ANALYSIS OF INVESTMENT OPPORTUNITIES AVAILABLE TO SMALL BUSINESSES AND INVESTMENT CLUBS IN GAUTENG PROVINCE

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Declaration

I declare that this research proposal report is my own, unaided work. It is submitted in partial fulfilment of the degree of Master of management in Finance and Investment (MMFI) at the University of the Witwatersrand Business School, Johannesburg.

It has not been submitted before for any degree or examination in any other university.

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Abstract

This study investigated the factors driving investments and investment behavior by Small Medium and Micro Enterprises (SMME) and Investment clubs in Gauteng, South Africa. The study is a qualitative study, using in-depth interviews and focus group discussions with business owners and club members. Thematic analysis was used to analyse the qualitative data collected.

The findings reveal that there is high awareness of available investment opportunities by SMME’s and Investment clubs, but low rates of investment activity driven by fear, entrepreneurial behaviours, lack of financial literacy, coupled with a lack of trust in the economy and the banking system. The results also show that the property sector is the most preferred and well-known investment opportunity to most SMMEs. The need to encourage the development of better financial knowledge amongst black SMME and Investment club owners/members was also highlighted.

It is recommended that the Department of Trade and Industry (DTI) provide affordable investment training for SMMEs and registered investment club members. This will help them broaden their knowledge of recent and current investment philosophy.

Chapter 1 - Introduction

1.1 Introduction

A small business is a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which includes its branches or subsidiaries, if any (South African National Small Business Act, 1996). It is a business that has one or more of the following Characteristics; (a) Fewer than 50 employees, (b) Annual turnover of less than R32 million, (c) Capital Assets of less than R10 million, (d) Direct managerial involvement by the owners (South African National Small Business Amendment Act 2004, 2004).

Investment clubs (Stokvel's) are voluntary groups of natural persons, bound by a common cause, who pool financial resources together for the benefit of the group (Mhlungu, 2017). According to Old Mutual Savings & Investment Monitor (2017), more than a quarter of black metropolitan working households prefer to save using a Stokvel, with 11.5 million people participating in South Africa's 80 0000 Stokvel's, saving about R49bn a year (Groenewald, 2017).

Stokvel bears the same characteristics as a mutual fund, where a pool of money collected from members are invested in securities such as stocks, bonds, money market instruments and other asset classes (Hayes, 2019). The major difference is that in a Stokvel, a group of people come together to contribute a stated amount of money, either to be channeled towards a future investment or a defined expenditure (Mfeti, 2017).

This study sought to analyze businesses that fall within the above two categories and investigated investment opportunities available to them. The focus was on small businesses and investment clubs in relation to their knowledge and perceptions on investment avenues available to them. It is also to uncover the challenges these businesses face in pursuit of these opportunities, and what steps or strategies did the successful small business investors follow. The findings are given in the results section of this dissertation.

The success of small businesses is very essential to the growth of an economy as they contribute a large portion of the country's employed population. Recognizing such contributions, government policies, such as the Broad-Based Black Economic Empowerment (BBBEE), have been formulated. These policies have motivated small businesses to make considerable contributions to the country's economy. Recently, Government and other private institutions have focused more on providing funding and assistance for upcoming small businesses (The Small Enterprise Development Agency, 2016).

While some level of funding is available to small businesses and Stokvel's, the major problem is that these funds are not enough to encourage expansion. Small businesses are compelled to look for other available funding opportunities. SMMEs are challenged by a lack of access to financing and appropriate markets, amongst other things (The Small Enterprise Development Agency, 2016). However, some of these investment clubs saved up a considerable large sum of money and would consider investing such funds in order to earn higher returns. One challenge that they face relates to finding reliable investment opportunities to invest in (Carter & Marais, 2016).

This study aimed to explore investment opportunities that are available to small businesses and investment clubs. Small businesses have become the cornerstone of job creation and economic growth in SA (Fletcher, 2017). However, they face several challenges including access to finance & credit, poor infrastructure, too many laws & regulations, a lack of education and lack of access to markets (Hudson, 2006). Lack of access to finance and markets are some of the factors that constrain business growth (SBP, 2015). Parker (2000) argues that an incentive to finance a business increases the savings rate of entrepreneurs, that is, entrepreneurs save more because they have a higher return from saving. Knowing which markets to access, which investment avenues can be pursued, how these opportunities can be accessed and so on are some of the issues that this study investigated.

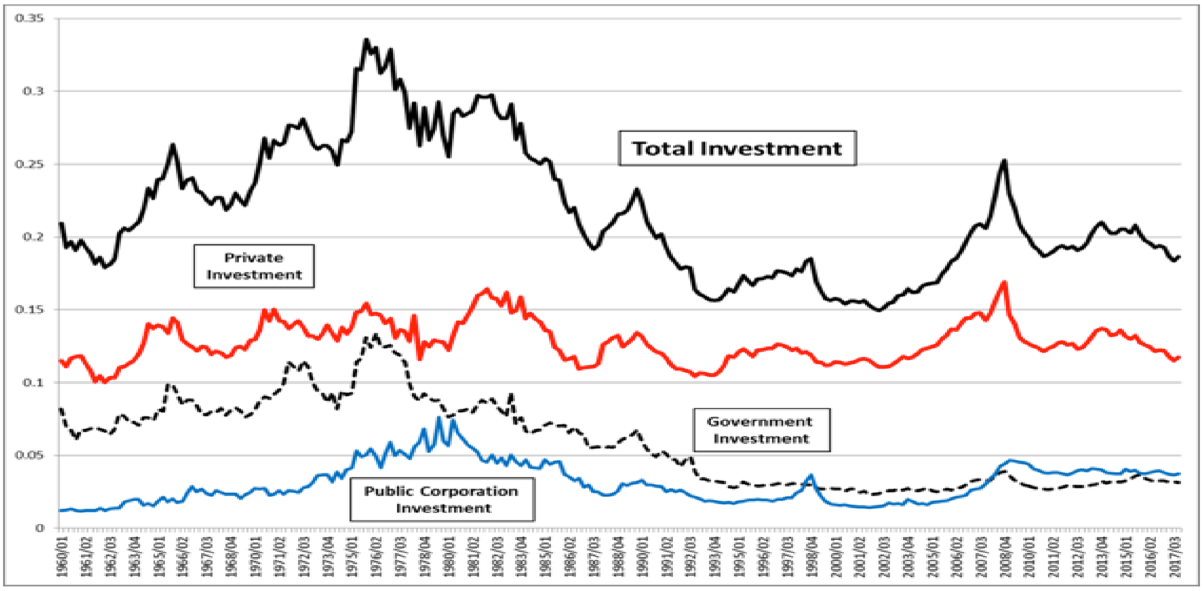
This study used a descriptive research design. A descriptive research design was adopted because of its effectiveness in bringing the researcher to an understanding of describing and identifying the phenomenon, while also looking into why it is that way and what can be done about it. A qualitative research methodology was adopted to achieve the objectives of the study. the study site was Gauteng, specifically Johannesburg and Pretoria. The target population for this study was the registered small businesses operating in Johannesburg and Pretoria. Twenty (20) Small businesses and ten (10) investment clubs were selected in and around Johannesburg and Pretoria, giving a total of thirty entities. This study used in-depth interviews, focus group discussions and document collection to generate data in order to analyze small businesses and investment clubs.

1.2 Background to the study

The economic stagnation of South Africa has shown itself in the declining private sector investment. As at 2018, the level of private sector investment was around 20% lower than the level it reached before the Global Financial Crisis in 2008 (Viegi & Dadam, 2018). This low investment growth could be traced to political and policy uncertainties, as there were some claims that some South African firms were sitting on large piles of cash, instead of investing them (Keeton, 2018). According to Viegi & Dadam (2018), private sector investment in South Africa remained between ten percent and fifteen percent of GDP for almost a decade, instead South African firms prefer increasing investment abroad, and Foreign Direct Investment (FDI) has never reached much more than 2% of GDP, since after 1994.

Further, Viegi & Dadam (2018) assert that while private investment has been decreasing, government investment has been increasing, but this increase has not resulted in a positive response from the private sector. Since 1994, total investment over GDP in South Africa, has been lower than other emerging countries such as Brazil, Chile, India, Colombia and Malaysia. This could be attributed to a decrease in foreign direct investments (FDI) in South Africa.

Figure 1.1. Investment in South Africa - 1960-2017



(Source: SARB Quarterly Bulletin Dataset, in Viegi and Dadam, 2018)

Despite the glooming status of investment in South African, trading opportunities in the South African market are geared to increase the bottom line for capable and competent companies.

South Africa offers world-class financial services, good law and regulations, well developed infrastructure, etc., making the country an attractive business destination. According to InvestSA (2019), South Africa has the most industrialised economy in Africa. It is ranked number one in Africa for the protection of investments and minority investors because of its sophisticated legal system, it is the leading producer of platinum-group metals and has a lot of natural resources. The country's government invests a lot in programmes of infrastructure development. The country has good educational institutions that produce skilled and talented workforce. The country has the most developed, diversified and technologically advanced economy in Africa. Investing in South Africa would be a critical growth driver, especially private sector investment.

1.3 Problem Statement

In a paper by Szerb, Rappai, Makra, & Terjesen (2007) where they explore informal investors and how they are transitioning the economy, it is apparent that not enough investments are being made. We are in a country were small businesses make money to be consumed by owners and not reinvested. Even those who are re-investing, there is only so much that they do because they are limited by other external factors like getting clients, etc. Hence the need for small businesses to engage in alternative investment opportunities with hope of earning good returns.

