emphasis on practical activities that can form part of small business development initiatives and which entrepreneurs, the small business owners, will actually find beneficial to building successful businesses. Fornoni, Ribeiro Soriano, Arribas, and Vila (2012) highlight three different types of value that an organisation deals with, namely financial capital (cash, credit and other investments), human capital (intelligence and other abilities) and social capital (relations with people that can provide business opportunities). In trying to structure what matters when developing small business, we found that following this logic and grouping success factors into human, social and financial capital factors satisfied the objectives of this study. This section is a review of literature covering the relationship between human, social and financial capital factors and business success. The first part covers literature focused on human capital and business success, the second part looks at literature focused on social capital and business success and the third part summarises literature on financial capital and business success. The rest of the literature review will look at how these factors are interlinked, and conclude with the main propositions for this study based on the literature reviewed.

2.2. Human capital and entrepreneurial outcomes

As a point of departure, an assessment of the literature on human capital as it pertains to entrepreneurship reveals that human capital is largely defined in two ways. On the one hand, definitions centre on general human capital derived from education and other experiences and, on the other hand, it is defined by entrepreneurship-specific human capital.

Unger et al. (2011) define human capital as the skills and knowledge that individuals acquire after investing in schooling, on-the-job training and other experiences. The authors distinguish between human capital investments, which they describe as investments in education and work experience, and human capital outcomes which they describe as knowledge and skills acquired from investments in education and work experience (Unger et al., 2011). This distinction is crucial since it dispels inaccurate diagnoses of a causal link between human capital investments (education and work experience) and human capital investment outcomes (knowledge and skills). From such a distinction, it is trite to state that human capital investments do not necessarily lead to human capital investment outcomes. They argue that it is the outcomes of human capital investments rather than investments in human capital that have a positive impact on entrepreneurial outcomes (size, profitability and growth) (Unger et al., 2011). This implies that merely investing in human capital does not necessarily mean that one has gained knowledge and skills as a result. The acquisition of knowledge and skills is dependent on a number of factors which might include the quality of delivery, the delivery environment and the individual's learning behaviour amongst others. In support of this argument, Santarelli and Tran (2012) studied how human capital, social capital and the interplay between the two affects the performance of start-up businesses in Vietnam. They found that entrepreneurial learning (an individual's ability to accumulate knowledge and then use that knowledge for innovation) is a strong indicator of business success. Unger et al. (2011) also found that human capital investments related to specific entrepreneurial tasks showed a stronger positive relationship to business success than human capital investments that were not specifically related to entrepreneurial tasks. Davidsson and Honig (2003) conducted a study in which they attempted to find support for their hypothesis that human capital is positively associated with the establishment of a viable firm. Their attempts to find support for their hypothesis proved unsuccessful potentially as a result of the broad and inadequate variables which they used to define human capital (e.g., years of schooling, general work experience). In contrast to the findings of Davidsson and Honig (2003), Bosma et al. (2004) and Coleman (2007) both argue that entrepreneurship-related human capital investments have a more positive impact on business success. Bosma et al. (2004) aver that entrepreneurship-specific human capital investments resulted in more successful start-ups. Concurring with this view, Coleman (2007) recognises that there is evidence that human capital plays a role in the profitability and growth of entrepreneurial ventures, but defines human capital as being comprised of *relevant* education and experiences. These studies make a compelling argument for human capital investments directly related to entrepreneurial tasks; an argument that seems logical given that it is easier to make a more direct connection between entrepreneurship-specific education and experiences and entrepreneurship outcomes. Studies conducted by Bradford (2007) and Macpherson and Holt (2007) further established that entrepreneurship-specific knowledge and skills resulted in positive entrepreneurial outcomes. Bradford (2007) found that good financial management practices were associated with higher business revenues, while Macpherson and Holt (2007) highlighted that an entrepreneur's ability to set up organisational systems and activities that encourage continuous learning is an important antecedent for growth. These findings suggest that not only should an individual be able to acquire knowledge and skills from human capital investments to see a positive impact on their business's success, but that the knowledge and skills acquired need to be specifically related to entrepreneurial tasks for it to have a higher impact on business success.

In trying to ascertain exactly which human capital investments seem to contribute the most to business success, we looked at studies that focused more on specific human capital investments that affected business success (Criaco et al., 2013; Ganotakis, 2010; Martin, McNally, & Kay, 2013). Ganotakis (2010), in his study of new technology-based firms (NTBF), found that overall human capital characteristics of an entrepreneurial team had a significant effect on business performance. The investigation reveals that formal business education had a positive effect on business performance, while formal technical experience had a negative effect on business performance. The study argues that this negative effect can be as a result of overconfidence of entrepreneurs with strong technical abilities that do not seek further information that can improve business decisions. The study also found evidence that same-sector experience had a positive effect on business performance. Strong evidence was found for combining technical education with commercial experience, or combining managerial technical experience with managerial commercial experience in order to positively influence business performance (Ganotakis, 2010). Martin et al. (2013) conducted a study that investigated the relationship between entrepreneurship education and training (EET) and both entrepreneurship-related human capital assets and entrepreneurial outcomes. Essentially, they wanted to establish whether entrepreneurship-specific education and training resulted in increased entrepreneurial knowledge and skills as well as positively influenced the performance, including financial success, of businesses run by participants that had been exposed to EET. Their findings are aligned to those of Ganotakis (2010) and indicate the existence of a significant positive relationship between EET and both entrepreneurship-related human capital assets and entrepreneurial outcomes. Criaco et al. (2013) tested the contribution of university start-ups (USU) founders' human capital characteristics to the survival of USU. They looked at three components of human capital; entrepreneurship, industry and university. In contradiction to the findings of Ganotakis (2010), their findings revealed that in relation to USU, previous experience in the industry in which the USU operates negatively influences USU survival, while at the same time agreeing with both Ganotakis (2010) and Criaco et al. (2013) that knowledge acquired from formal entrepreneurial education and personal entrepreneurship experiences as well as previous experience in research and teaching in higher education institutions also had a positive influence on USU survival. The studies by Ganotakis (2010), Martin et al. (2013) and Criaco et al. (2013) seem to be in agreement that formal entrepreneurial education, previous entrepreneurial experience and same-sector experience have a significant positive contribution to business success.

Taking all of the literature on human capital and entrepreneurship into account, the following proposition is advanced:

Proposition 1 – Entrepreneurship-specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital.

2.3. Social capital and entrepreneurial outcomes

The notion of an entrepreneur's social capital relates, in part, to the relationships that the entrepreneur has, whether social or professional. The literature on social capital suggests that the impact of social capital on business success depends on a combination of the type of relationships that the entrepreneur has, the resources which they are able to extract from relationships, and the phase in which the business is in (e.g., growth versus start-up). Sequeira and Rasheed (2006) make reference to two types of relationships; strong ties and weak ties, where strong ties are more likely found among individuals who interact frequently and for an extended period of time, and where weak ties exist between individuals that have infrequent contact. Examples of strong ties include family/relatives, friends, and life partner/spouse. Examples of weak ties include former employers, former co-workers, acquaintances and business partners. Social capital affords entrepreneurs access to information, opportunity, support and resources (Bosma et al., 2004; Bruderl & Preisendorfer, 1998; Hoang & Antoncic, 2003b; Macpherson & Holt, 2007; Schoonjans, Cauwenberge, & Bauwhede, 2013; Sequeira & Rasheed, 2006). A preferred description of the value of social capital is that of Hoang and Antoncic (2003b) who stated that social capital affords one access to both tangible (capital) and intangible resources (access to information and advice, emotional support, legitimacy signals). To further elaborate on this, Fornoni et al. (2012) studied the impact of an entrepreneur's social capital on their business's performance. They investigated how an entrepreneur's social capital facilitates access to finance, markets, production and information. Their findings were that business performance is mainly affected by access to information and, to a lesser extent, access to finance and markets. They found no evidence that access to production affected business performance. They found the quality of relations between an entrepreneur and his/her network to be the main facilitator for access to information.

