The Impact of Social Capital and Human Capital on Access to Finance and Growth of SMMEs in the Informal Sector

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ABSTRACT

Despite the significant role that SMMEs play in the growth of developed and developing economies, they are often plagued by various constraints. Access to finance is considered as one of the major constraints that exist within businesses and is also a consequence of other issues which create an impediment towards the success of SMMEs which compromises the growth of any given economy. The pervasive issue on the lack of access to finance tends to be greater for informal businesses as opposed to formal businesses due to various aspects, such as the entrepreneurial attributes that informal business owner-managers have, which are indeed found to be lacking, consequently leading to circumstances where banks reject loan applications made by these businesses, suppliers reject any request of trade credits made by the owner-managers operating these businesses and potential investors find these businesses to be less attractive when investing for future returns. This study has examined certain determinant factors that are embedded within the theory of entrepreneurship which are perceived to be some of the factors which in essence are considered as success drivers for the growth of all forms of businesses. More importantly, these factors have been closely analysed in the context of informal businesses with regard to whether they prove to be important factors to soliciting finance which is considered a crucial resource for the growth of informal SMMEs. In examining the perceived importance of each of these factors in relation with access to finance, as well as the perceived importance of finance in leading to growth of informal SMMEs, a self-administered questionnaire was distributed across 385 informal business owner-managers in the Gauteng province. Given that the nature of the study was quantitative, descriptive and inferential statistics were performed on the data. Various statistical methods, such as correlation analyses and multiple regressions, were employed to test the proposed hypotheses associated with the relationship of social capital, and human capital to the access to finance, and access to finance on growth. The findings reflected that social capital and human capital are important factors to accessing finance. Furthermore, access to finance is an important factor in the growth of SMMEs in the informal sector. The study contributes towards addressing the existing gap in the knowledge base regarding the determinants of financial access for SMMEs. It also contributes towards providing direction to policy makers involved in enterprise development to reach out to informal business owner-managers by providing training to these entrepreneurs so as to improve their social and human capital and grow their businesses to graduate into the formal sector as their contribution is needed to grow the South African economy.

DECLARATION

I, **Neo Motsau**, declare that this research report 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 Masters of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before any degree or examination in this or any other university.

Neo Motsau

Signed at …………………………………………………………..

On the………………………………… day of …………………………….2016

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CHAPTER 1

1. INTRODUCTION

Policy makers have drawn attention towards job creation and economic growth within the private sector. The focus has largely been on driving the growth of small businesses which have been considered to provide employment across developed and developing economies. SMMEs have been acknowledged to generate a number of new jobs and employ the largest number of people in aggregate (Meghana, Demirgüc-Kunt & Maksimovic, 2011). However, there are numerous challenges that Small, Medium and Micro-sized Enterprises (SMMEs) face in all phases of the growth stages running from; existence, survival, success, take-off and resource maturity. To some extent, a number of the businesses, particularly those in the informal sector, do not pass the survival stage. Access to finance is frequently mentioned as one of the prime difficulties that affect SMMEs such that, the prolonging and/or the sustaining of business activities is compromised, which consequently leads to a situation where growth is also compromised (Meghana, Demirgüc-Kunt & Maksimovic, 2012). According to recent data, from a report assigned by the International Finance Corporation (IFC, 2013), it has been gathered that the size of the financing shortfall is in excess of $ 2 trillion and estimates that one-half to two-thirds of formal SMMEs lack proper access to finance. The shortfall is magnified when looking at the informal sector. This is considered a major problem as the SMMEs operating in the informal sector have been estimated to account for 74 percent of all Small, Medium and Micro-Enterprises in the world, with a slightly greater percentage of 77 accounting for SMMEs operating in the developing countries (see figure in appendix C). Financial institutions, particularly the banking sector, are considered to play a huge role in the financing of businesses, however, financial support is fairly skewed. Banks are excessively dedicated to providing finance for corporations rather than small businesses, thus leaving SMMEs in the formal or informal sectors either underserved, or in the worst case unserved (Mutenzo, 2005).