1.4 Research objectives

This study aimed to explore existing and potential investment opportunities available for small businesses and investment clubs. Therefore, the research is geared towards achieving the following objectives:

- To highlight some of the investment opportunities that small businesses and investment clubs could consider taking up.
- To establish the reasons for engaging in the selected investment opportunities.
- To find out the factors that affect the successful access to such investment opportunities.
- To investigate what successful small businesses and investment clubs did differently.

1.5 Research questions

The questions underpinning this study were:

- What are some of the investment opportunities available to Small businesses and investment clubs?
- What motivates SMMEs and Investment Clubs to engage in the specific investment opportunities they chose?
- What factors affect successful access to such investment opportunities?
- What did successful small businesses and investment clubs do differently?

1.6 Significance of the study

The results from this study will contribute to the body of knowledge that will assist small businesses and investment clubs on available financing and investment opportunities. The study will also reveal how access to these investment opportunities can be obtained. The knowledge revealed can be used by policy to formulate more informed policies affecting access and availability of investment opportunities for small businesses and investment clubs. In addition, the results can be used by small business incubators and coaches when guiding small business owners.

In addition, this research will create an opportunity for further study to investigate how investment challenges can be overcome. Results from the study will also bring about an awareness among investment club members about the possibilities of alternative investment avenues available.

1.7 Limitations of the Research

This study was geographically contextualized and may not apply universally to small businesses and investment clubs based in other countries or other continents within SA. For example, the state of the economy that is a factor in the volume of investment is not the same in all countries, and not the same in the different continents within SA. So, the results presented later in this dissertation should be read with this in mind as the research only looks at businesses within Gauteng province in SA.

1.8 Organisation of the Dissertation

Chapter 1 is an introductory one, giving an overview of what is discussed in detail in the rest of the dissertation. In Chapter 2, the dissertation focuses on a review of literature relevant to the study. This will be followed by a detailed account of the research design and specific methodology used in the study in chapter 3. In chapter 4, results are presented along with an analysis thereof. The conclusion and recommendations are given in chapter 5.

1.9 Conclusion

In this introductory chapter, an overview of the process used in this study is given, the background of the study, the limitations and the objectives. The goal of this research is to get in-depth knowledge and understanding of field of investments specifically for small businesses and investment clubs, and also serve as an educational tool to the users. This study isolates and discusses the research objectives specific to Johannesburg and Pretoria. The next chapter discusses literature that was reviewed.

Chapter 2 - Literature Review

2.1 Introduction

This chapter reviews the literature relevant to this study, including theoretical and conceptual framework of this study. The chapter also detailed the status of investment globally, as well as in South African context. Different forms of investments were detailed in this chapter, as well as some business opportunities available for small business and investment clubs. Impediments small businesses and investment clubs/Stokvel's towards making investment decisions were also detailed. To begin the chapter, few terms and concepts relevant to the research topic were defined and explained.

2.2 Definition of the research concepts

2.2.1. Small Medium and Micro Enterprise (SMME)

Small Medium and Micro Enterprises (SMME) are defined by private and government agencies differently, based on different criteria's like Industry sector. According to Sarokin (2019*)*, an SMME is one characterized by a limited number of employees and by limited capital and cash flow. While South African National Small Business Act (1996) characterizes SMME as one that is directly being managed by the owner/owners. In 2004, South African National Small Business Act included the following to the characteristics of SMMEs; (a) Fewer than 50 employees, (b) Annual turnover of less than R32 million, (c) Capital Assets of less than R10 million, (d) Direct managerial involvement by the owners. For the purpose of this study, the definition by South African National Small Business Act is deployed.

2.2.2. Investment club/Stokvels

Investment club including "Stokvel" is a group of individuals who pool funds together for the benefit of the group or what the group wants to achieve in future (Mhlungu, 2017). Ardener (1965) posits that a Stokvel is a rotating credit association, and defines it as were members make regular contributions in a pool and each member benefits from the pool in rotation or as a group. "Stokvel's has helped in addressing the poverty and income insecurity issues faced by most communities, especially the black communities, by providing collective financial power to the members (Tshabalala & Swart, 2018). This concept of investment club is more detailed in subsequent sections. For the purpose of this study, investment club and Stokvel will be used interchangeably.

2.3 Theoretical framework

There have been several calls for a better understanding of the general investment process (Sort & Nielsen, 2018). Usually investors would have been investing more than they currently do, but sometimes fail to identify the rightful investment opportunities for various reasons. This is not due to a shortage of opportunities but the mismatch between the information desired by the investors and the information presented by the entrepreneurs with regards to available investment opportunity (Sort & Nielsen, 2018). With regards to this mismatch of information, we therefore look at some theories that underpin investment behaviors. Jorgenson (1967) discusses two investment theories in explaining investment behavior, namely the neoclassical theory of investment and Keynes' General Theory.

2.3.1. Neoclassical theory of Investment

This theory is based on the neoclassical theory of optimal capital accumulation, and it looks at how much capital stock firm desires to accumulate at a particular time, and at what rate must the firm make such investments. The desired stock of capital/Investment is measured using the neoclassical production function, known as Cobb-Douglas production function, written as $Y = A\ K^{\alpha}\ L^{1-\alpha}$. where Y stands for output, K for capital, L for labour, and A is a parameter that measures the level of technology, while α is a parameter that measures capital's share of output. In neoclassical theory, investment is determined by marginal product of capital (MPK) and user cost of capital, which is also called real rental cost of capital, with MPK measuring the addition to the production by using an additional unit of capital, while labour and technology remaining constant (Mukher, 2019).

Neoclassical theory of investment states that if a firm wants to maximise profits or maximise the present value, then as long as the value of marginal receipts or benefits the firm receives from use of capital in production (MPK), exceeds the rental or user cost of capital, it will therefore be profitable for the firm to invest (add to its stock of capital).

2.3.2. Keynes' General Theory

This theory simply explains that the basis for optimal investment behavior is that any project with an internal rate of return (IRR) higher than the market ruling rate (MRR) of interest is undertaken. Keynes's economic theory is based on the interaction between demands for saving, investment, and liquidity (i.e. money). Saving and investment are necessarily equal, but different factors influence decisions concerning them. The desire to save, in Keynes's analysis, is mostly a function of income: the richer people are, the more wealth they will seek to put aside. The profitability of investment, on the other hand, is determined by the relation between the return available to capital and the interest rate. The economy needs to find its way to an equilibrium in which no more money is being saved than will be invested, and this can be accomplished by contraction of income and a consequent reduction in the level of employment (Keynes, 1936).

Despite the acceptance of the above two investment theories by many, there are some critics. Crotty (1993) criticizes the two investment theories in relation to the economics profession, were he argues that the Neoclassical theory assumptions are false and adopt the untenable assumption that agents can assign numerical probabilities to all possible future economic states and considers these probability distributions as knowledge. Crotty (1993) also argues that Keynes' General Theory does not consider possible future economic states because they are unknown and will remain unknown. In a Keynesian model, investment is being determined by management's expectations of growth, relative to those variables that affect growth, safety and investment, for example increased financial leverage, higher interest rates, ability to foresee future economic conditions, etc.

2.4 Overview of Investment

Over the past 25 years, global long-term real interest rates report a decline in global real interest rate that is lower than what was seen before the 1960s. This decline in the global real interest rate has been accompanied by decline in world investment and savings rates. Labour force growth is a critical determinant of investment demand, and low growth rate of labour force, together with high ratios of capital spend on labour, help explain why many industrialized countries face an apparent dearth of investment opportunities (Desroches & Francis, 2007). Gross capital formation (GCF) and gross domestic savings (GDS) as a percentage of GDP, has shown some decrease in some of the BRICS countries (South Africa, Brazil, and Russia), but has shown increase in China and India over the past 5 decades (Kónya, 2015). This clearly shows that there is a reduction in investments around the globe, though there are some learnings from few countries where investment clubs have made substantial impact (which are discussed in subsequent subsections).

2.5 Forms of investment

The most common investment goal is financial gain, but personal and humanitarian gains are also a significant contributor. Though the significant aim of venturing into investment is for future financial returns, some investors invest for financial returns, non-wealth returns, and social change (psychic return[1]) (Beal, Goyen, & Philips, 2005). But there may be a trade-off between financial and psychic returns for some investors. Beal et al. (2005) also found that investors after psychic returns are mostly middle-aged and middle-income activists (in politics, community, and church). The study then goes into discussion of different forms of investment.

Different forms of investments aim for future return but in a different scale or form. However, the essence of identifying these forms of investment is to describe the recent core attitudes and considerations of investors while making investment decisions. Each of these three forms of investment captures the social and environmental, and ethical aspects of investing when such investment decisions are made. Some of the different forms of investment include;

2.5.1 Responsible investment (RI)

Responsible investment (RI) refers to investment discipline that considers environmental, social and corporate governance factors in relation to financial returns and making a positive social impact (Viviers & ELs, 2017). Responsible investors take financial and non-financial returns into account when making investment decisions. RI has always been regarded by some as a strategy to reduce investment risk. One of the strategies that responsible investors can use to influence investment policies and drive RI within a firm, is shareholder activism.

However, according to Viviers, et, al. (2008), there are both drivers of and barriers to responsible investment. Some of the drivers include: alignment of investment decision with firms' missions and values; the promulgation of more stringent legislation on investments, etc.