The literature debates whether or not greater value from social capital is derived from strong or weak ties. The literature analysed seems to suggest that strong ties are more valuable at the beginning stages of the business while weak ties become more important as the business grows. This suggests that the value of different types of social capital differs depending on the business stage. Sequeira and Rasheed (2006), found empirical evidence that supports the importance of having networks outside of family and friends in the growth phase of a business, but also recognised the importance of strong ties at the inception of a business. They explain that outsiders are more likely to share diverse information than those closely associated with an entrepreneur (Sequeira & Rasheed, 2006). At the beginning stages of a business, emotional support for entrepreneurial risk-taking from a spouse, for example, is thought to enhance persistence to remain in business (Hoang & Antoncic, 2003b). The findings of Sequeira and Rasheed (2006) are supported by those of Macpherson and Holt (2007) who found that social relationships or strong ties are important at start-up phase of a business and industry, professional and institutional or weak ties are more important over time. When in business, an entrepreneur relies on diverse sources of information to assess available opportunities and to make decisions around which opportunities to exploit. This becomes important after the start-up phase because in order to grow, the entrepreneur either needs to tap into new markets or grow their existing market. Having information that supports growth strategy therefore becomes imperative. But does social capital impact business performance?

Bruderl and Preisendorfer (1998) in their study concluded that support from the personal network of the founder improves business survival and growth in the early stages of business operations. Bosma et al. (2004) found that, on the whole, there is sufficient evidence to support the assertion that social capital positively affects the performance of a business. Davidsson and Honig (2003) suggest that weak ties have a more positive impact on bottom line performance of a business when the business is part of a formal business network. The studies of MacGregor (2004) and Santarelli and Tran (2012) both support this finding. MacGregor (2004) conducted a study that concluded that smaller firms recognise the value of formal business networks; the results of their study found that firms with fewer than ten employees tended to gravitate towards more formal business networking. Santarelli and Tran (2012) investigated and also proved that entrepreneurs who were part of a formal business network tended to be more successful. Santarelli and Tran (2012) found that benefits derived from what they term "weak personal ties" (being part of a formal network) outweigh, albeit marginally, those of "strong personal ties" (financial and emotional support from family and friends). This positive effect of being part of a network has more to do with the network size rather than the quality of assistance provided by the network. When analysed in terms of its positive economic effects, the findings are trivial with only 0.2% higher profit. According to Santarelli and Tran (2012), this is because formal business networks in their particular study had been established by government for political reasons and so participants gain political advantage rather than business support. Schoonjans et al. (2013) came to a similar conclusion when they found clear evidence that networking through a formal business network influences business value and growth. Social capital derived from being part of a formal business network, therefore, seems to be a significant positive contributor to business success.

Stam, Arzlanian, and Elfring (2014) introduced important findings related to how a business's age and institutional environment affect the effect of strong-ties and weak-ties on business performance. Specifically, they found that weak-ties have a stronger positive relationship with business performance for a start-up than they do on an old business, and that diversity of network has a stronger positive relationship with business performance for a start-up versus an older business. Stam et al. (2014) also found that strong ties have a stronger positive relationship with business performance in emerging economies versus established economies.

Although it seems as if social capital does have an impact on business performance, it is important to note that social capital/networks only work if the entrepreneur makes use of them (Bruderl & Preisendorfer, 1998).

The social capital literature analysed results in two propositions as follows:

Proposition 2: Strong social capital ties positively impact business performance more in the start-up phase of a business

Proposition 3: Weak social capital ties positively impact business performance more in the growth phase of a business

2.4. Financial capital and entrepreneurial outcomes

Coleman (2007) refers to financial capital as the ability of the business owner to secure external funding for business operations. Access to financial capital is important at both the start-up and growth phases of the business where the business needs to expand capital to set up and grow operations respectively. To this end, most entrepreneurs use a combination of their own money and personal loans to start up business operations. Reynolds (2011) found that 84% of nascent entrepreneurs used their savings to start their businesses, and that the second largest sources of funds was funding their enterprises through family and friends. The high use of personal resources by entrepreneurs to fund start-ups stems from the following non-exhaustive sources: in the first place, entrepreneurs may not be aware of the array of funds available to them, or they perceive their likelihood of obtaining funds from sources other than their own as unlikely, or they have unsuccessfully endeavoured to obtain funds from elsewhere. Should the latter be true, this may indicate that trust (that the funds can and will be repaid) plays a role in securing funding in the early stages of business operations. Beck and Demirguc-Kunt (2006) found that small businesses reported to have more financing constraints than medium and large businesses and that smaller businesses finance a smaller share of their assets using formal, external sources of finance. Smaller businesses finance the majority of their assets using informal sources of finance such as money-lenders or friends and family (Beck & Demirguc-Kunt, 2006).

With respect to the link between access to financial capital and business performance, findings by Brown, Earle, and Lup (2004) suggest that access to finance in the form of loans is an important factor in promoting growth of start-up businesses. This is supported by Bosma et al. (2004) and Coleman (2007) who both found that financial capital has an effect on business performance (profitability and earnings). Beck and Demirguc-Kunt (2006) found that financing constraints experienced by small businesses, specifically, translate into slower growth more so than they do for medium and large businesses. Results of the study conducted by Ayyagari, Demirguc-Kunt, and Maksimovic (2008) indicate financing is one of the most important factors that directly constrain business growth. Amongst the individual variables analysed, the results further highlight high interest as being the only financial obstacle that has direct impact on business growth. In contrast, Michael and Jeffrey (2010) in their study of the relationship between access to finance and small business growth reported results that indicate no evidence that small businesses with access to credit grow faster than those without access to credit. Instead they find evidence that businesses are more likely as a result of other factors such as sector they operate in, initial size and age as well as human capital of people that work in the business.

In their study of the effect of access to finance, specifically from venture capital (VC) investment, Rosenbusch, Brinckmann, and Müller (2013) found that overall there is a positive but weak relationship between VC investments and performance of funded businesses. This positive relationship, however, vanishes in studies that controlled for industry selection effects meaning that VC firms choose the most promising industries but are not able to consistently increase the performance of funded firms. The findings of the study also indicate VC investments increased growth and stock market performance but do not influence profitability. In relation to the age of the business, Rosenbusch et al. (2013) found that funded businesses in growth phase benefited more from VC investments than new and very mature businesses.

Although the literature provides strong evidence that access to financing has a significant positive effect on business performance, the literature also highlights that other factors outside of access to finance can affect business performance more than lack of access to business financing.

The literature on financial capital gives rise to the following proposition:

Proposition 4: Financial capital positively impacts overall business performance

2.5. Interrelatedness of human, social and financial capital

The literature analysed also recognises that oftentimes, human, social and financial capital factors are interrelated. For example, Hoang and Antoncic (2003b) recognise the link between social and financial capital when they suggest that being associated with well-regarded people could improve investor perceptions of business potential and therefore result in access to much needed funds. An argument could also be made along the same premise that human capital could also influence financial capital in that the more educated and experienced one is, the more information they possess about funding opportunities, and the higher the likelihood that they would seek funding. Sequeira and Rasheed (2006) recognise the relationship that could exist between human and social capital when they suggest that an entrepreneur's human capital reduced their reliance on strong social ties and increases their use of weak social ties. Jones and Jayawarna (2010) found that there is a connection between social capital, financial capital, human capital and business performance. They found that entrepreneurs that use their networks to bootstrap additional resources will increase their business's performance. Highlighting the relationship between social and financial capital, Santarelli and Tran (2012) found that financial support from friends and family in the form of a loan, for example, is usually trust-based and doesn't come with the pressure of strict payment terms and thus does not stimulate entrepreneurs' commitment to their business success. They also found that the interplay between human and social capital is strongly correlated to the performance of start-up businesses. Fornoni et al. (2012) found that the capacity of an entrepreneur's networks to mobilise resources, and the willingness for them to do so, is pivotal in accessing finance and therefore establishing a relationship between social capital and financial capital. In his study of financial capital and business growth in South Africa specifically, Brijlal (2013) found that social capital and not human capital was associated with successfully accessing bank finance.

It is important to note that very rarely do the human, social and financial capital factors influence business performance in isolation. This strengthens the case for a qualitative study of the impact of human, social and financial capital factors on business success in order to better explain the connection between these factors and business performance.