One may question why this issue continues to persist. From an overall view, regardless of the formality or informality of the individual businesses, financial accessibility in general has been an issue affecting small businesses. Many studies have extensively covered the reasons for this phenomenon, and have mainly pointed on to two dominating features, that is, the mismatch between the demand-side and supply-side factors relating to institutional funds. (Ramlee & Berama, 2013). This mismatch provides myriad explanations on why SMMEs have not been able have to solicit the required finance as opposed to corporations. Theorists have proposed a supply-side point of view to explaining the phenomenon of financial inaccessibility for SMMEs, which basically puts the investors and the overall financial institutions at the helm of providing the finance. This point of view explains various reasons why investors or financial institutions refrain from providing finance based on aspects such as transaction costs and information asymmetries (Seghers, Manigart & Vanacker, 2009).

While on the other hand, the financial inaccessibility can be explained through the demand-side perspective which puts the entrepreneurs or owners of SMMEs at the helm. This point of view suggests that the consequence of financial inaccessibility is due to issues such as the limited collateral that the owner-managers have when it comes to applying for bank loans from financial institutions. The issue of financial inaccessibility is more prevalent in the context of informal SMMEs where such businesses do not have clear legal status. These businesses are, therefore, perceived by financial institutions and potential investors as high risk in providing finance to, thus rendering a circumstance in which such businesses are compromised through the lack of financial provision. Thus, the individuals running the informal SMMEs resort to using alternative sources of finance, such as retained earnings, personal savings, loans from family and friends and loan sharks, referred to as *mashonisa's*. These funding arrangements offer limited credit and are not conducive to the sustenance or growth of the SMMEs in the informal sector (OECD, 2015). Apart from collateral and legal status, there are other underlying aspects which render a situation where the owner-managers of small businesses are perceived as not worthy or deserving of financial support by the banking institutions and potential investors, such as venture capitalists. These aspects as drawn in from the demand-side perspective particularly look at the entrepreneurial disposition, as expressed through the business acumen of the individuals who own or run these small businesses. A number of the owner-managers who run SMMEs, especially those operating in the informal sector are found to lack social and human capitals (Seghers, Manigart, & Vanacker, 2009). These are some of the underlying fundamentals which are deemed necessary for the growth of SMMEs – importantly these fundamentals are perceived as crucial indicators to soliciting various resources, including finance.

Several studies have explored the area of financial accessibility and what has been discovered is that this particular area mainly highlights problems faced by the SMME sector in accessing finance. These studies have focused on the obstacles or challenges that inhibit financial accessibility for SMMEs, where issues such as information asymmetries, agency problems, credit rationing and lack of collateral have been extensively discussed in past research papers. Furthermore, research concerning the area of financial access of SMMEs has been centred on the supply-side factors (Van Eeden, Rakhudu, Sharp & Viviers 2004; Mutenzo, 2005; Torre, Gozzi & Schmukler, 2006). These studies have outlined certain policies and programmes brought about by an emergence of institutions which have been initiated to facilitate financial accessibility and support in non-pecuniary terms to propel the growth of SMMEs. In the South African context, one is able to acknowledge that there are organisations like Khula Enterprise Finance, Ntsika Enterprise Promotion Agency and the Centre for Small Business Promotion which have established programmes aligned to assisting existing SMMEs that operate in the informal as well as the formal sector. The establishment of such programmes guided by these institutions as highlighted by past research papers, have specifically focused on the supply-side factors. This has therefore left an existing gap in research concerning the demand-side factors which as highlighted before, concerns the entrepreneurs. This gap specifically pertains to the lack of knowledge in academic research which expresses and/or identifies the determinants of access to finance for SMMEs operating in the informal sector. The existing gap in research is also accompanied by the reality that substantial impediments to financial access for all SMMES are considered to be on the demand side (Falkena, Abedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela & Rees, 2001).

The aforementioned discussion provides the basis to explore and build on knowledge concerning certain determining factors that may lead informal SMMEs in building their capacity to access finance from the formal financial institutions. To give perspective; this study explores the social capital theory and human capital theory which are some of the key theories embedded within the entrepreneurial body of knowledge. The underlying elements associated with these theories are classified as the antecedents which are acknowledged as laying a foundation in building businesses that are sound, legitimate and competitive. However, what lies at the heart on the given study is the role of social capital as represented by the variable of networking and human capital as represented by the variables of knowledge, education and experience, which according to this study are perceived to have an impact on financial access. This study extends by also analysing the impact of financial access on the growth of SMMEs in the informal sector.