Some of the barriers to responsible investment include:

1. Lack of uniformity on the definition of the concept of responsible investing;
2. The perception that responsible investments are inferior to other forms of investment;
3. Inadequacy of evidence to show improved risk-adjusted returns from responsible investing;
4. Lack of adequate skills and expertise on responsible investing
5. Time difference between the short-term financial reporting and the long term returns from responsible investing
6. Non-availability of quality information on environmental, social and corporate governance factors to help investors make informed responsible investment decisions

[1] Psychic return can also be viewed as an increase in happiness.

7. Some investors not in support of debate regarding certain aspects of responsible investment such as “investing in companies associated with the production and/or sale of products such as alcohol, tobacco, weapons and gambling.”

Alongside the mentioned drivers of responsible investing, there are other factors that could substantially contribute to the sustained growth of RI, thereby help to overcome some of the barriers identified. Co-operative initiatives can help reduce the costs of RI as the related costs get borne by more members, as each member will bear a reduced cost share. Establishment of appropriate benchmarks to evaluate the performance of RI could also help to reduce some of the barriers identified. Conducting trainings tailored towards RI will address the inadequacy of skills and expertise in RI. Most importantly, collaboration with civil society organisations could help to reduce costs associated with RI implementation, whereby the associated costs are shared between the various stakeholders.

2.5.2 Socially Responsible Investing (SRI)

Socially Responsible Investing (SRI) is a form of investment where non-financial criteria (for instance, social criteria), rather than financials, are taken into consideration when making investment decisions. Some of the criteria include social-ethical, ecological and environmental factors (Jedynak, 2017). SRI is an investment philosophy that involves incorporating social, ethical and responsible investment objectives with financial investment objectives during the investment decision-making process. These social and ethical objectives are aligned with environmental, social and corporate governance (ESG) criteria of RI (Du Plessis , 2015)

2.5.3 Impact investing

Impact investing is relatively a new form of investment. It is where investors actively invest capital in businesses or organizations that generate social and/or environmentally friendly goods and benefits (Viviers, Ractliffe, & Hand, 2011). Viviers, at el (2011) assert that impact investing aims to create a more inclusive capital market that can be leveraged to address societal and environmental problems.

2.6 Factors affecting investment decisions

While making investment decisions, investors (foreign and domestic) must consider many factors. From the African context, African Investment Index (AII) [2] has provided six

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[2] South Africa is ranked fourth on the *AII*

components factors to be considered when making an investment decision. Countries are ranked according to how they score in each of the factors identified (Ncube, 2018).

The six component factors are as follows:

1. Liquidity factors: Liquidity factors are measured according to the level of domestic real interest rates and excess money supply, with the latter denoting the money that is available in the economic system, and theoretically positively influences consumption, spending and ultimately GDP.
2. Social Capital Factors: Social capital factor looks specifically at the level of knowledge, networks and connections in a given country, with Facebook penetration used as a proxy.
3. Risk Factors: This takes into account a country's credit rating standing, risk of currency depreciation (as measured by inflation differentials), import cover ratio (capturing the risk of foreign currency reserves required to cover critical imports), current account and external debt levels.
4. Growth Factors: This looks at the size of GDP of a country, and other factors leading to GDP growth, for instance demographic factors (population size).
5. Business environment factors: This measures the business environment factors according to the ease of doing business in a given country. It is constructed from macroeconomic and financial indicators and the World Bank Group's *Ease of Doing Business* indicators.
6. Demographic factors: Africa's demographic dynamics are shaping its present and future development agenda and the trends will vary from country to country. The *AII* uses the demographic factor which accounts for the size as well as the potential market at present and in the future. A growing population as well as a rising new middle class, is fueling demand for new infrastructure investments as part of the urbanisation process.

In addition to the above AII measures of investment opportunities in a country, Becker (2019) discusses the five other factors for investment success;

1. Savings rate: How much to invest and how the investment grows is the most essential factor.
2. What you invest in: 90% of the investment return is dependent on the type of investment engaged in.
3. Diversification: To reduce risk, investing in different baskets is essential

4. Fees: The lesser the investment fees, the money savings an investor accumulates.
5. Consistency: consistent investment is beneficial to investors, instead of being carried away with speculations and news in the air.

2.7 Small Businesses and Investment

Firms aim to be a sustainable enterprise that can provide employment and contribute to economic growth. However, some new firms finance themselves for growth, as they only limited cash flows and seed capital is often scarce (Doruk & Söylemezoğlu, 2014). Start-up costs and lack of adequate skills are some of the challenges entrepreneurs must face when starting up new ventures. For e-Business ventures, these costs translate to the cost of developing an ICT system and professional support service (Papagiannidis & Li, Skills Brokerage: A New Model for Business Start-Ups in the Networked Economy, 2005). After scaling through the huddle of start-up cost and skill development, firms especially micro, small and medium scales enterprises, most at times find it challenging to carry out innovation activities due to lack of funds. Engagement in innovations activities help businesses to make most out of dynamic and revolving human and economic behaviors (Ariguzo, 2019).

These problems pose significant challenges to the growth of the enterprise. In this research study, we argue that small businesses and entrepreneurs can bridge these gaps by engaging with investment clubs to source for extra funds for business expansions, as seed capital or loan from banks might be challenging to secure. Secondly small businesses can venture into sourcing other investment opportunities that allow them to source different skills and raise funds.

Bowen, Morara, & Mureithi (2009) argue that a business cannot survive if it ignores the importance of mixed business strategies, as the application of different strategies energizes the growth of the business. One of those strategies is diversification of business operations (Becker, 2019). Diversification reduces business continuity and financial risk (loss), so small businesses that engage in investments for diversification purposes could have more competitive advantages than those that do not. By their nature, small businesses have high business continuity risk as the knowledge is mainly with the owner or a few owners. Lack of access to finance and markets are some of the factors that constrain business growth (SBP, 2015). Hence small businesses could look into other investment opportunities as a means of diversification and engage with investment clubs as sources of funds for expansion.

2.8 Investment Clubs/Savings Clubs or Stokvel's and investments

Investment club and Stokvel will be used interchangeably. Stokvel's is a voluntary group of individuals, who pool funds together for the benefit of the group (Mhlungu, 2017). Lukhele (1990) defines Stokvel as "a type of credit union in which members enter into an agreement to contribute a certain amount of money to a common pool. Stokvel's as group saving schemes providing for mutual and financial well-being as well as social and entertainment needs. A Stokvel is a savings scheme where members contribute a portion of their incomes for a particular purpose or mutual benefit (Coetzee, 2017). According to Old Mutual Investment Monitor, approximately 11.5 million people participating in South Africa's 80 0000 Stokvel's, save about R49bn a year, with more than a quarter of black urban working households preferring to save using a Stokvel's (Groenewald, 2017). Despite the fact that Stokvel's are still undergoing some evolutional process, it is believed that the industry is becoming more prevalent (Mfeti, 2017).

2.8.1. Why join or start an Investment club or Stokvel?

People join Stokvel's for so many reasons. The most common of the reasons is for savings purposes, either to use for consumption, education or investment purposes. Pooling funds from the several members creates sufficient capital that can enable one to start a business or pay for educational bills. On the other hand, the pooled fund can be invested directly by the investment club, thereby creating sufficient capital and reducing risk or loss that could have been suffered by an individual. Some people also join Stokvel's for the purpose of social gathering, meeting in different members' homes, pubs or restaurants. Most impressing, some members join investment clubs to obtain some investment education (Van den Berg, 2017). Investment clubs sometimes are sources of financial education for members, some of whom may never have had formal education or training on investment and financial issues.

2.8.2. Types of investment clubs/Stokvel's

As there are different reasons for joining an investment club, also there are different types of investment clubs. Investment clubs have both economic and social functions and benefits. The economic function relates to the use of investment club to promote income security, while the social function speaks to social capital, which manifests itself through friendships and social networks. Based on these two functions/benefits of investment clubs, four different types of investment clubs/Stokvel's have been identified, namely; savings, funeral, investment and high budget Stokvel's (Verhoef, 2001)

With a savings Stokvel, members of a savings club contribute a set amount into an agreed account regularly from which funds are distributed to members based on an agreed cycle. Funeral Stokvel assist bereaved members by providing material and non-material support in the event of death. Members make fixed contributions to cover funeral expenses. The club constitution spells out what and how much may be paid out for a funeral.

With investment Stokvel's, the common goal of members is to accumulate capital by investing in business ventures. Investment Stokvel's also promote savings through bulk purchases of goods. Members of investment Stokvel's contribute a fixed amount of money usually on a monthly basis. The funds are saved and allowed to accumulate before investment in business ventures. Another type of Stokvel is the high-budget Stokvel, which operates as financial institutions and are established for the purpose of promoting savings and investments. Members of high-budget Stokvel's contribute substantial amounts in keeping with their high standing in society. These substantial contributions enable members to receive large lump-sum payments which they can use to purchase household goods or meet other needs that require an outlay of considerable resources.

These categories of investment clubs are vital as they open our argument that there are small businesses that could turn to investment clubs for sources of fund and investment clubs on their own can as well pursue some identified profitable invent opportunities. Though investment club members encourage the culture of saving, most of them use the traditional savings account that do not earn much, rather exposed to inflation that effectively erode the investment at the long run.