2.6. Conclusion of Literature Review

The Majority of the literature reviewed is made up of quantitative studies which have mostly found evidence that there is a positive relationship between human, social and financial capital factors and business performance. What the literature often fails to do due to its methodological approach, is explicitly explain the context in which each of these factors influence business success. The focus of this study will therefore be to better understand the circumstances, if any, under which human, social and financial capital factors result in small black-owned business success in South Africa specifically. The propositions for this study can therefore be summarised as follows:

Proposition 1: Entrepreneurship specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital.

Proposition 2: Strong social capital ties positively impact business performance more in the start-up phase of a business

Proposition 3: Weak social capital ties positively impact business performance more in the growth phase of a business

Proposition 4: Financial capital positively impacts overall business performance

Chapter 3. Research Methodology

3.1. Research Methodology

As previously mentioned, the majority of the literature reviewed covering this topic has been quantitative trying to *prove* relationships between human, social and financial capital factors and small business success. This paper uses a qualitative approach to better interrogate and *understand* circumstances surrounding the relationship, if any, between human, social and financial capital factors and small business success. Because the research is intended to inform organisation of the entrepreneurial ecosystem, it becomes important to understand when and how human, social and financial capital factors influence business success. Merely proving the existence or absence of a relationship between human, social and financial capital factors and small business success is not enough. A deeper understanding of the interplay between human, social and financial capital factors and business success is therefore required.

3.2. Research design

The research design is a case study of the human, social and financial capital factors that influence the success of small black-owned businesses in South Africa but specifically in Bloemfontein, Free State and Johannesburg, Gauteng. A large majority of participants reside and operate their businesses in Johannesburg, Gauteng. As previously discussed, there is a need to improve the performance of small businesses in South Africa if the country is to depend heavily on small business for economic growth and job creation (National Planning Commission, 2011). In order to influence small business success, an investigation into the main drivers of business success needs to be conducted. This investigation needs to foster an understanding of the practical experiences of entrepreneurs on the ground as a proxy for the effectiveness of initiatives within the entrepreneurial ecosystem. Because the Gauteng province in South Africa represents the majority of economic activity in the country, a case study that includes entrepreneurs living and operating their businesses mainly in the city of Johannesburg is sufficiently justified.

3.3. Population and Sample

The population of this study includes black small business owners in South Africa. The sample from this population that was studied includes previous and current black small business owners that operate their businesses in the cities of Bloemfontein, Free State and Johannesburg, Gauteng in South Africa. The sample includes small businesses at the start-up and growth stages of the business life cycle. Age of the small businesses was used to split participating companies into start-up and growth phases with start-ups being those that have been operating for less than or equal to two (2) years while those operating for more than two (2) years were regarded as being in the growth phase. Sampling in this way is important to assess any differences in findings as a result of the stage that a business is in. Thirteen (13) individuals were interviewed after being identified from the researcher's personal networks. The main selection criteria for participants included individuals that were the founding members of the business, were involved in the day-to-day running of the business and can confirm that business they are and have run resulted in turnover below R10 million. Participants were encouraged to participate with the promise of sharing the research findings with them with the idea being that the findings will help them maximise investment activities to positively influence their own business success.

3.4. Research Instrument

The research instrument used was an interview guide developed by the researcher and consisting of eight (8) questions organised into four (4) sections, namely profitability drivers, human capital and profitability, social capital and profitability and financial capital and profitability. The first section was designed to capture what the small business owners understand to be the drivers of business profitability. The remaining sections then investigate what small business owners perceive the relationship between human capital, social capital, financial capital and profitability to be.

3.5. Procedure for data collection

The data was gathered through one-hour long interviews that were recorded (with permission from the respondents) and during which notes were taken by the interviewer. The interview participants were chosen from the researcher's personal network. Post the interviews, the recordings were transcribed for interpretation in combination with notes taken. The data was kept confidential throughout the data collection process and will be kept confidential when discussing findings in this research paper. The advantages of using this approach include the ability to probe and interrogate views expressed during an interview potentially leading to new insights and the ability to observe non-verbal cues, emotions and behaviours that could enrich findings. The intended approach also has some disadvantages; the quality of data collected depends on the interviewer's ability and may sometimes be influenced by the interviewer's biases and the sample size is limited by the availability of the interviewer and respondents as well as by costs associated with reaching the research sample

3.6. Data analysis and interpretation

The transcribed interview recordings together with the notes taken during the interview were analysed through a process of coding, development of categories and theme identification. The first level of analysis involved several rounds of coding where words or phrases where used to capture the main thoughts from the research findings. The next level of analysis then involved grouping of similar words or phrases to develop categories and then for each category an analysis of the findings was conducted to identify specific patterns or themes. Differing views and issues were also identified and interrogated and any insights found were recorded.

3.7. Limitations of the study

The following limitations apply to the study as a result of the methodological approach, sample and selected method of data analysis:

- Because this study is trying to understand perspectives of respondents, it is limited in that findings cannot be factually proven.
- The sample represents previous or current business owners residing in the Free State and Gauteng provinces of South Africa only due to proximity to interviewer.
- Because the participants of the study are part of the researcher's network, this could introduce some inherent bias.

3.8.Validity and reliability

To ensure validity of data collected, only individuals who are black and have either been or currently are small business owners were included in the sample. Interview participants were asked to confirm that they identify as black in terms of race and that they run or have run businesses with average turnover less than R10 million. Transcribed recordings and interview noted were shared with respondents to ensure accuracy of responses. To ensure reliability, any inconsistent or illogical responses were probed for further explanation. Findings were also compared to similar studies to identify any anomalies.

Chapter 4. Research Findings

As detailed in chapter 3 section 3.6 *(Data analysis and interpretation),* the process followed to analyse the data included coding and theme identification. The smallest unit of analysis was coded per research question for each participant. The coded words were then grouped into themes and under each theme, specific quotes from the participants were written. The rest of this chapter will detail findings from the research structured according to the questions asked.

4.1. Business profitability drivers

In order to identify what participants saw as the main drivers of profitability, participants were asked the question: *what leads to a business being profitable in your view?* This was done in order to establish a baseline understanding of what participants believed to be the main drivers of profitability. Four (4) themes identified by the participants as the main drivers of profitability are business sales, good financial management, people and business owner's entrepreneurial acumen.

4.1.1 Sales

The ability to sell the product/service offered by the business was identified as one of the main drivers of profitability. One participant (LD) explained that *"your ability to sell what you make – that is the number one thing and the biggest thing"*. Another participant (OM) echoed this by saying that *"you need the money coming in the door…getting revenue through the door".* Other participants also alluded to marketing and other opportunities to access the market as ways in which a business owner can increase business sales. A participant (GL) stated that *"you need to put a lot of effort into the marketing to ensure that you broaden your client base"* while another (TM) answered this question by saying that it is *"the ability to sell through connections and referrals that you will get".* Participants also made mention of pricing, client relationship management and the quality of the product/service as important drivers of sales. One participant (MS) mentioned that in her observation, *"a lot of businesses don't price* *properly by taking into account all of the overheads"* and as a result don't sell as much as they could. Another (AR) said *"firstly you need to have a good product"* talking to the quality of the product being sold by the business. OM stated that effective client management is an important driver of sales and said *"…manage the relationships with your clients, they will give you repeat business".*

4.1.2. Good financial management

Good financial management was identified as an important driver of business profitability. One participant (TF) identified financial management as an important driver of profitability by saying *"I think that proper financial management and planning".* GL agreed by saying *"... I think the business firstly has to be well run…the finances need to be handled very well".* OM put it more simply and answered the question by saying *"…managing the costs really well…it means that you are always staying in the black".* MS identified financial knowledge as a pre-requisite for good financial management by answering the question by saying *"…financial knowledge and understanding of what actually drives profitability".*

4.1.3. People

Employees of the business were identified as critical to profitability of that business. A participant (NN) stated the following: *"For me, it is the people that we have firstly…because once you get the deal, you have to execute".* His view was supported by that of AR who said *"…you obviously need to have the expertise of the people to drive all that".* Another participant (MM) identified people as part of a larger group of resources available to the business and said *"It's also availability of resources and by that I mean from financial to HR resources…"*

4.1.4. Business owner's entrepreneurial acumen

The business owner's good judgement and ability to take quick decisions was highlighted as an important driver of business profitability. MS alluded to this by saying *"The first one is that the person is actually a business person".* MM supported this view by mentioning that *"…the leadership capacity and entrepreneurial acumen is very important…if there is no vision the business may not prosper".*

4.2. Schooling and business profitability

To ascertain the contribution of a business owner's schooling on the profitability of their business, the following question was asked: *In terms of schooling that a small business owner had, how do you think it affects their ability to run a profitable business?* Three (3) themes were identified from the answers to this question from participants. The three themes include no direct link between schooling and business profitability, schooling as a foundation and interpersonal skills.