1.1 Theoretical background to the study

This study is embedded within entrepreneurial theory. Since the 19th century, there has been an emergence of various approaches that have been used to analyse and define the term entrepreneurship; this has somewhat led to a non-existent consensus regarding the absolute or generic definition that would represent the concept. The concept, however, has been applied in numerous areas, including sociology, anthropology, and psychology as well as economics (Cosma & Sinel, 2014). In this study, the use of the concept is adapted towards a business perspective in which the researcher seeks to evaluate the social capitals and human capitals as the elements that embody the concept of entrepreneurship. These elements are specifically attested on the basis of identifying their impact on the access to finance which is crucial for the growth of informal businesses.

The main findings of the concept of entrepreneurship can be attributed to three streams of research:

1. Where the effects and outcomes of economic advancements have been examined through the perspective of the entrepreneurial process.
2. The root of entrepreneurship, in which the entrepreneurs have personally represented the subject of research, being observed more specifically from a social and psychological point of view.
3. Entrepreneurship as a management process, in which the principal focus of research has been characterised by organisations and how they are able to access resources, innovate and to endlessly adjust themselves with the purpose of staying competitive in the market (Austin, Stevenson & Wei-Skillern, 2006).

All three streams are of great significance, however, in context, the second stream is the stream to consider in relation to the study, as the essence of the study places the entrepreneurs as the subject of research, thereby incorporating the demand-side theory perspective. Subsequently, the third stream applies support to the study, on the basis that the advancement in management processes requires the adoption of social and human capitals in order to acquire or build on important resources, such as finance, in the effort of ensuring that the businesses that are run by entrepreneurs remain competitive in the market in which they operate and are able to realise growth.

Given that the study adopts entrepreneurial theory which is particularly applied within the sphere of the informal sector, it should be noted that within this space there is a state in which the spirit of entrepreneurship exists. At a glance, one would perceptually view the informal sector as merely consisting of necessity-driven entrepreneurs who classically are defined as survivalists and are characteristically viewed as not being innovative, proactive or willing to take on risks as entrepreneurs are expected to do. Such a phenomenon therefore classifies these individuals as not participating in mainstream entrepreneurship (Williams & Nadin, 2010). However, in reality this notion should not hold as one needs to acknowledge the fact that some of the renowned corporations that exist today started from an informal context. Within the sphere of the informal sector, there are individuals who truly assume the role of entrepreneurship as there are individuals who are opportunity-driven. Typically, these are individuals who are willing to take risks, are innovative and proactive, as well as growth and profit oriented. These individuals however, use the informal sector as a launch pad for their businesses which within time graduate into the formal sector (Small Business Council, 2004). Therefore in their context, the informal sector is classified as an incubator for their business potential. Thus, the informal sector in this study is therefore viewed broadly more specifically in the theoretical scope of entrepreneurship with the purpose of establishing a basis in which the researcher rightfully adopts and adapts the theories of social capital and human capital.

Given the nature of the study which is centralised within the frame of the informal sector, it is imperative to highlight the nature of entrepreneurship as well as define the type of entrepreneurship that is undertaken within the scope of the informal sector. This is done with the basic understanding that there are discrepancies in the quality, attributes and/or characteristics of entrepreneurship between the informal and formal sector. Regardless of formality of the respective sectors; entrepreneurship as a unique phenomenon may be depicted in various unlimited ways. It may, for instance, be portrayed as a "virtuous ideal" that is undertaken by individuals who are seen as "great persons with sixth sense along with intuition, vigour, persistence and self-esteem" (Cunningham & Lischeron, 1991, p.26). One may question whether this notion holds when looking at the concept of entrepreneurship from the perspective of the informal sector. According to Williams and Nadin (2010), the type of entrepreneurship that does not shape itself into the supposed "virtuous ideal" is thus classified as either falling outside the boundaries of entrepreneurship or may be classified as not "mainstream" entrepreneurship. This is however, is set to be discussed in the following chapter, with the aim of unravelling and exploiting the reasons why entrepreneurs in this space struggle to access the finance that is necessary for the SMMEs to grow.