However, many investment club members are not aware of some available investment options like unit trusts, which could grow over time get returns that beat inflation in the long run. At the end of this research, with the help of respondents, we intend to identify so many opportunities in which investment clubs and small businesses can tap into. Some of the evidence of impacts made by some investment clubs in some countries include:

Chamas in Kenya

According to Muse (2016), chamas (a Swahili word) means collaboration, friendship and social security. Chamas investment club is an informal investment group of individuals whose objective is to pool together capital or other resources for investment. An example is the Mulika Mamas that was formed in 2007 by a group of friends who realised they can achieve more as a group than as individuals and wanted to invest in real estate business. Muse (2016) further states that almost every adult in Kenya belongs to such an investment group, of which most people belong to multiple chamas. One chamas could be formed to buy a large piece of land for subdivision, another for saving money to visit one another's homes. There are even extremes where groups have been formed to create a pool of funds for Friday night beers.

As of 2016, there are approximately 300,000 groups of chamas, with at least $3.4 billion in assets, but some of the chamas are unregistered (imagine the type with the motive of pooling fund for Friday night beer). The most important thing is that the government has realised the benefits of chamas and actively encourages young people and women to join groups whenever they want to apply for tenders from the State. Also, various funds allocated to youth, women and persons with disabilities can only be accessed through such groups. Commercial banks, deposit-taking microfinance and credit unions are also developing tailor-made products to woo investment groups as they eye the deposits (Muse, 2016).

An investment club in United Kingdom (UK)

25-28 Club is an investment club in UK named after score of the Rugby World Cup Wales victory over England. It is made up of group pf accountants (16 members, consisting of 9 men and 7 women) in their late age of 40s and early 50s, who meet weekly. The club was formed in 2015, with a lump sum payment of £2,500 by each member, with a monthly payment of £100.This investment club has been so successful to the extent that its members have stopped monthly contributions, but reinvest interests earned from previous investment. (Loewenberg, 2017).

The members started the club to obtain financial freedom, secondly to anticipate returns better than what the banks would offer. The aim was to bring together collective human and financial resources and gain competitive advantage over a single investor. According to Loewenberg (2017), all individuals who joins the club, must take a course on investing, as well as a "colour character" test, to ensure the member's individual characteristics are identical. This goes to show how investment clubs on their own can as well pursue some identified profitable investment opportunities.

Investment clubs for Engineers and other professional in Canada

Sometimes, people associate investment clubs with 'poor' or uneducated people. In Toronto, Canada, a group of investment clubs have been made available to professionals in one platform called "MeetUp" (Ampihac, et al., 2019). The platform offers all kinds of investment clubs including real estate, equity markets, book clubs, networking groups, as well as educational clubs on tax, investment strategies, etc. The platform provides easy access to information and opportunities and encourages individuals to engage in different types of investment.

2.9 Investment opportunities available to investment clubs and small businesses

According literature, there are available investment opportunities investment clubs or Stokvel's and small businesses can tap from. However, the objective of the study is to find out more hidden investment opportunities available. Also, to find out how some successful small businesses taped from these investment opportunities. Some of the available investment opportunities include:

2.9.1. Bank accounts or short-term deposits

According to Standard Bank, Stokvel's should consider utilising a bank account with a reputable financial institution to keep members' money safe and secure. Most Banks offer Stokvel accounts that start paying interest on balances from as little as R100. These accounts are designed to receive individual contributions from members. They are also able to link many other interest-bearing Investment accounts such as Money Market, Notice Deposit and Fixed Deposit accounts," Among the products that cater specifically to Stokvel's are: First National Bank's Stokvel Account and Standard Bank's Society Scheme Account, which caters to groups such as Stokvel's, burial societies, and savings or investment clubs (Wood, 2017).

2.9.2. Unit trusts

A unit trust is a portfolio of stocks, bonds, property, cash or other asset classes, chosen by professional fund managers according to themes and styles of investing. The manager buys these securities on behalf of the fund, which is then split into equal units that are sold to investors. The fund is priced daily according to the net asset value of the underlying investments. Dividends and interest from the underlying investments are either reinvested or paid out. Investors share in the gains of the unit trust as well as the losses.

Apart from spreading the risk across asset classes, managers also reduce the risk of you incurring losses by spreading the investment across different asset classes, regions and sectors. Unit trusts give savings club members several benefits, including exposure to different types of assets and flexibility. Savings clubs can access their money in a unit trust investment at any time, there are no fixed or minimum investment periods and you won't pay any penalties when you withdraw (Gunnion, 2016). Related to unit trusts, is an investment in share. For example, the Kliptown Helping Hands, a South African savings club/Stokvel had invested about R100 000 at the Johannesburg Stock Exchange as of 2011 (Skenjana, 2012).

2.9.3. Rental Properties

Instead of distributing the resources saved in an investment club or SMME, members should consider investing the money into property. The number of ways investment club members will engage in property business include home making, flipping houses, owning and renting property, investing in residential real estate, and investing in mortgage notes.

According to Jenkin (2019) a property Stokvel takes the same concept of savings and investment approach and uses it to focus on property instead of consumption or cash pay-out as has been the case for many years. Members should pool their finances together and invest it in a particular property together, or purchasing land to develop for commercial, industrial, or residential, purposes.

Rakabe (2013) asserts that pooling Stokvel savings and redirecting them towards the financing of productive business activities could transform them into viable community-based investment and financial services enterprises. The Stokvel sector could become a small-scale capital market through which small businesses with demonstrable growth potential could raise financing. Rakabe (2013) also suggests that financing of low-cost housing and underwriting low-cost insurance as a definite investment opportunity for Stokvel's and SMMEs.

An example of Stokvel that has ventured into property is the Kemano Investment Club (made of 10 women members) that invested in a private property in the Kruger Park Lodge owned Club. The property has since been paid off. At the end of 2011, the members each earned R15 000 distributed from the rental income (Skenjana, 2012).

2.9.4. Agriculture

Calitz, Cullen, & Sonti, (2018) assert that agriculture has been identified as a strategy for sustainable development in an attempt to improve food security and alleviate poverty around the world. Urban agriculture is being promoted as an alternative to contribute to increasing food security across the globe (Calitz, et al., 2018). Urban Agriculture (UA) is the practice of farming and gardening in urban and peri-urban areas. Calitz, et al. (2018) report that ninety-two percent of the respondents to their research study were interested in some form of urban agriculture or another and concluded that Stokvel members were interested in learning more on how to use their Stokvel contributions for entrepreneurial purposes, including urban agriculture. This presents a conducive environment for Stokvel's to go into UA as a way to invest their resources.

2.9.5. Infrastructure

The Government, at all levels, is investing in upgrading services and facilities and smaller contractors should seek ways to get involved in the various scheduled projects. Apart from low-cost housing, essential services, such as water, electricity, sewage plants, as well as repairs and upgrades to Government buildings and recreation sites, are needed in cities and towns across the country. The Sweet Harmony Financial Services Co-Operative started with a view to help improve homes for the members (Skenjana, 2012). As Skenjana suggests, the Stokvel could consider starting their own home improvement company and supply building materials to their community, for example.

2.10 Some impediments to South African investment clubs' and SMMEs' ability to invest

One crucial problem that SMMEs often face is access to capital, SMMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs (Abor & Quartey, 2010). Abor & Quartey also emphasize that legal procedures involved in doing business in SA are too complicated and need to be minimized, and this is why small businesses are not investing enough. Commercial banks have very stringent requirements which include the requirement of collateral security for loans that most SMME owners do not have (Arko-Achemfuor, 2012). Also, SMMEs legal and tax obligations need to be formalized. The provision of investment tax benefits and establishment of formal structures of SMMEs operations will enable small businesses to take on some of the investment opportunities identified.

In a paper by Arko-Achemfuor (2012), the author argues that Stokvel's in South Africa use the money mainly for consumption, mostly household consumption, and very little, if any, is invested. It has not dawned on most of the members of Stokvel's that their Stokvel's are a potential source of funding for SMMEs, and a lot of the proceeds in other countries are invested in SMME activities but in South Africa the case is different (Arko-Achemfuor, 2012). This mean that one of the most pertinent obstacles to SMMEs and investment clubs' identification of investment opportunities is lack information and awareness on what pooled funds can be used for. Arko-Achemfuor also points out that the Somali traders in SA townships used the Stokvel principle to open stores, reduce some of the cost in the value chain, buy in bulks and get significant discount, etc. This is something that South Africans haven't gotten right. Finding a way to invest part of the proceeds of a Stokvel in entrepreneurial activities, can help the members to receive returns on their investments (Arko-Achemfuor, 2012).

Roberts (2004) emphasizes how the Industrial Development Corporation (IDC) is a significant determinant of manufacturing investment decisions, for small businesses, as it is a significant investor, loan and equity finance provider for SMMEs in South Africa. Such a keen focus on manufacturing, leaves less focus or emphasis on other opportunities available for SMMEs. Also, the manufacturing sector is capital intensive which makes it difficult for most SMMEs to participate.

Furthermore, there are no proper linkages between large and small businesses, SMMEs lack infrastructure, and some of them have very little knowledge of Department of Trade and Industry (DTI) business promotion programmes (Luiz, 2002). This takes us back to increase in awareness of the availability of investment opportunities and sources of capital for most South African SMMEs. At the end of this research, I find out some of the other impediments to SMMEs ability to identify investment opportunities as well as sources of funds to pursue such investment opportunities.

2.11 Conclusion

This chapter has given a theoretical background to the study, highlighting the various aspects of investment clubs, including the need for alternatives and available opportunities for investment clubs to invest in. The theoretical background emphasis the research problem that not enough investments are being made especially by SMMEs that are the key to SA's economic growth. It also emphasises the amount of investment opportunities that are out there but not being utilised by small businesses and Investment clubs for various reasons. The next chapter (Chapter 3) will discuss in detail the research method used, research design, sampling, etc.