4.2.1. No direct link

Participants highlighted that there was no direct link between their schooling and their ability to run a profitable business. It is important to note that the question refers to general basic and tertiary level schooling. One participant (NM2) stated that in their experience "…*there was no actual schooling that helps with me running what I run".* LD echoed this view and said *"… I don't know what they teach you in school that can help you with this…"* while another participant (RM) blatantly said *"Nothing! Absolutely nothing!"* in response to the question. GL highlighted the need for more practical schooling and stated "…*it doesn't play a big role…there is a difference between the theory and the actual field work".* TM spoke to the content from schooling and said "…*the content of what I learnt at school is not contributing to my business right now".* AR mentioned the need to supplement schooling by saying *"…my basic education had very little to offer me in terms of running a business and all the knowledge I got was outside of the classroom".* NN also alluded to the need to supplement schooling and said *"I have learnt more trying to build a business and learning myself than I ever did in varsity or any schooling structure".* OM hinted at the skills required to run a profitable business that one does not get from schooling and mentioned the following: *"…I don't think its school that* *matters in as much as it is the ability of the entrepreneur to be able to manage their resources correctly and to be able to get business in the door".*

When participants that identified no direct link between schooling and business profitability were further interrogated, they highlighted the shortfall of general schooling to be lack of practical skills that are transferrable to the experience of running a business. LD stated *"…they don't teach them the practical/bottom line in terms of how to gain funding, how to sell solutions to people".* When asked for an example of practical skills that could be acquired from schooling, one participant (NM) made the following example: "*So something as basic as a cake sale, it's practical. So for me it's more the practical part".* RM advised on a way to supplement schooling as *"some sort of business course – I would encourage any entrepreneur to do that to be able to manage money and debt".*

4.2.2. Schooling as a foundation

Some participants identified schooling as providing the basics required for running a business. MM stated that school *"kind of provided a foundation for most of the success factors".* MM continued to state that *"education will also assist one to be able to make a determination of the skills and competencies required for the successful running of the business".* In terms of the foundation that schooling provides, NN said that *"…you do need to understand at a very basic level, firstly the jargon maybe but also just the basic concepts around a business".* LD made specific reference to basic financial understanding gained from schooling and said *"…maybe having a decent background and understanding of financial information".* This view was supported by AR and another participant (ZG) who respectively said "*…finance stuff such as knowing the difference between revenue and profits…the basic economic concepts you need to be familiar with"* and *"It would teach you basic accounting at the very least".* NM saw a business owner's schooling as being a mere bonus and stated that *"in terms of education in primary school, high school and post, I think it's an add-on".* MS alluded to schooling providing basic principles of commitment by saying that schooling provides one with*"…the principles of committing and seeing things through even if you don't like them".*

4.2.3. Interpersonal skills

Interpersonal skills gained from schooling were indicated to be an important requirement to run a profitable business. When asked the question, NM answered by saying *"…there are certain things that can happen in that environment that can help you run a business. Like your interpersonal skills I suppose".* LD attributed the development of interpersonal skills in a schooling environment to *"how you interact with people at school…how you were able to connect to people and relate to them from being in school".* NM2 made the connection between interpersonal skills gained from schooling and the ability to run a profitable business and stated that *"your social skills have a huge effect on how you run your business"* while AR made a practical example of how interpersonal skills can help with creating business opportunities by saying *"…if you went to university for example then you are able to access relationships you made".*

4.3. Work experience and business profitability

To determine whether or not participants felt that a business owner's previous work experience helped them run a profitable business, the following question was asked: *In terms of work experience that a small business owner has, how do you think it affects their ability to run a profitable business?* Participants viewed a business owner's previous work experience as a significant contributor to running a profitable business. ZG expressed his view by saying *"I think having work experience is really a useful tool to run a successful business".* This view was echoed by GL who said *"I think it's absolutely crucial to have work experience before you can actually just step out there and run your own business".* OM saw numerous reasons why previous work experience was important and stated the following: *"work experience is important for a number of reasons".* MM and NM2 saw a direct positive correlation between previous work experience and a business owner's ability to run a profitable business. They mentioned respectively that *"having it affects it positively"* and that *"it has a positive impact"*. TF explicitly stated that lack of previous work experience is negatively correlated to business profitability by saying *"…you have to have some work experience otherwise it will work against you"*. MS highlighted that the quality of work experience is important for it to have a positive effect on a business owner's ability to run a profitable business by stating that *"…it's not so much the work experience but what you were doing. So it's not as much about work experience but the quality of the experience"*. Two (2) participants viewed previous work experience as important only if that work experience is in a similar industry to the industry in which a small business owner operates their business. To this point, RM had the following view: *"I think that is industry specific, there are certain industries where there would be a benefit to have worked in a larger company or corporate… if you are trying to build "a" business then it might be beneficial to have had experience in that industry beforehand"*. LD supported this view by saying that *"…work experience can come in 100% if you are in an environment in which you are going to link the two"*.

When participants were further asked how a business owner's previous work experience helps them run a profitable business, two themes emerged being the development of business skills and principles as well as the establishment of networks.

4.3.1. Development of business skills and principles

A business owner's previous work experience was highlighted as being an important contributor to developing business skills and principles that help participants run a profitable business. ZG stated that previous work experience provides *"…a set of useful skills that you can just translate into your own business"*. GL highlighted some of the skills gained from previous work experience as *"learning a bit of finance, learning a bit of admin, learning a bit of management, learning a bit of leadership"*. TM specifically highlighted interpersonal skills gained from previous work experience by saying that previous work experience teaches one *"how to communicate and interact with clients, be* *it verbal or written".* Some participants made reference to overall business management skills gained from previous work experience. NM2 stated that previous work experience helps *"…in terms of you seeing and being exposed to how a business runs".* AR supported this view by saying *"when you are working you get to sometimes understand how things operate".* TF also echoed similar sentiments and said *"at least if you have work experience you know that in business this is what is required".* TF also had a view that a business owner's previous experience in managerial or executive positions had an even stronger correlation to them running a profitable business by stating that "… *if you were fortunate to be in an executive position or management position, this could help you".* NM alluded to business principles acquired from previous work experience by saying *"I think a lot of the principles are acquired when we are actually working and when we have that experience".* The principle of work ethic was specifically highlighted by two (2) participants. OM stated that previous work experience is useful *"for getting an entrepreneur into a routine of doing things and doing them well"* while NN said *"…that is not how it works – you have to put in a lot of work".* ZG mentioned the principle of accountability and said that previous work experience *"… teaches you… to be accountable…if you have never been accountable to anyone then it's hard to be accountable to just you".*

4.3.2. Establishment of networks

The value of a business owner's previous work experience was seen to be in the establishment of networks. OM said *"I think being in a work environment gives you exposure to a variety of people who may be useful in the existence of your business".* AR had a similar view of seeing value in people a business owner interacts with in a working environment by saying *"…I mean even the people that you are exposed to".* ZG mentioned the specific skill of networking gained from previous work experience and stated that *"…working teaches you is how to work a network".*

4.4. Other experiences and business profitability

In order to investigate other sources of human capital that business owners found to have a positive correlation to helping them run a profitable business, the following question was asked: *Are there any other experiences from which a small business owner can gain knowledge and skills that you think contribute to him/her being able to run a profitable business?* Answers from participants highlighted five (5) themes namely mentorship, engagement with other entrepreneurs, research and informal education, business incubation and formal training.