The core issue covered within the study is focused on the inaccessibility of external funding for small businesses operating in the informal sector. Small businesses, particularly survivalist, micro-enterprises and very small enterprises are frequently found to not meet the necessary criteria of obtaining the required debt for short and long-term growth (Falkena *et al*, 2001). The access to external funding in the form of credit access, such as banks loans, is considered important in establishing and perpetuating the growth and success of small businesses. The facilitation of credit access assists business owners to procure the required equipment and stock; manage the challenges of the business's cash flow which is often found to be erratic; and expand the business by engaging in larger scale investment (Provincial Economic Review & Outlook, 2007). The typical issues surrounding these businesses pertain to aspects which have already been outlined, for instance, the absence of collateral and the shortage of proven skills, which are some of the factors that withhold financial accessibility. Considering that the study is fundamentally drawn to the entrepreneurs who are operating their businesses in the informal sector, much of which is highly affected by financial access – the study therefore suggests theories of social and human capitals which form the integral part of the study and are proposed with the basis of identifying their impact in obtaining finance which will help the entrepreneurs set up, develop and expand their businesses.

1.2 Context of the study

The development process of small businesses continues to be a subject of discussion in the centre of policy debates, both in the context of developed and developing economies. The creation of jobs and wealth of an economy is found to be contributed by small businesses. The establishment of a lively SMME sector is crucial as it forms a basis which resolves numerous societal challenges, including unemployment (Entrepreneur SA, 2005). It is gathered that the entrepreneurial activity that takes place in the South African economy is carried by SMMEs. The growth of SMMEs relies on the available opportunity of investing in reformation and modernisation as carried through the processes of innovation. Taking these aspects into consideration requires resources, such as finance (Ganbold, 2008). Against this background, there is the pervasive dispute concerning the inaccessibility of finance, which is a highly relevant constraint and prevails more within the informal sector rather than in the

formal sector. This does not only compromise the sustainability or growth of SMMEs from both sectors, but the overall sustainability and growth of the South African economy.
Drawing on the Global Entrepreneurial Monitor (GEM 2012), he Total Early-Stage Entrepreneurial (TEA) rate of South Africa is reflected as relatively lower in comparison to some of the African countries within its region. Despite its recent struggle, it has reflected a rather positive readiness for entrepreneurial growth. It has been acknowledged that local entrepreneurs are attentive to available opportunities that exist within the economy. There are certain positive elements that somewhat reflect that the country is doing well with regard to its business perspective. For instance, the country is but one of the few countries in Africa to have a total market capitalisation of its stock market of $750 billion which surpasses its national GDP of $ 490 billion. However this aspect cannot be placed on a pedestal as when analysing the rate of entrepreneurial activity at the base of the pyramid (inclusive of SMMES in the informal sector), the country is often found lagging behind compared to its counterparts. Much of the entrepreneurial activity is still reflected as low, in accordance to the most recent GEM report (2014), notwithstanding the fact that the entrepreneurial activity has marginally increased over the past 10 years. But according to the 2014 GEM report, there has been a significant drop by 34 percent (from 10.6% in 2013 to 7% in 2014), which can be attributed to a high level of business termination exceeding that of start-ups, thus causing a decrease in small business activity which leads to the increase in job losses. In a study undertaken by the University of Cape Town Graduate School of Business, South Africa has experienced a decline of 40 percent when accounting for the number of start-ups in the year 2009. This statistic cannot only be associated with the economic meltdown as there are other factors to consider which are far more complex. This low level of entrepreneurship is attributed to issues such as: (a) poor education, specifically with subjects such as mathematics and science, (b) the constant social pressures to choose more stable career paths with the purpose of supporting one’s own family and (c) issues concerning the stringent regulations set by the country (Alexander, 2013).

Given the nature of the undertaken study, the research particularly draws a focus on SMMEs operating in the informal business sector of Gauteng. Gauteng, of all the nine provinces is considered the smallest, yet carries the biggest portion of affluence, but even in the midst of such existing affluence, there are certain underlying aspects of abject poverty. In giving perspective to the informal business sector in Gauteng a classification of the complexion and composition of this particular provincial region can be commenced by looking at the race aspect, as this is a critical factor to consider. The sum of black South Africans is the significant make-up of the community in Gauteng's informal sector. It is acknowledged that black South Africans operate in various niches within the urban informal business sector. This includes sidewalk street trading, taxi driving and/or ownership, hairdressing, and small-scale manufacturing. Currently, the participation of white and coloured people in the informal business sector is comparatively smaller to other race classes. The participation of white people in the informal business sector has emerged with the growth of flea markets operating in the Johannesburg, Pretoria and East Rand areas. In the case of Indian-owned businesses, participations are traditionally limited to highly organised and profitable informal niches, such as the selling of food (Rogerson, 2007). Another factor to consider, which somewhat parallels the race factor is the internationalisation of the participants within this particular sector. Considering the end of the apartheid regime there has been a considerable flow of international migrants of Asian origin from Pakistan, China, Taiwan, Korea and India. Furthermore, there has been a migration of Africans coming from the West African, Central and Southern African states who all have recognised the opportunity to establish small-scale businesses and, as it stands, there is a considerable number of these informal businesses established by African immigrants (Rogerson, 2009).