Chapter 3 - Research methodology

3.1 Introduction

In this chapter, details on the research design and methodology are provided. These include a discussion of the research philosophy adopted for the study, the research approach and strategy, methods used to collect and analyse data.

3.2 Research philosophy

According to Saunders , Lewis, & Thornhill (2009) research philosophy refers to the development of knowledge and its nature. The philosophy that a researcher adopts shows the worldviews that he/she holds, which affects the thinking around the research process. This, in turn, influences decisions on the research strategies and methods chosen by the researcher.

Saunders et al (2009) identify four research philosophies: positivism, realism, interpretivism and pragmatism. This study adopted an interpretivist perspective as it is deemed the most appropriate in this type of research. Interpretivism appears to be a more suitable philosophy for business and management research as it looks at individuals, their role in society and behaviour.

3.3 Research approach

According to Bhattacharjee (2012), the process of theory or model development may involve inductive and deductive reasoning. In inductive research, the researcher aims to understand and make conclusions based on observed data. Inductive conclusions from a study become a hypothesis that must still be proved or disproved (Bhattacharjee, 2012). In deductive research, the researcher aims to test concepts and patterns of a theory using empirical data. This study adopted an inductive and exploratory approach, which was deemed suitable for a qualitative research that follows interpretive methods and that aims to collect, analyze and interpret information to help decision makers make informed decisions.

3.4 Research strategy

According to Saunders et al, (2009), the research strategy that is adopted is influenced by the research questions and objectives, how much is available in terms of resources, as well as the philosophy that the researcher leans towards. The extent of knowledge on the subject will also have an impact on the strategy adopted. Saunders et al (2009) identify seven possible strategies that a researcher may choose from, including experiment, survey, case study and action research. The other three strategies are grounded theory, ethnography and archival research. This study adopted the exploratory strategy. Data is collected using interviews responding to list of questions designed towards achieving the research objectives and answering the research questions. Analysis was carried out using content analysis, identifying themes from the responses.

3.5 Research method

Research methodology has two main categories, namely quantitative approach and qualitative approach. A researcher may also adopt a mixed approach that combines aspects of both the qualitative and quantitative methods. According Patten (2014) the former provides numerical estimates, percentages, prevalence, incidence, trends, and others. It helps to answer questions such as how many, how much, how often and so forth. The latter describes data at an in-depth level. It helps to explain how a person is thinking or why something occurs.

Rahman (2016) assets that advantages of qualitative approach are that it gives detailed description of participants thoughts, opinions and experiences. It also allows for better insight in the subject matter. The disadvantage of qualitative approach is that data analysis/interpretation may become too complex. Advantages of quantitative approach is that its friendlier for data analysis/interpretation and were different variables are to be analyzed. The disadvantages of quantitative approach are that it does not give meaning or explanations, it cannot interpret actions and only reveals results at a specific point in time.

In this study, qualitative research methodology was used to achieve the objectives of the study. This method was chosen as it was deemed the most suitable for giving meaning to actions and answering the research question. The study is meant to collect participants’ views and opinions as well as perceptions regarding the subject of study. A qualitative approach also allowed the participants to advance more in-depth responses to the questions. In addition, the participants responses were analyzed using their thematic associations to formulate interpretations of the existing phenomenon. On the other hand, a quantitative method is deployed to analyze the value of different investment made by the SMMEs and the investment clubs, if any. The essence of this quantitative approach is to view how the SMEEs embrace different available investment opportunities as well view how much monetary value the SMMEs were able to commit at particular point in time.

3.6 Research Population and Sample

3.6.1 Target population:

A research target population is a group of people or things that collectively have specific characteristics the researcher is interested in. The target population for this study is made up of registered Small, Medium and Micro Enterprise (SMME)'s and Investment clubs operating in Johannesburg and Pretoria.

3.6.2 Research Sample:

The sample for this study is selected using a non-probability sampling method. Sampling method is when a part or certain portion of the population is selected to represent the entire population, using various techniques. There are two main types of sampling, namely probability and non-probability sampling. Probability sampling is usually random. Because this method involves a system or program, each member of the population has a known probability of being selected. Non-probability sampling is specific, direct and purposeful, and each member of the population does not have a known probability of being selected (Showkat & Parveen, 2017).

The sampling method for this study is non-probability, based on the judgement of the researcher. The researcher also selected specific businesses and people who best explained the purpose of the study, based on their qualities or characteristics. The sample is selected using purposive sampling as the researcher tried to capture and respond to the purposes and output of the study. Ten (10) SMME's and five (5) investment clubs are selected within Johannesburg and Pretoria (both in Gauteng province), giving a total of thirty entities. In addition, a total of eight participants took part in the focus group discussions as detailed in 3.8.2 below. Gauteng is chosen for this study as it is a highly urbanized area with relatively high population density. The research focused in Johannesburg and Pretoria as most of the companies, especially SMMEs have their head offices in Johannesburg and Pretoria compared to other cities in Gauteng province. These two cities therefore make become interesting study site for this research. The business owners and heads of the investment clubs are interviewed to get the information needed for this research. These businesses are not industry specific and vary in size but meet the definition of SMME.

3.7 Data collection

Data collection is the heart of research study. It can be collected in many ways. This study used in-depth interviews and focus group discussions to collect data for the purpose of ascertaining the objective of this study. Interview approach is the best way to collect the type of data needed for this type of study. It is also in line with the research methodology chosen for this study. Interviews allow the researcher to collect and explore data and use the information from people's perspectives and experiences. This method is rich in the sense more opinions and information are obtained due to experiences of the participants/respondents

There are generally three types of interviews: unstructured, semi structured, and structured. Unstructured have less interview questions and are more of a conversation. Semi-structured has more interview questions, more guidance yet incorporate elements of conversations. Structured are guided in the sense that only the interview questions in guide are asked (Martic, 2018). This study followed semi structured interviews to realize the objectives of the study and provide opportunity for the research participants to share their experiences beside the questioned presented by the researcher. Interviewees also get a chance to share their own experiences and knowledge on the topic, which may add more value and may direct the researcher to other avenues where rich data can be obtained. The other quality that justifies the use of semi-structured interviews is the ability to compare across research interviews because as almost all research questions were standard.

Focus group discussions were used mostly for reaching out to get participants' attitudes, feelings, beliefs, experiences, and reactions. People in a group have individual knowledge and share a common understanding but it is very interesting to see how that knowledge and understanding is influenced or challenged in a group situation. Most of the time, our views and ideas are influenced by others.

3.8 Research instruments

3.8.1 Interviews

For the purpose of this research, data was collected by use of a semi structured interview guide and audio recorded. The research instrument had a total of 13 questions (besides the biographical ones) that, together, addressed all the research questions developed earlier in chapter one. The questions were open ended, allowing the participants leverage in answering the questions. There was a total of four research questions in the study. Three interview guide questions addressed the first research question, four addressed the second question, three questions were related to research question number 3, while three interview questions addressed the fourth research question. The questions in the interview guide were open ended and only used as a guide to ensure some consistency in the kind of questions asked but participants were at liberty to respond as they chose.

Interview questions were emailed to the participants and they were given enough time to reflect on the questions, prior to the interview, to get richer responses. An interview was then held with each participant to share their experiences of the phenomenon under study. The responses were audio recorded and transcribed at a later stage and included for analysis.

3.8.2 Focus group

Focus group participants were selected to represent the target population of small businesses and investment clubs in the chosen area of Johannesburg and Pretoria using purposive sampling. A total of three participants met for 40 minutes in the first session, and a total of five participants met for 25 minutes in the second session. This purposive sample was selected from the population. The researcher facilitated the group discussions using the research questions and interview questions as a guide to achieve the purpose. Questions were open ended and allowed participants to freely express their opinions and feelings. Follow up questions and discussions between the participants were encouraged. The discussions were audio recorded and transcribes later into text. To ensure research ethics were observed, participants were informed before the focus group discussions started about the reason and use of the data to be collected from the focus group discussions.

3.9 Validity and Reliability

With the research methodology chosen for this study, it is vital that we place importance on the validity, accuracy and reliability of the data collected. Reliability has to do with trustworthiness and consistency, while validity has to do with facts, logic and relevance (Sagor, 2000). Therefore, data collection instruments must allow for data to be tested for dependence and consistency. Interview questions were submitted for third party review prior to commencement of interviews. Interview questions were also sent to the participants prior to the interview, to allow participants reflect on the questions instead of being taken unaware. During the interviews, the questions were explained to ensure all participants understand what is required of them. The interviews were recorded, giving validity and authenticity of evidence. Accuracy has to do with quality and correctness (Sagor, 2000). Collaborating evidence was collected to back up any claims or statements. Any financial information was cross referenced for accounting records.

3.10 Data analysis

There are several qualitative data analysis methods such as matrix analysis, event analysis, domain analysis, and more. The data collected in this study was analyzed using thematic analysis which involves the process of identifying themes within data and reporting on the findings. This method enables the organization of information into the relevant themes that would enable the researcher to answer the required question of the study. The responses for each question were put in tabular format, with certain key words or phrases used to identify the theme within these responses.

3.11 Ethical considerations

The researcher sought ethical clearance through the university's Ethics Management System. The researcher also got informed consent from respondents to allow them to make decision to participate based on the adequate knowledge of the study. Participants were informed of the option to discontinue participating at any time during the study. Privacy and confidentiality were upheld by reminding participants of their right to retain information deemed proprietary. The signed consent forms contain privacy and confidentiality clauses. All information disclosed by participants were only used for this research study.