4.4.1. Mentorship

Participants highlighted mentorship as an experience outside of schooling and work experience that they found helped them in running a profitable business.
OM identified mentorship as important by saying *"…learning from people, so mentorship whether it's direct or indirect so it can be a formal mentorship relationship or an informal relationship".* This view was supported by MM who answered the question and said *"coaching and mentorship programmes because one can have one single dedicated coach and/or mentor".* TF also identified "…*asking for help from mentors"* as something useful to do. GL explained how mentorship can be helpful by saying *"so I think it's very important to have someone who has done it…someone who can help you get through a few obstacles".* NN identified a mentor as *"a person who can tell you what to expect before it comes so that you can prepare for it"* while TM detailed her experience with mentorship and said *"I've reached out to people for clarification on things that other people might think are as simple".*

4.4.2. Engagement with other entrepreneurs

Participants found that engagements with other entrepreneurs are useful in helping them run profitable businesses. OM alluded to the importance of engagements with other entrepreneurs by saying *"I think having a relationship with people who have been in business before".* NM2 had a similar view and found *"exposure to people, circles of people that run profitable businesses"* to be useful in helping with running a profitable business.

Two participants found that having engagement with entrepreneurs in the same industry is more useful. GL said *"you need to build partnerships and connections with people who are in the industry…so it's much easier to function within the industry".* MM supported this view by saying *"…people who are in the field or who have been there …so that one can benchmark from within the networks".*

ZG and TM found that engagements with other entrepreneurs could mean more than just talking but could include going into their businesses to see how they operate. They respectively said that what they found useful was *"…either shadowing business owners or learning their case studies"* and *"… a day visit or a shadow type of setup".*

4.4.3. Informal education

Informal education was found to be helpful in the running of profitable businesses. MS found a useful experience to be *"reading...not just about the industry that we are in but just to have a general world view".* NM stated the following: *"I think entrepreneurs really underestimate the power of reading and information".* A number of participants made mention of informal education by making use of online resources as a helpful thing to do. NM2 mentioned that what they found useful was *"…having access to TED talks, YouTube that can help me figure out best practice for my business".* This view was supported by TM who found *"…listening to YouTube videos on start-ups"* to be useful. AR also mentioned that *"…you can get it (information) online…there are a lot of people offering a lot of material from YouTube clips to TED talks".*

4.4.4. Formal education

Formal business education was indicated as a useful experience for a business owner with a participant saying *"…you can actually sign up for particular training and then do those".*

4.4.5. Business incubation

Participants highlighted business incubation as an experience that is useful in helping small business owners run profitable businesses. OM mentioned the following: *"I think if incubators worked the way they should work ideally those would be the places you go to as a small business to get help"* while TM simply said that what she found useful was *"belonging to a business hub".*

4.5. Influence of friends and family on business profitability

In trying to establish the role of friends and family in helping a small business owner run a profitable business, the following question was posed to participants:

What role do you think friends and family of a small business owner play in helping him/her run a profitable business? From the answers provided by participants, six (6) themes emerged: emotional and moral support, financial support, business promotion and referral, friends and family as customers, business insights and provision of professional business services.

4.5.1. Emotional and moral support

Participants identified the role of friends and family to be the provision of emotional and moral support to the small business owner. MS said *"…my friends and family played more of a support role...in the reassurance that I could do it and that I was capable".* MM identified the role of friends and family as follows: *"…they will afford an entrepreneur the relevant support…to encourage or to provide moral support".* This view was also supported by OM who said *"friends and family, I think, firstly are important from a support perspective. They are the ones that kind of keep you on track, keep you accountable".* AR identified the emotional and moral support role that family and friends play to be especially important during difficult period by saying "…*during the hard times they definitely lower their expectations and that alone can make you feel like it is actually fine if things don't work out".* NN supported this view by saying *"Support! I guess when it is tough".* ZG identified the role of friends and family to be the provision of emotional and moral support particularly in the start-up phase of the business when he mentioned the following: *"So I guess that in the start-up phase it's about allaying those* *fears and almost providing a social safety net, providing an ear to cry to".* LD highlighted that the lack of emotional and moral support from friends and family could actually encourage a small business owner to succeed by saying that *"you get some people who thrive on the fact that they get told that they cannot do something and that is their drive".* MS continued along the same train of thought and said that *"…it is also important to take friends and family with a pinch of salt because not everyone will believe in you".* RM had a different view and disagreed that friends and family, particularly when one is in business with them, provide emotional and moral support. RM highlights that friends and family could actually be a source of emotional strain by saying *"I started my business with my friends. When it was great, it was great and when it was bad, it was horrible… when it is not successful it creates strain on those relationships and it takes a long time for those things to recover".*

4.5.2. Financial support

The role of friends and family was seen to be in the provision of financial support. GL said *"family can also provide finances in starting up business"* while TM said the following: *"… family also monetary. The last cents they've had that they have been able to put into my business".* TF made specific reference to the price of financial capital provided by family and friends by saying that they provide *"…access to cheap finance…it is easier for you to go to family and ask for money than it is to go to investors".* A number of participants made specific reference to examples of financial support they received from friends and family. AR mentioned the following: *"…in my case, part of my capital came from my dad"*, ZG said *"friends would say look, tell me when you need me to invest, I can invest some money perhaps"* and NM said that *"…there were months where I haven't been able to keep up with my bills…then my mom would come through and be like hey I'll help out".*

4.5.3. Business promotion and referral

A number of participants mentioned that friends and family were helpful in promoting the small business owner's business within their networks and in helping small business owners find opportunities to sell their products/ services. TF mentioned that friends and family provided *"…a quick way to get people talking about your business because they might know someone you don't"*. TM said that *"…they (friends and family) have been critical in positioning my products"*. ZG highlighted the role of friends and family as *"punting your product as much as possible. Helping you find the opportunities to sell your product"*. OM identified that *"…they are also important for the contacts and connections they can bring to you"*. ZG provided a personal example and said *"…my first contract actually was a friend who introduced me to their client"*.

4.5.4. Friends and family as customers

Another role identified that friends and family play is that of a customer that buys a small business owner's products/ services. TM identified a role that they play to be *"… them ordering the product from me"* and ZG mentioned the following: *"My second contract was sub-contracting consulting for a friend"*. NM2 identified friends and family as customers to have a negative influence on a small business owner's profitability by saying *"there is also the taking advantage of you…I'm at a disadvantage if half my family feels like they can do groceries in my shop without paying"*.

4.5.5. Business insights

Participants identified that friends and family could provide business insights particularly if they run or have run their own businesses. LD highlighted that *"if your parents run their own business then that is a great way to start, even if you have cousins or siblings who are entrepreneurs themselves"*. This view was supported by NM2 who said that *"…if you have friend or family that have run successful businesses…having the opportunity to have those kinds of conversations with those people helps"*.

4.5.6. Provision of professional services

It was highlighted that friends and family could provide professional services to a small business owner's business at favourable rates. The following example was given: *"… my boyfriend is an accountant so we are sorted with accounting stuff".*

4.6. Influence of others on business profitability

In determining the influence of others outside of friends and family, participants were asked the following question: *Who else do you think can help a small business owner in running a profitable business and how?* Four (4) groupings of people were identified from answers provided by participants. These groupings include mentors, providers of non-financial business support, providers of financial business support and industry associations.