The informal business in Gauteng manifests in a multitude of street sidewalk activities; barbers and shoe shiners, as well as the operation of flea markets where various household products are sold. Inclusive of these businesses are those that are less evident that are home-based such as child-minding and liquor outlets classically referenced as *shebeens* in the townships (Ormet, Land Delivery Task Group, 2003). Other business activities include backyard or garage workshops or repairs, video showing and a small number of progressively semi-formalised undertakings set at fixed business premises, such as small-scale manufacturers. The inner city is dominated by minor manufacturers particularly in clothing products and service enterprises, most evidently, hairdressing salons are some of the services that are popular in the inner city. Those that are less evident, such as the home-based enterprises exist in townships and areas of informal settlements. For example Daveyton, a township that forms part of the East Rand, which is located in the east of the Gauteng province, is estimated to have 85 percent of informal enterprises classified as home-based (Ormet, Land Delivery Task Group, 2003). Various studies have provided data on the sectoral distribution of informal enterprise activity. For example, official data suggest an informal composition of 46 percent retail, 31 percent services and 23 percent manufacturing.

A consistent finding concerning the structure of the Gauteng informal business economy is the relatively underdeveloped nature of manufacturing and the greater importance of services and distribution. Yet, recent research also shows that South African manufacturing micro-enterprises operate in a wide range of markets. These markets extend from producing cheap goods for the poor to lowering costs of production for formal industry by functioning as subcontractors, and producing high value, high quality goods for niche markets. Because of historical factors relating to apartheid discrimination against black manufacturers in Gauteng, specifically African-owned micro-enterprise are typically located in the lowest value, poorest quality, least lucrative segments of the manufacturing sectors (Manning & Mashigo, 2004). There are a various small businesses operating in the informal business sector within this particular geographical location which are not exposed to crucial resources such as finance. The Gauteng SMME Policy Framework (2009-2014), gives a breakdown of the SMME characteristics that operate within the informal sector and this is summed-up in the following table.

Table 1.1: Breakdown of SMME characteristics in the informal business sector of Gauteng

Informal street vendors, hawkers (64%)	**Unregistered Businesses (18%)**
673 576	**195 260**
• Survivalist-street market, stall market. • Predominantly involved in the sale of goods. • Operate in the informal sector of the economy. • Income generation is below the poverty line-average of R1 500 per month. • No training/high school education. • Approximately half have access to a bank account.	• Many involved in sale of goods. • Others provide services. • More inclined to run business from home. • Never registered the business. • For 30% income derived from business is not sole sources of income. • Average monthly turnover R2 600 • 55% banked.

Gauteng SMME Policy Framework (2009-2014)

1.3 Problem statement

1.3.1 Main problem

Determine the importance that entrepreneurs in informal SMMEs ascribe to social capital and human capital elements in accessing finance as well as the importance of finance in leading to the growth of informal SMMES.

1.3.2 Sub-problem

1. Determine the importance of networking as a variable of social capital in accessing finance for SMMEs in the informal sector.

2. Determine the importance of knowledge as a variable of human capital in accessing finance for SMMEs in the informal sector.

3. Determine the importance of education as a variable of human capital in accessing finance for SMMEs in the informal sector.

4. Determine the importance of experience as variable of human capital in accessing finance for SMMEs in the informal sector.