3.12 Limitations of the study

According to The Small Enterprise Development Agency (2016), there are 2.4million SMMEs in South Africa and only 27% of them are formal. This means that the majority of SMMEs are informal. As such, they would consist of sole proprietaries, private companies and funds/Clubs. This means they are not required by SA Companies Act or any legislation to make public any of their business activities or financial statements. This therefore poses limitations towards access to information necessary to conduct this research, for instance information on company or club investments, investment history and investment strategies. In addition, it would not be possible or practical to include all the million plus small businesses in the study because of time, feasibility and cost. There is also high level of competition amongst businesses which prevents some of them from t being eager to share business knowledge and advice. Certain approvals would need to be obtained from the various businesses and legislations to enable them to share the necessary information. Other businesses are more likely to request to remain anonymous for various reasons.

3.13 Summary

In this chapter we detailed on the research design and methodology. This study adopted an interpretivist research philosophy as it looks at individuals, their role in society and behaviour. Data was collected using interviews in response to a list of approved questions. Ten (10) SMME's and five (5) investment clubs within Johannesburg and Pretoria were selected for the study sample. Interviews were recorded and converted to text for capturing in word.

Chapter 4 – Presentation and Analysis of Data

4.1 Introduction

This section presents results and findings of the research. The three-step process of analyzing qualitative data using content analysis was deployed. According to Bhattacherjee (2012), the three-step process includes; first step involves a broad sampling of the data in order to identify broad content themes. Secondly, the identified thematic contents are segmented into separate units of analysis. The themes are then coded in order to analyse each theme's frequency, context and how they are related to each other. This last step also involves analysing opinions and attitudes towards the subject of the study.

4.2 Some demographics of the participants

There was a total of fifteen participants in the study of which ten were SMME's and the remaining five were investment clubs and Stokvel's. The annual revenue for the SMME's that took part in the study ranged from R800,000 to R50,000,000. R39,600 was the smallest annual accumulated fund for the investment clubs while the highest stood at R300,000.

The SMMEs are represented in the following sectors; property, construction, engineering, business consultancy, transportation, attorneys, electrical and three SMME's in the HR and recruitment sector. Two of the investment clubs were in the property sector, one was in the entertainment sector and the other two were Stokvel's for savings either for spending during seasonal periods (especially in December) or regular distribution to members.

The SMMEs had been in business between two and twenty-eight years while the investment clubs had been in operation for a shorter period, ranging from one to three years. Research participants from the SMME's were represented by either Managing Director, Chief Financial Officer, or the Chief Executive Officer, while the investment clubs were represented by either the Chairperson or the Treasurer.

The first session of focus group consisted of a total of three participants, made up of two SMME owners and one investment club member. The two SMME's represented the Business consultancy and IT sector, while the one investment clubs represented the Entertainment sector. The second session consisted of five participants, made up of four SMME owners and one investment club member. The four SMME's represented the HR and payroll sector, construction, transportation and branding & media sector, while the one investment club was purely for savings purposes.

4.3 Transcription of the data

All the interviews were conducted at the premises of the research participants at a time that was most convenient to them. The interviews were audio recorded using a recording device in order to allow free flow of the conversation. Each recorded interview was saved and identified by a number in order to ensure validity of the data and to maintain the anonymity of the respondents. The recorded audio interviews were first transcribed into Microsoft Word and validity is ensured by replaying the audio many times to be able to undemand the respondents' responses. The raw transcribed data was first grouped into categories according to the research question[3] being addressed. These were then collated onto a Microsoft Excel spreadsheet for ease of reference, showing the responses according to all research participants to each question side by side. This was done to make it easy to compare respondents' view on a particular question. This helps to isolate broad themes arising from the data in order to come up with common themes across the participants' responses. Using content analysis, common words or phrases were highlighted for further review.

4.4 Presentation of results

The findings from the study are presented below, followed by a discussion of each research finding from the interview and focus group.

4.5 Results from the interview session

4.5.1 Research Question 1 - What are some of the investment opportunities available to Small businesses and investment clubs?

- ***Interview question 2 - Does the company/club have residual profits that could be used for external investments?***

[3] Research questions:
What kind of investment opportunities are more attracted to small businesses and investment clubs?
What motivates them to engage in such investment opportunities?
What factors affect successful access to such investment opportunities?
What did successful small businesses and investment clubs do differently?

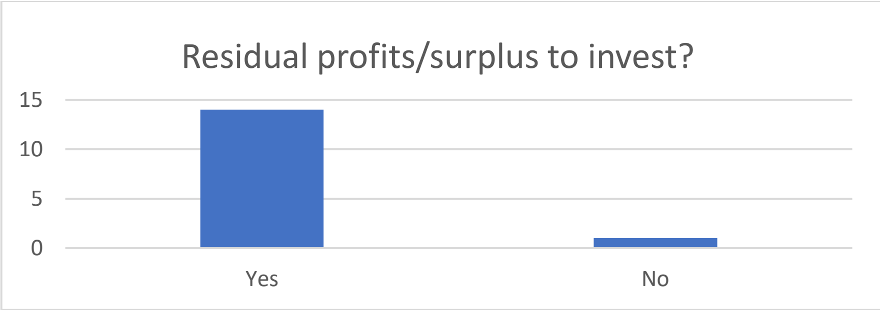

Figure 4.1: Responses to interview question 2

All the participants except one indicated that they did have some residual profits or surplus that they could use for investment outside their current business focus. This finding shows that the reason for not investing is not due to lack of funds.

- ***Interview question 3 - Does the company/club have any other investments besides the current business?***

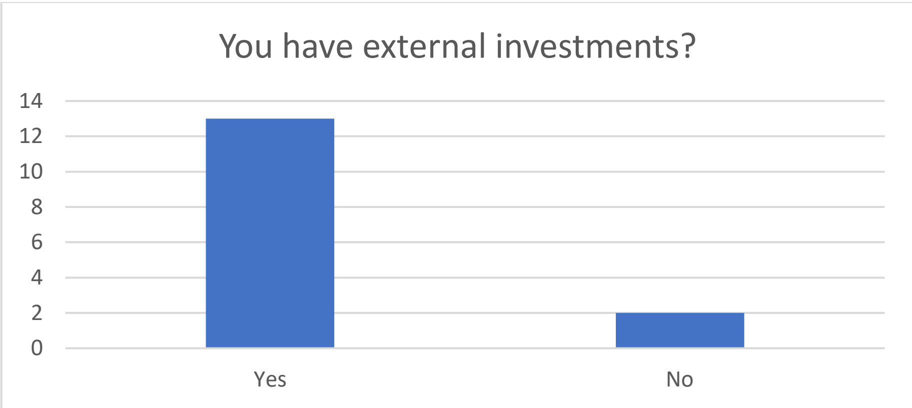

Figure 4.2: Responses to interview question 3

Only two of the participants indicated not having some form of external investment. All the rest had investments outside of their current business. Of keen interest in regard would be to know what kind of investments these are and how diverse they are. This finding shows that SMME's and investment clubs do have some investment of a sort or another. These efforts must be encouraged by SMME platforms or government officials, and the environment created for such efforts to thrive.

- ***Interview question 5 - For items listed in #4[4], how many of them do you classify as passive and how many are active investments?***

[4] Interview question #4: What has the company/club invested in and why?

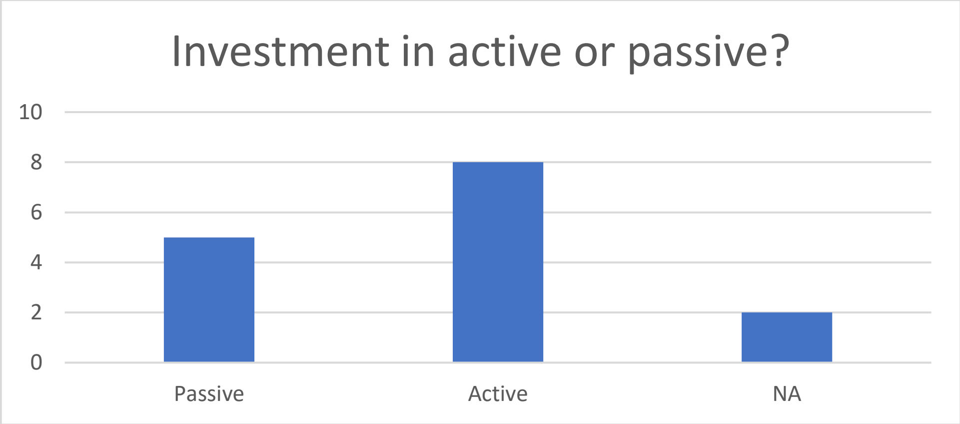

Figure 4.3: Responses to interview question 5

SMME's prefer to invest money where they will have control and actively ensure they get the returns. Three of the SMME's that have passive investment have fixed deposits and bonds, the other two felt they did not have time to engage in active investments. This question was not applicable for the two participants that did not have external investments.

4.5.2 Research Question 2 - What motivates these SMME's and investment clubs to engage or not engage in such investment opportunities?

- ***Interview question 1 - What is your philosophy on investments, in general?***

Four themes arise from the findings. Firstly, several the participants indicated that they preferred diversifying into new opportunities that fell within the industry they operate. Secondly, some participants indicated that their investment philosophy was long term oriented and not short term. "Investment must be long-term and not quick fix" was the specific comment by one participant. Thirdly, other participants were driven by greater returns, with one participant saying "R1 must give a total R2" and the other stating that they would only invest in opportunities if their profit is more than 50% of revenue. Lastly, the philosophy was to invest in something that is meaningful and resourceful.