4.6.1. Mentors

Participants identified mentors as being important in helping a small business owner run a profitable business. In answering the question, LD said *"maybe a mentor – perhaps your previous supervisor or boss could guide you. It could also be someone who has done this before and they can guide you".* OM also identified mentors by saying *"…and mentors that you pick up along the way from some means or other".* Mentors were also identified by NM2 who said *"Industry mentors. A person that has been exposed to running businesses and strategic thinking, so mentorship definitely whether it is within your industry or not".* TM identified a specific role that mentors could play by saying *"mentors, and maybe other businesses…people that can open doors to a market".* RM stated that his view was that mentors need to be in a different industry to the one in which a small business owner operates his business by stating the following: *"mentors are important – I think that they are indispensable but they need to be in a different industry to you".*

4.6.2. Providers of non-financial business support

A number of participants identified providers of non-financial support as important in helping a small business owner run a profitable business. MM said the following: *""…let's take an NGO …organisations that might provide non-financial support because those might be the channels through which those success factors might be addressed".* AR, however, highlighted the following opinion *"I don't think that South Africa has a lot of NGOs that work with entrepreneurs so that is another thing".* GL identified training providers as important role players in formalising small businesses by saying *"…training providers…people who have the knowledge and share their knowledge with entrepreneurs… they play a big part in formalising businesses because once a business is formalised it's much easier to make a profit".* MS identified strategic business advisors as important and highlighted how they could help a small business owner run a profitable business by saying the following: *"…a good bookkeeper who also does strategic advisory work. They can typically help in advising how better to structure your costs".*

4.6.3. Providers of financial business support

Providers of financial business support were identified as important in helping a small business owner run a profitable business. TF said *"…organisations like for example, IMF or USAID…non-governmental organisations, social organisations that fund small businesses".* AR had a similar view and identified *"banks and other financial government agencies or institutions like those"* as important role players. ZG highlighted a role that providers of financial business support could play beyond just providing finances by saying the following: *"the other people we have found to be really helpful in our business and are just completely underused are just our bankers. Beyond providing finances".*

4.6.4. Industry associations

ZG highlighted that belonging to industry associations could be helpful to a small business owner in helping them run a profitable business. ZG said *"I would say industry associations are a really useful thing to be part of as a small business".* The two reasons given center around business insights and sales opportunities. ZG mentioned the following: *"I think you just get to meet like-minded people who are facing the same problems and challenges and you learn from them"* and also that *"…large customers, are looking to associations to sell/provide work through them"*.

4.7. Influence of friends and family versus others on business profitability

The following question was asked to determine who small business owners found most useful in helping them run profitable businesses between friends and family and others outside friends and family: *Between friends and family and others, who is more important in helping a small business owner run a profitable business and why?* A number of participants answered that it was others outside friends and family, while other participants answered that it was friends and family, others indicated that they play different but complementary roles while another group of participants answered that it depends on the context.

The participants that answered that others were more important in helping them run profitable businesses stated that others were more directly linked to the actual operations of the business. GL stated that *"…others is practically what runs the business on a daily basis… It's your clients, it's your suppliers, it's you marketing it, and it's your employees. It's a long list. It's a no brainer for me"*. This was supported by MS who said *"…specifically to profitability I would say absolutely external because you are not selling to your friends and family, you are selling to the external market. So they definitely have a bigger say in your profitability"*. TF also highlighted others as more important by saying *"I think it is others -people who are experienced in business, even mentors because they run successful businesses"*. TM and RM specifically stated that others are more important in the growth phase of a small business. TM said "(*in growth phase) it would be "other". Because of the networking space and the access to market and the exposure. They will have a lot of that as opposed to family and friends"*. RM supported this view by saying *"I don't think that my dad's opinion about whether I succeed or not would mean as much if I am making one hundred million rand a year… at that point the financial times (newspaper) becomes more* *important".* OM, however, highlighted that the choice depends on the profile of the family and friends of a small business owner by saying the following: *"…if you have the kind of networks from friends and family that help you 1. Get business and 2. Finance projects then friends and family…If you don't have those networks and you have to farm those networks yourself then others arguably become more important".* AR also stated that it depends on whoever gives a small business owner access to the cheapest capital. AR said the following: *"…whoever has the capital and is able to offer it cheaper is usually the person who helps the business succeed…if your family doesn't have money to offer you, you can keep them as family but in the business they can do little to help it succeed".*

Participants that identified friends and family as being more important said so because they viewed the sustainability of the small business to be a result of support received from family and friends. RM alluded to this by saying *"of course friends and family. One of my biggest driving factors on those days when I wanted to give up is my dad…there is just nothing more powerful than that".* This view was supported by TM who said *"I'm going to have say family first. I say family first because they are there when the chips are down…emotionally and financially".* ZG highlighted that support from friends and family results in clarity of thought that is positively correlated to profitability. ZG said the following: *"part of your profitability is going to come from the fact that you are able to think freely, creatively, have the support to do so. Sometimes it's in the financial support to do so".* NN chose friends and family specifically because they come from an entrepreneurial family. NN said *"in my case, it is definitely family because both of my parents are entrepreneurs and a lot of my aunts and uncles are also entrepreneurs so they have given me the most support".*

A view emerged that one is not more influential than the other but that they are complimentary in helping a small business owner run a profitable business. MM said the following *"I wouldn't put a price on any. They all form an eco-system of support. So no I'm not prioritising any because they play a different role or complimentary even - different* *but complimentary"*. LD supported this view by saying *"I think your family is a support basis and a good support structure for when things don't go according to plan, they can encourage you and keep you up. A mentor will be the guy pointing you in the right direction in terms of a more analytical approach, a more business approach"*.

4.8. Access to funding and business profitability

To ascertain what participants saw to be the role that having access to funds plays in helping a small business owner run a profitable business, the following question was asked: *In what ways, if any, do you think having access to funds helps a small business owner in running a profitable business?* Five (5) themes were identified from answers provided by the participants. These themes include business growth, cash flow and working capital, product development, access to human capital and ability to focus.

Participants highlighted that having access to funds alone is not enough to influence profitability but that knowing how to effectively use those funds, as a small business owner, is what influences business profitability. OM said that *"having access to funds, in and of itself is not enough to help a business owner run a profitable business… if you do have access to it, are you able to put it to good use in a manner that generates more money in the long term"?* RM had a similar view and stated that*"…obviously it (access to funds) is important but it is definitely not as important as everyone thinks it is…I am sure that if all these businesses were funded at the extent they wanted to be funded at, or at least close, it won't change anything and we will still see the same failure rates"*. MS and ZG had views that suggest that having access to funds could lead to a lack of creativity and innovation. MS said *"It can help when you know what you are going to do with the money…more access to capital or easy access to capital can make people complacent about being creative"* while ZG stated the following: *"…In fact, it (access to funds) might lead to failure. A lot of times…businesses who are looking for capital, it's because they are lazy to actually innovate"*.

4.8.1. Business growth

Business growth was identified as a result of access to funds by a small business owner. MM stated that *"growth requires funds. You need money. At the end of the day to make ten more products you have to put in more capital".* TF said that *"to expand your business…you need money to venture into different steams of business using R&D".* This view was also supported by NN who said *"…even when you are operational and want to scale up and do more, you need money there too".*

4.8.2. Cash flow and working capital

Participants stated that access to funds helps with cash flow and working capital. NM highlighted that *"…whether you are a service or a product (business) there is money that goes into the beginning, middle and the continuing".* AR said that *"…it helps you in terms of cash flow of running the business because a lot of entrepreneurs quit the business because it takes so much money out of their own pocket".* NM supported this view by saying that access to funds helps with *"sustaining the business…in a time where you are not necessarily making money".* LD alluded that access to funds helps by providing working capital by saying *"…If you need to buy something so that you can sell it, I think it becomes a lot trickier because a guy will say well I need to buy the goods first and how do I obtain the goods without the money"?* LD also held a view that service based businesses required less access to funds by saying the following: *"I also think it depends what it is - I do think people who have a service to offer are a lot luckier*". With regards to access to funds providing the business with working capital, NN said that *"…you need money to take advantage of that opportunity otherwise it will just pass you by".*

4.8.3. Product development

Participants identified product development as a result of having access to funds. AR mentioned that *"…having capital… enables you to have whatever product it is that you are selling".* OM motivated for the use of funds to further develop the small business's product by saying that *"…you should be spending it on services that could help you improve either your management, the way in which you do your projects".*

4.8.4. Access to human capital

A view emerged that access to funds affords a small business owner access to human capital. AR said *"…the other thing is that it allows you to employ all the right people".* This view was supported by NM who said *"It (access to funds) certainly helps in terms of human capital…If there are no funds you will be working by yourself but if there is access to capital you are able to hire help".*

4.8.5. Ability to focus

MM and AR also identified access to funds as affording a small business owner the ability to focus. MM stated that "…*lack of access to finance creates a situation of anxiety. A situation of anxiety which may in certain instances actually dislodge and defocus an entrepreneur"* while AR said *"having access to funds takes a lot of that new business strain away".*

In terms of how the three types of capital (human, social and financial capital) relate to one another, a number of participants expressed that they place social capital above human and financial capital mainly because they feel that social capital unlocks human and financial capital. GL said *"I feel like networks has a bit from these two in it… with networks you have access to people that have been in the industry, you have access to people that have access to money and you also have access to people who have knowledge and skills so you have all 3 in one".* This view was supported by OM who said that *"… with social capital you do have access to finance. You do have access to opportunities and you do have access to networks that can teach you to run a business".* NN stated that "…*through social you also have human capital- people around me have taught me a lot".* NM said that

"…the network part makes up for the knowledge and skills part so you can always acquire knowledge from somebody".