5. Determine the importance of access to finance in leading to the growth of SMMEs in the informal sector.

As outlined in the previous section, the problem of funding in the context of SMMEs continues to dominate. Looking at the existing knowledge behind this phenomenon, one finds that there has been great devotion to the supply-side theories explaining the inaccessibility for funding on SMMEs from the investors perspective (Van Eeden *et al.* 2004). This has left an existing gap within the demand-side theory which particularly draws on the view of the entrepreneurs (Falkena *et al.* 2001). Therefore, the study addresses the existing gap by proposing two prominent theories within entrepreneurship; that is, social capital and human capital. The underlying variables to the respective theories are used to attest to whether the adoptions of such theories are conducive towards building on the attraction towards funding for SMMEs in the informal sector. Subsequently, the study determines whether the access to funding influences the growth of the SMMEs in the informal sector.

1.4 Research purpose, research question and aims of the study

1.4.1 Research purpose

The emphasis on the importance of SMMEs cannot be discounted as they are described as the contributors to job creation. They are considered as the seed to big businesses and therefore fuel the growth of an economy (Ackah & Vuvor 2011). Therefore they need the necessary resources to contribute towards the growth of the economy. There is a constant need to bring in new products, increase staffing, and provide innovative facilities. All this requires funding. From the initial stages, SMME owners in the informal business sector use their personal funding or funds from close friends and family to establish their businesses (Ojeda & Lapwinch, 2011). This does not suffice to make these businesses sustain themselves and break into the mainstream of the formal business sector, where they are able to establish legitimacy such that they are capable of gaining access to finance on a constant basis which would in essence perpetuate their growth thus translating to the growth of the economy.

On the principle outlined above, this study sought to address the issues concerning financing by looking at certain internal aspects within the structures of SMMEs in the informal business sector. The specific observation is on how social capital and human capital advancements from the informal business owners' perspective could impact on their accessibility to finance. The study strictly focused on the informal SMMEs within the Gauteng Province.

1.4.2 Research question

The formulated research questions concerning the given study are:

1. What impact does an entrepreneur's social and human capital have on the access to finance?

2. What impact does the access to finance have on the growth of informal SMMEs?

1.4.3 Research aims

1. To provide a theoretical investigation of the impact of social and human capitals on the access to finance, and subsequently, the access to finance on the growth of informal SMMEs.

2. To construct a hypothetical framework, hypothesising the relationship of social capital, human capital on the access to finance, as well the access of finance on growth.

3. To empirically test the impact or influence of the selected independent variables of social and human capitals on the access to finance and subsequently, the access to finance on growth. That is, the independent variables of networking, knowledge, education and experience on the access to finance, which in this study is declared as the intervening variable, followed by the access to finance as the intervening variable on the dependent variable which is growth.

4. To provide conclusions and recommendations based on the empirical findings.

1.5 Contribution of the study

This study purposefully contributes towards the SMME finance and entrepreneurial literature. It extends the knowledge base concerning the demand-side theory of financial accessibility as it has been acknowledged that there is an existing gap within this area. It informs the government, academic domain, as well as the entrepreneurs. Concerning the government, the study may inform policy makers to redress their existing policy initiatives where they are able to inform and enforce the curators of enterprise development, who assist in the training and coaching of small enterprises to look into the underlying aspects of social and human capitals when it comes to the training of entrepreneurs as these capitals are regarded as important in establishing legitimate businesses that have the potential to grow, and these businesses should be able to access various resources like finance and therefore perpetuate the process of growth that would contribute to the expansion of the economy. With regard to the entrepreneurs, the study builds awareness of investing and enhancing intangible assets, such as social and human capitals, in order to build formidable businesses that are able to access various resources, including finance, such that they become profitable and grow.

1.6 Definition of terms

Credit Rationing: Credit rationing refers to a circumstance where lenders limit the supply of additional credit regardless of the fact that debtors are keen to pay higher interest rates.

Entrepreneurial deficiencies: Refers to the lack of entrepreneurial competence.

Moral hazard: A situation where one individual is involved in a risky transaction knowing that it is protected against the risk while the other individual has to incur the cost.

Mashonisa: An informal word used in the South African townships for a person who provides small loans to individuals.

1.7 Structure of the research

The study commences with the literature review in chapter two, which gives a detailed view of the informal sector followed by the conceptual view of the informal sector. The important part of this chapter is the discussion of the theories of social capital and human capital which forms the fundamental part of the research. Chapter three then follows, which outlines the research methodology, particularly drawing on the research method and statistical processes which this quantitative research undertakes. Following chapter three is chapter four which presents the empirical results of the quantitative research. Subsequently, chapter five provides a detailed discussion on the empirical results. And lastly, chapter six provides the conclusion, implications and recommendations of the study.