Based on these findings, we appreciate the dynamics of the different investors and the different principles that drive their investment decision making.

- ***Interview question 4 - If #3[5] is Yes, what has the company/club invested in and why?***

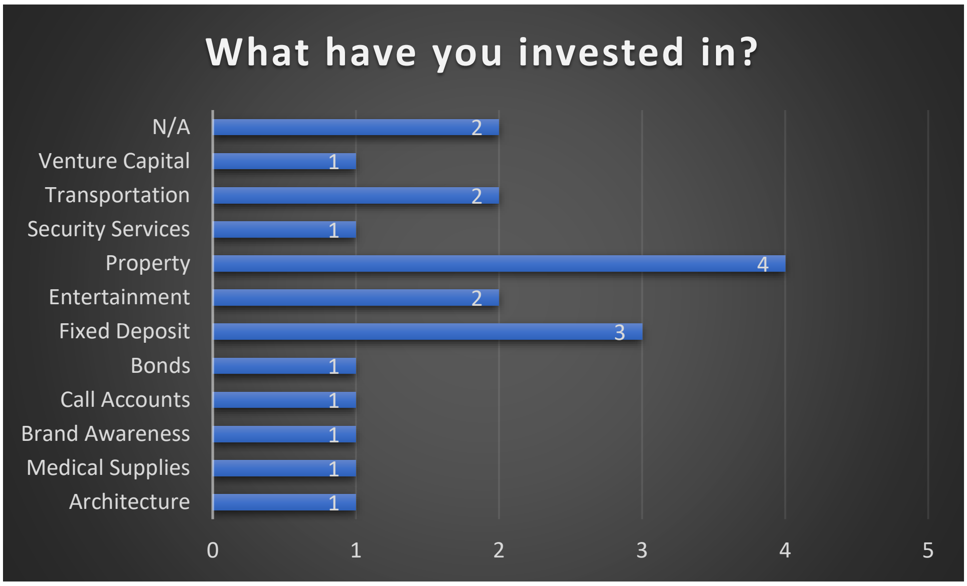

Figure 4.4: Responses to interview question 4

Four of the participants indicated that they had invested in property or related sector, as this was felt to be a safer investment avenue compared to others. Other participants also shared how they have considered property because "people will always need shelter", as one participant commented. All the ones who indicated property as a form of investment claimed that they would use or are using the properties for rental income purposes. Three participants indicated fixed deposits, for safety reasons, while others indicated investments in subsidiaries within their sector, so they could become their own suppliers. This question was not applicable to the two participants that did not have external investments.

Reasons for choosing the investment destination was mainly due to the comfort and to minimise expected loses. This is because almost every participant who invested indicated they did so in their existing industry where they already know the business ideas.

- ***Interview question 7 - If #3[6] is no, what is the reason for not partaking in any investments?***

We posed this question because of the minimal investments noted for SMME and the responses to this question were somewhat contradictory to the findings in interview question 2, where the respondents were asked if they had residual profits available to invest. Some of the participants indicated that they did not have money for investment as the revenues they made were just

[5] Interview question #3 – interview question 3: Does the company/club have any other investments besides the current business?

[6] Same and note 5

enough to survive on. Reasons given for not investing ranged from having “a low risk appetite” to the lack of interest in seeking investment opportunities. By far the most common response was the lack of understanding or high level of financial illiteracy, as well as the propensity to spend whatever funds are available on prevailing needs other than investment.

About half the participants mentioned that lack of knowledge is the reason for not seeking investment opportunities. One participant said “black people do not respect money. We have no knowledge and background, so investments are too foreign to us”. Many participants also expressed their dissatisfaction and lack of trust of the banking system, with one participant stating, “bank works for the bank, why give the bank capital to make money and only get a small piece of the pie”, and another saying “banks make a lot of money with your money. I do not want my money there but for now I keep it there”.

Based on these findings it is apparent that more awareness initiatives need to be implemented to help increase peoples’ understanding and identification of investment opportunities benefits and returns from investment, especially for SMMEs. The awareness must be beyond what the SMME’s and investment clubs focus on at the moment (which is short term gain), though most of them mentioned that long term gain is ultimate, but from subsequent responses, it is noticed that most of them still dwell on short term investment gains.

- ***Interview question 9 - What factors would change your investment decision as per question #4?***

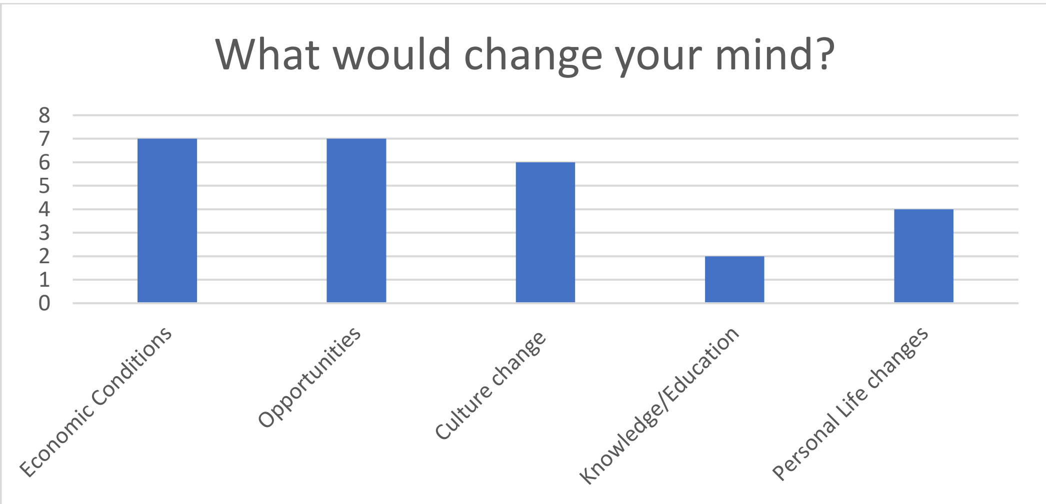

Figure 4.5: Responses to interview question 9

Opportunities for investment was often mentioned by the participants, followed by favourable economic conditions. Another factor was a change in the investment or non/investment culture among the 'blacks'. The findings also suggest that financial literacy education and effort to change the culture towards investment seems to come out strongly as well. This is worth taking up by relevant authorities. Personal changes like age and family also proved to play a strong role with one participant stating, "I do not want to deal with certain things when I am older".

4.5.3 Research Question 3 - What factors affect access to such investment opportunities?

- ***Interview question 8 - If one of the reasons stated in #7[7] is lack of capital or limited capital, For SMME: Have you considered partnering with investment clubs? For Club: Have you considered partnering with other investment clubs?***

All participants indicated that they had never considered partnering with an investment club to further their business interests or investment club partnering with another club. The main reason advanced by almost all participants was lack of trust amongst the different players. One said that they had enough money and did not need to partner with anyone else in order to survive. One participant suggested that some black business owners were rather reckless with how they spend their money, so it would be risky to partner with such. Several participants also mentioned that blacks grew up knowing that money is kept in the bank, so this created a culture of sourcing money from banks and not investment clubs or venture capitalists.

- ***Interview question 10 - What investment opportunities are you aware of that are available?***

[7] Interview question #7: What is the reason for not partaking in any investments?

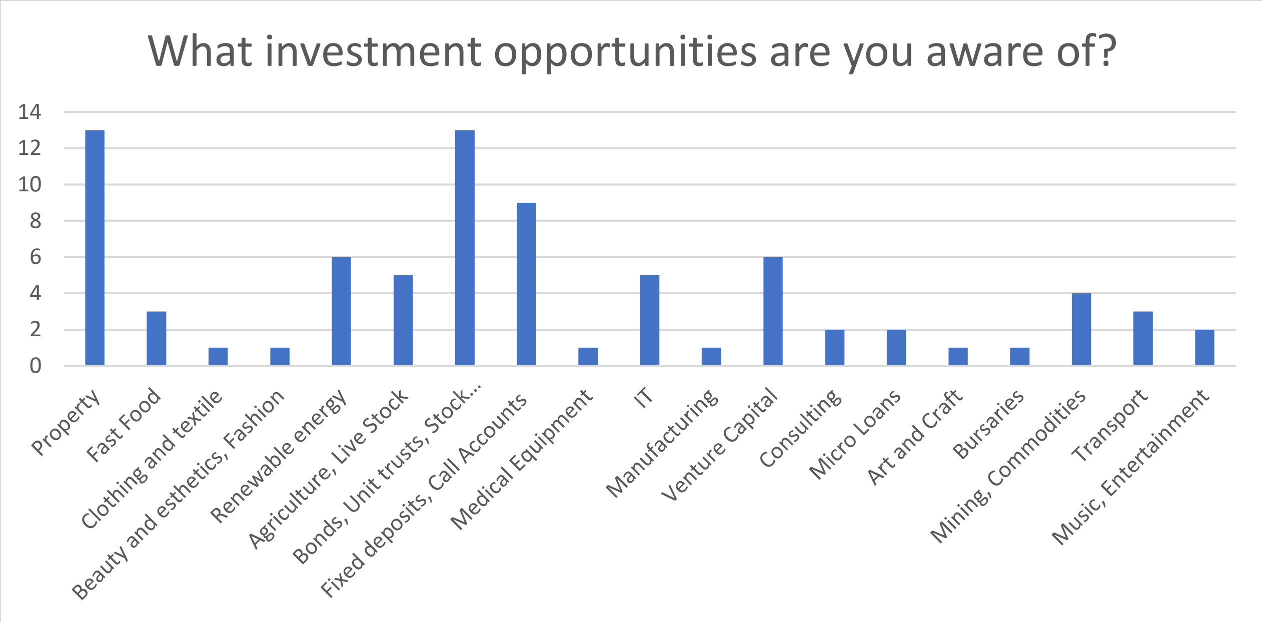

Figure 4.6: Responses to interview question 10

Participants showed they were aware of several investment opportunities that exist, even though there is no correlation between this knowledge and the actual investments that have been engaged in. High on this list of these are property and the stock/equity market, which were mentioned more than any other investment opportunity. The property cluster included township residential flats and student accommodation. Venture capital, fixed deposits, mining, renewable energy and IT were also mentioned quite a bit.