Some participants placed human capital over social and financial capital. MM said the following: *"I think the foundation is knowledge and skills…so for me if you just gave me knowledge and skills I can use that to mobilise the other things. I can mobilise finances when I have that and I can mobilise the networks".* TF said *"… they (people) keep the business running day to day. The knowledge and skills they have makes you produce whatever your business produces".*

AR, placed financial capital over human and social capital mainly due to the ability of a small business owner to commercialise social capital. AR said the following: *"I feel with money you can buy any service or anything that you need…you can have good networks or example people with money but it's very difficult to commercialise those relationships".*

Chapter 5. Discussion

In this chapter, the research findings will be discussed in relation to existing literature reviewed that is appropriate to the topic of the research paper as detailed in chapter 2. The chapter will be structured according to the propositions identified from the literature reviewed.

The first proposition was derived from literature on human capital and entrepreneurship and was stated as follows:

Proposition 1: *Entrepreneurship specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital.*

Most of the participants of the research study identified general investments in human capital particularly from schooling (basic and tertiary education) to have no direct link to a small business owner running a profitable business. They identified general schooling to merely provide the basics and foundation required to run a profitable business. This finding is partially aligned to the findings of Davidsson and Honig (2003) who could not prove their hypothesis that general investment in human capital is positively associated with the establishment of a viable firm. When participants that identified general schooling as having no direct link to a small business owner's ability to run a profitable business were further interrogated to understand why, they highlighted that general schooling lacked practical skills that are directly transferrable to the experience of running a business. This finding is aligned to findings from the literature reviewed that identified that entrepreneurship specific human capital investments resulted in more successful businesses (Bosma et al., 2004; Bradford, 2007; Coleman, 2007; Macpherson & Holt, 2007; Unger et al., 2011).

However, in contrast to the findings from Davidsson and Honig (2003) the research findings were that all participants valued general work experience that a small business owner had and found that it positively correlated to a small business owner running a profitable business. This was because participants of the study identified that work experience resulted in the development of core business skills and principles and allowed for the establishment of networks, both of which they found helped with their running of profitable businesses. Participants further identified that having core business skills and an understanding of business principles meant that small business owners understood the fundamentals of running a business and that having established networks from work experience meant access to social capital that could be leveraged when running a small business, directly influencing that business's profitability.

Participants also identified business mentorship, engagements with other more established entrepreneurs, informal and formal business education and business incubation as other human capital investments that they found helped small business owners run profitable businesses. These findings support those of Ganotakis (2010), Criaco et al. (2013) and Martin et al. (2013) who also found formal business education as positively influencing business success. All of these human capital investments identified by participants result in knowledge and skills specific to running a business.

To this end, the research findings agree with the proposition which states that entrepreneurship specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital.

The second and third propositions were derived from literature on social capital and entrepreneurship and were stated as follows:

Proposition 2: *Strong social capital ties positively impact business performance more in the start-up phase of a business*

Proposition 3: *Weak social capital ties positively impact business performance more in the growth phase of a business*

The research findings were that friends and family of a small business owner provided emotional and moral support and resources (especially financial resources), that they promoted the small business and helped the small business owner identify opportunities to sell and that they were some of the first adopters buying products/services from the small business. An analysis of the findings revealed that participants found that emotional and moral support provided by family and friends helped the small business owner with encouragement to keep going especially during tough periods. This supports the view from Hoang and Antoncic (2003b) in the literature that states that emotional support for entrepreneurial risk-taking particularly at the inception of a business enhances persistence to remain in business. Stam et al. (2014) also identify that strong-tie links have a stronger positive effect on business success in emerging economies more than developed economies. Analysis of the research findings also revealed that the nature of financial support from friends and family was start-up capital or funds needed to sustain the livelihood of the small business owner while they get the business off the ground. This, again, speaks to the role that a small business owner's friends and family play at the inception of the business. Participants also identified that friends and family were helpful in promoting their businesses as well as purchasing their products/services. This is especially helpful at the early stages of business operations when very few people know about the products/ services offered by the business.

Participants identified mentors, providers of non-financial and financial business support and industry associations as groupings of people outside of friends and family that can help a small business owner run a successful business. This is because small business owners believe that these groupings of people provide business insights, advisory, funding and access to market opportunities, all of which small business owners find to be necessary for business growth. Furthermore, most participants in the research identified others outside of friends and family to be more important in helping a small business owner run a profitable business. This is because participants recognise that to grow the business, business insights and access to market opportunities often come from those outside of a small business owner's family and friends, except where a small business owner's family and friends are successful business owners themselves. These findings are aligned to the those found in literature reviewed where strong social ties were found to be more important in the early stages of business operations and weak social ties were found to be more important in growing a business (Macpherson & Holt, 2007; Sequeira & Rasheed, 2006). Some participants did express that strong and weak social ties are not independent and that they are in fact complementary forming part of the eco-system of support required for a small business to become profitable. However, it can be concluded that the research findings overall agree with the two propositions around social capital and entrepreneurship that state that strong social capital ties positively impact business performance more in the start-up phase of a business and that weak social capital ties positively impact business performance more in the growth phase of a business.

The last proposition was derived from literature on financial capital and entrepreneurship and was stated as follows:

Proposition 4: *Financial capital positively impacts overall business performance*

The research found that most participants agreed that access to funds helps a small business owner run a profitable business. Participants specifically highlighted that access to funds helps with ongoing operational expenses in the form of cash flow and working capital, product development, access to human capital and also with unlocking business growth, all of which positively influence business profitability. These findings are in line with those from the literature that identified a positive link between financial capital and business performance i.e., profitability and earnings (Ayyagari et al., 2008; Beck & Demirguc-Kunt, 2006; Bosma et al., 2004; Brown et al., 2004). That said, a few participants did highlight that the positive influence on business performance from financial capital is less about access to the capital but more about a small business owner knowing what to do with that financial capital and therefore making effective use of the financial capital. The research findings, therefore, agree with the proposition that states that financial capital positively impacts overall business performance provided that it is used to unlock business growth, develop products/ services offered, assist with operational expenses and provide access to human capital.

The research also found that the three types of capital (human, social and financial capital) are interrelated. Participants expressed that social capital could unlock human and financial capital, that human capital could unlock social and financial capital and that financial capital could unlock human capital. These findings support those found in the literature that highlight similar interplay between the different types of capital (Brijlal, 2013; Hoang & Antoncic, 2003a; Jones & Jayawarna, 2010; Santarelli & Tran, 2012). Figure 5.1 provides a graphical illustration of the relationship between the three types of capital important to business profitability.