These finding flies in the face of the result in response to interview question 7[8] to which participants included the lack of knowledge as one of the reasons they do not invest, proving that this lack of knowledge refers to in depth knowledge of these opportunities and not really awareness. It would be interesting to explore the depth of this lack of knowledge on investment opportunities on a larger sample like other provinces or the rest of South Africa or SMME's in the finance sector, perhaps the results may be different.

- ***Interview question 11 - How do you make investment decisions? What is the process followed?***

All participants indicated that they do not have a formal process of making investment decisions. Investment clubs, however, communicate investment decisions to all members and getting approval from every member, as the pooled fund is own by all. Only two SMME's make use of financial professional like financial advisors or bankers, or other individuals who

[8] Interview question 7: What is the reason for not partaking in any investments?

have successfully engaged in investment; by saying "but it is common to consult someone that has done it before". The response shows that SMME owners prefer to do things themselves, with one participant stating, "I make decisions alone, so I only have myself to blame".

4.5.4 Research Question 4 - What did successful SMME's and investment clubs do differently?

- ***Interview question 6 - If #3[9] is Yes, are your company/club investments doing well and why?***

Eleven participants responded with a Yes, with most participants actively taking a role in their investments to ensure they do well. Two participants responded with a No due to high competition and difficulties of entering the market with premium products and/or services. All passive investors responded with a Yes, proving safety of your returns from passive investments.

This question was not applicable to the two participants who did not have external investments.

- ***Interview question 12 - What learnings do you have from your previous investments?***
- ***Interview question 13 - Comments or advise to other SMMEs and investment clubs***

The responses to questions twelve and thirteen were quite broad as different SMME's and investment clubs of different sizes and with different level of experiences therefore their responses were so diverse and different. Their responses included;

- Do not get too excited with the numbers.
- Check the ratability of the investment and run the business models over and over.
- Do not make rush decisions, invest in the thought process.
- Do your research, consult extensively.
- Do not invest all your money, leave something to fall back on, fail safe.
- Do not out all your eggs in one basket, diversify.
- Remember that where you invest is different for someone with R10,000 and for someone with R100,000 and for someone with R1,000,000.
- The essence of investment is that it is not carried out with money you want to use tomorrow.

[9] Interview question 3: Does the company/club have any other investments besides the current business?

- Create capital for yourself, look at how money changes hands in your space and try to keep it in your hands for as long as you can.
- Implement and execute. We talk, Plan but do not execute.
- Need more forums where investment clubs can meet with SMME's to share opportunities.
- Discipline and transparency are the key.
- Educate yourself and be financially literate, so that you can make better financial decisions, share knowledge and help someone else grow, adopt a culture of reading for awareness and knowledge.
- Invest in a solution that solves a problem in society, and you will make money.
- The business is not for personal expenses but pay yourself what's reasonable.

4.6 Findings from focus group discussion

To respond to the four research questions, two focus group discussions were held in addition to the interview session. This helps to understand how individual's knowledge and understanding is influenced or challenged in a group as most at times, our views and ideas are influenced by others. The focus group discussions were centered on factors that affect access to investment opportunities, motivates for SMME's and investment clubs to engage or not engage in investment opportunities. The focus groups consisted of a total of three participants who met for 40 minutes in the first session, and a total of five participants who met for 25 minutes in the second session. The discussions were audio recorded and transcribes later into text. This focus group actually serves as robustness check on the findings from interview.

4.6.1 Key findings

Key findings from the focus group discussions highlighted a number of factors including how IT is a fast-growing investments industry but receives low attention from SMME's while big corporates are investing in "4^{th} industrial revolution". SMME owners have a low investment appetite and do not actively look for opportunities. The discussions also indicated that there is a culture amongst black business people of being "selfish" and being "comfortable", to such an extent that they do not take their own businesses serious, hence the irresponsible spending. The selfishness also results in SMME's not engaging each other enough as "one thinks they are better than the other" which affects relations, trust and clouds opportunities.

Other key findings were centered around SMME's holding on to money and equity in fear of losing their business through fraud and buy outs. It was pointed out that businessmen do not approach investment clubs and investment angels in fear of their ideas being stolen as evident from past experiences. With various investments, it was found that there is a lack of business and finance knowledge resulting in SMME's failing in their various active investments. Lack of transparency was also highlighted as a reason for investment failure or the lack of willingness to invest. The lack of business knowledge and trust also means SMME's ignore the importance of savings in the value chain, as most SMME owners and Investment club members "lack entrepreneurship" skills. Therefore, they do not succeed or invest, and investors do not have faith in them.

4.6.2 Summary of focus group findings

The key findings reiterate what was found during the interview sessions. They show that there is lack of trust between SMME's. SMME's hold on to their money and equity, which affects investments and growth. In addition, the findings show that there is a lack of active participation of SMMEs in the investment space. There is a huge investments awareness gap to be closed, SMME growth and finance knowledge to be shared, and black on black empowerment.

4.7 Conclusion

The study shows that SMME's and investment clubs are very much aware of investment opportunities but tend to shy away from them due to lack of in-depth knowledge, lack of trust in the economy and banking system, as well as lack of trust amongst themselves. Other factors that affect the understanding of investment philosophy include, cultural behaviour, safety, lack risk appetite to invest, as well need short term pressing needs, etc. This study shows that property sector is the most preferred or attractive and well-known investment opportunity to most SMMEs. Property is viewed as the safest investment opportunity with relatively good expected returns. The study also highlights that SMME owners find it difficult to separate the business from their personal lives, for instance, personal lifestyle of the business affects the business and ability to identify investment opportunities. Most importantly, there is a significant level of financial illiteracy among SMME owners and investment club members. Financial knowledge amongst black SMME and Investment club owners/members is still very shallow.

Chapter 5 – Conclusions and Recommendations

5.1 Introduction

This chapter provides conclusion to this research report based on results from analysis linking them to the research objectives and questions. The chapter also offers some recommendations to SMME's and investment clubs on other forms investments available on the market. Further research is also recommended for broad form of similar research

5.2 Conclusions

During the cause of this research study, it was found that there are numerous investment opportunities which SMME's and investment clubs are aware of. But the major concern is despite that SMMEs and investment club are aware of available investment opportunities, they do not have deep knowledge of these investment opportunities and how to venture into them. We also found that the most preferred opportunity among all available opportunities identified is property business, SMMEs and investment clubs perceived this business sector to be the safest believed to offer higher returns compared to others. The study also revealed that SMME's prefer investment in the sector or industry which they currently operate in, due to value chain and cost cutting advantage. It was noted that most SMMEs and investment clubs are risk averse. Investment safety and guarantee of returns are the main factors that motivates SMME's and investment clubs.

It can be inferred that lack of significant level of financial illiteracy among SMME owners and investment club members, coupled with a lack of trust in the economy, the banking system, prevent them from seeking and tapping from, and engaging in available investment opportunities. Most importantly, they lack trust amongst themselves, which eventually leads to bad business relations. We also found that SMMEs and investment clubs have a culture of spending rather than investing, which also hampers their level of investment appetite. Some participants indicated that they faced many short-term pressing needs, which reduces the desire to explore investments opportunities.

Another interesting finding is that the few successful investors, who identifies investment opportunities and take advantage of them prefer passive investments, with a long-term expectation and sacrifices time and effort to ensure that their investments were successful, with returns they expected.

5.3 Recommendations

Several knowledge and comments shared by the various SMME’s and Investment clubs during this research point to the need for an increase in financial literacy amongst black SMMEs and Investment club owners/members. There is a need to adopt a culture of constant studying and reading for awareness and knowledge purposes. This will definitely enable SMME’s and Investment clubs to make better informed financial decisions. Government and business forums need to raise awareness and improve SMME’s and Investment clubs’ understanding of investment philosophy and encourage forums where investment clubs can meet with SMME's to share opportunities. This will help regain investment trust among SMMEs and investment clubs.

It is evident from the research findings that while several SMME owners and investment club members are aware of investment opportunities, such knowledge is rather limited. We recommend that basic savings and investment modules should be included in primary and secondary schools’ curriculum, this will enable most people to have basic saving and investment knowledge, despite their chosen career path, most importantly it will be beneficial for those who will not be opportune to pursue tertiary and university education where finance and investment is taught in detail. Also, Department of Trade and Industry (DTI) should provide affordable investment training for SMMEs and registered investment club members, this will help them gain knowledge of recent and current investment philosophy.

For few SMMEs and investment clubs who indicated having engaged in additional investments, the scope and depth of such investments is still narrow and limited. There is need for SMMEs to broaden their diversity in the scope of investments, which mostly will come from training if organised by DTI. There is also a need to cultivate an investment culture, especially among black SMME owners and investment club members.

We recommend further study that could incorporate a wider sample to include other races and provinces. That will give us an overview of what investment culture in South Africa is, and how SMMEs in the county identify and make use of investment opportunities.

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