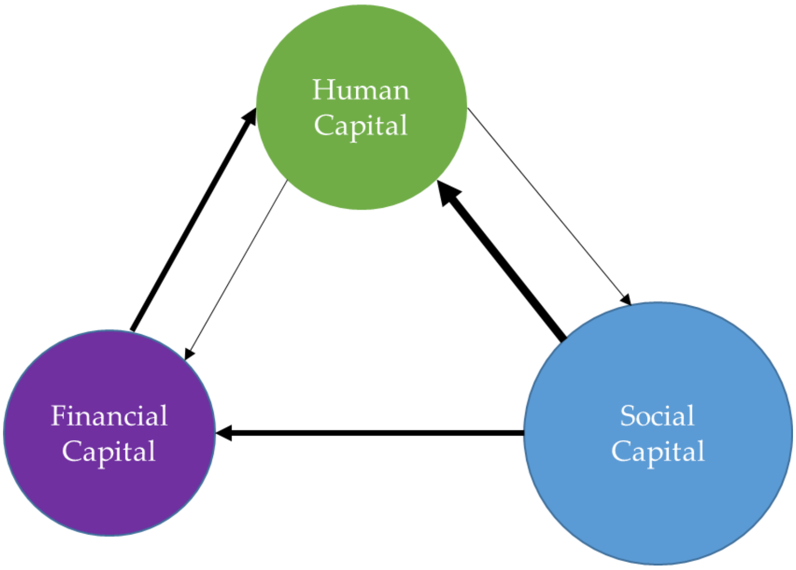

Figure 5.1: Relationship between human, social and financial capital

Figure 5.1 illustrates the relationship between human, social and financial capital as identified from the research findings. This relationship is illustrated in two ways; the size of the circles around each type of capital and the strength of the lines connecting the different types of capital. What is implied in figure 5.1 is that social capital could be used to unlock both access to human capital and financial capital and that there is a strong influence from social capital on access to human and financial capital. This could be, for example, social ties (weak and strong) that provide access to business knowledge and skills as well as provide access to funds required by a small business owner. Financial capital strongly influences access to human capital but has no direct influence on social capital. For example, access to funds affords a small business owner the ability to access knowledge and skills either through hiring people into the business or through access to informal and/or formal trainings. Human capital has a weak influence on both social and financial capital. For example, although having access to knowledge and skills could mean that a small business owner is socially acceptable to specific networks of people and that a small business owner is probably more knowledgeable about opportunities to access funds, the relationship between the small business owner's knowledge and skills, access to funds and access to social networks are weak.

Chapter 6. Conclusion

6.1. Summary of research findings

The research findings are aligned to the four propositions derived from literature reviewed that were in reference to the relationship between human, social and financial capital and business performance (profitability).

Proposition 1 was accepted as the research found that entrepreneurship specific human capital investments were more important in helping a small business owner run a profitable business than more general investments in human capital. The research study found general investments in human capital particularly from schooling (basic and tertiary education) to have no direct link to a small business owner running a profitable business. This is because general schooling was perceived to lack practical skills that are directly transferrable to the experience of running a business. The research found, however, that all participants valued general work experience that a small business owner had and found that it positively correlated to a small business owner running a profitable business. This was because participants of the study identified that work experience resulted in the development of core business skills and principles and allowed for the establishment of networks, both of which they found helped with their running of profitable businesses. Business mentorship, engagements with other more established entrepreneurs, informal and formal business education and business incubation were other human capital investments found to help small business owners run profitable businesses.

Propositions 2 and 3 were accepted. Findings revealed that participants found that emotional and moral support provided by family and friends helped the small business owner with encouragement to keep going especially during tough periods in the inception of the business. Friends and family were also identified as helpful in providing access to finance, promoting the businesses as well as purchasing products/services. The study also identified mentors, providers of non-financial and financial business support and industry associations as groupings of people outside of friends and family that can help a small business owner run a successful business. This is because small business owners believe that these groupings of people provide business insights, advisory, funding and access to market opportunities, all of which small business owners find to be necessary for business growth.

The research found that most participants agreed that access to funds helps a small business owner run a profitable business. Findings specifically highlighted that access to funds helps with ongoing operational expenses in the form of cash flow and working capital, product development, access to human capital and also with unlocking business growth, all of which positively influence business profitability. Proposition 4 was, therefore, accepted.

The research also found that the three types of capital (human, social and financial capital) are interrelated. Evidence was found that social capital could unlock human and financial capital, that human capital could unlock social and financial capital and that financial capital could unlock human capital.

6.2. Recommendations for further research

This research focused specifically on the influence of human, social and financial capital factors on black-owned small business success. It is recommended that future studies try to establish whether or not the influence of these three types of capital on small business success changes when analysed for the other racial groups in South Africa.

With regards to the relationship between human capital and businesses success, we recommend that further research needs to be done to establish which specific human capital factors (e.g., general work experience, business mentorship, engagement with established entrepreneurs) have a stronger positive relationship with business success.

It is also recommended that future studies investigate how to maximise weak-tie links in order extract economic value for a small business.

Future studies should also look into the interplay between the different types of capital and start to develop a model for the optimal combination of factors that maximises business success.

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Appendix

June 2017

Subject: Request for interview for research study into human, social and financial capital factors that influence black-owned small business success in South Africa

Dear Participant

My name is Susan Lubita, an MBA student at the Wits Business School. I am conducting research into the human, social and financial capital factors that influence black-owned small business success in South Africa. As part of the research study, I will be collecting data through interviews with previous and current black small business owners of businesses with average turnover less than R10 million rand per annum. The interviews are crucial to understanding the circumstances under which human, social and financial capital factors influence black-owned small business success in South Africa specifically. As such, I request a one hour interview with you. The interview discussion and notes taken during the interview will be kept confidential during the data collection, when included in the research paper and after the conclusion of the research.

I am looking forward to a positive response from you.

Thank you in advance.

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Human, social and financial capital factors that influence the success of black-owned small business in South Africa

Interview Guide

[*Interviewer to explain the purpose of the study and the main research question*]

Profitability Drivers

1. What leads to a business being profitable in your view?

Human Capital and Profitability

[*Interviewer to define human capital as it pertains to the research study*]

2. In terms of schooling that a small business owner had, how do you think it affects their ability to run a profitable business?
3. In terms of work experience that a small business owner has, how do you think it affects their ability to run a profitable business?
4. Are there any other experiences from which a small business owner can gain knowledge and skills that you think contribute to him/her being able to run a profitable business?

Social Capital and Profitability

[*Interviewer to define social capital as it pertains to the research study*]

5. What role do you think friends and family of a small business owner play in helping him/her run a profitable business?
6. Who else do you think can help a small business owner in running a profitable business and how?
7. Between friends and family and others, who is more important in helping a small business owner run a profitable business and why?

Financial Capital and Profitability

[*Interviewer to define financial capital as it pertains to the research study*]

8. In what ways, if any, do you think having access to funds helps a small business owner in running a profitable business?

Consistency Matrix

<u>Table 1</u>: Consistency Matrix

Human, social and financial capital factors that influence small black-owned business success in South Africa				
Sub-problem	**Literature Review**	**Propositions**	**Sources of data**	**Analysis**
Human capital factors that influence small black-owned business success	(Unger et al., 2011), (Bosma et al., 2004), (Coleman, 2007), (Bradford, 2007), (Macpherson & Holt, 2007) and (Davidsson & Honig, 2003)	Proposition 1: Entrepreneurship specific investments in human capital result in a higher positive impact on overall business performance in contrast to general investments in human capital.	The following interview questions: In terms schooling that a small business owner had, how do you think it affects their ability to run a profitable business? In terms of work experience that a small business owner has, how do you think it affects their ability to run a profitable business? Are there any other experiences from which a small business owner can gain knowledge and skills that you think contribute to him/her being able to run a profitable business?	Identify patterns and themes
Social capital factors that influence small black-owned business success	(Sequeira & Rasheed, 2006), (Bruderl & Preisendorfer, 1998), (Hoang & Antoncic, 2003; Schoonjans et al., 2013) and (MacGregor, 2004)	Proposition 2: Strong social capital ties positively impact business performance more in the start-up phase of a business Proposition 3: Weak social capital ties positively impact business performance more in the growth phase of a business	The following interview questions: What role to you think friends and family of a small business owner play in helping him/her run a profitable business? Who else do you think can help a small business owner in running a profitable business and how? Between friends and family and others, who is more important in helping a small business owner run a profitable business and why?	Identify patterns and themes
Financial capital factors that influence small black-owned business success	(Reynolds, 2011), (Coleman, 2007) and (Bosma et al., 2004)	Proposition 4: Financial capital positively impacts overall business performance	In what ways, if any, do you think having access to funds helps a small business owner in running a profitable business?	Identify patterns and themes