CHAPTER 2

2. LITERATURE REVIEW

2.1 Introduction

The issue of financial accessibility in the context of small businesses remains a subject of concern amongst scholars. The financial constraints concerning small businesses have been extensively covered, based on the number of past papers that have been presented within academia. Some of the dominating outlines or theories that explain the phenomenon of financial inaccessibility concerning small businesses as highlighted in chapter 1 are the supply-side factor and the demand-side factor theories (Ramlee & Berma, 2013). The former theory places investors, such as venture capitalists and financial institutions, at the helm of providing finance to small businesses. This theory elaborates on a number of reasons why funders refrain from providing finance to small businesses. Some of the reasons include aspects like transaction costs and information asymmetries which all translate to circumstances that would possibly expose them to financial risk given the opportunity of providing funds to the small businesses (Seghers, Manigart & Vanacker, 2009). The latter theory places the entrepreneurs at the helm of the subject on financial access. The theory expresses a number of reasons why entrepreneurs are unable to access the necessary funds for their businesses which mainly highlight the consequence emerging on the basis of their entrepreneurial disposition or character, as well as other underlying structural factors concerning the small businesses (Seghers *et al.*, 2009).

This study is centred on informal businesses which, as gathered from a report conducted by the International Finance Corporation (IFC, 2013) experience the phenomenon of financial inaccessibility to greater heights as compared to SMMEs that operate in the formal sector. Much of the knowledge as assembled in this study pins the occurrence of lack of funding on the perspective of the entrepreneur and the structural aspects of the informal businesses as encompassed through the demand-side theory. This chapter, forming a crucial part of the study, discusses various aspects surrounding the informal sector in which informal businesses operate, and in the latter part adopts theories of social capital and human capital which are embedded within the body of knowledge of entrepreneurship. These theories are adopted and or adapted as potential mechanisms that could possibly assist with overcoming the lack of funding for SMMEs in the informal sector.

Given that this study is modelled quantitatively, it requires a formulation of a conceptual framework in order to draw out key hypotheses emerging from social and human capitals with the basis of evaluating the impact of the theories in the access to finance. The conceptual framework is conveyed by the literature review which is assembled by firstly defining the informal sector on the basis of the context of the study; this is done with the acknowledgement that there are different perspectives of what the informal sector is, in accordance with different geographical regions. From this basis there is an outlined working definition of the informal sector solely applied to the context of this study. This is followed by a conceptual view of the informal sector regarding the given study. The conceptual view of the informal sector builds on the section detailing the taxonomy of the informal SMMEs, subsequent to the taxonomy of the informal SMMEs is the overview of the informal sector in South Africa from an entrepreneurial perspective. This perspective essentially outlines certain entrepreneurial deficiencies of the owner-managers and includes the underlying structural factors concerning the informal businesses, which contribute to the occurrence of the lack of access to finance. In the effort of overcoming the pervasive issue of financial inaccessibility for informal businesses, the chapter then discusses the theories of social and human capital which then leads to the building of the conceptual framework which details the key hypotheses of the study. The conceptual framework is then followed by the conclusion of the literature review.

2.2 Defining the informal sector

Defining the informal sector in this study primarily focuses on detailing relevant aspects which are essential in presenting a conceptual view of the informal sector in the context of the study. These aspects, more importantly, are crucial in developing a working definition for the study and they are broken into segments which build up the working definition. The aspects that are dealt with include; formal definitions, frameworks and criteria as well as classifications of the informal sector. In the effort of elaborating on the respective aspects, it should be acknowledged that when making reference to the informal sector, the researcher, in principle, defines and/or conceptualises the informal sector from a business perspective as businesses are, in principle, a major element in the informal sector.

One of the major concerns in international literature on the informal sector is the lack of consensus on a suitable definition (Henley, Arabsheibani & Carneiro, 2009). Based on this condition, there is a need to explore a number of definitions in order to determine the most suitable definition to be applied to this particular study. From the outset, it needs to be made clear that the informal sector manifests itself in different ways in different countries, in different cities within the same country and even in different parts of the same city. Furthermore, the informal sector varies along conditions such as legal, technical, financial and organisational use to which the term is to be put (International Labour Office, 2000). Because of this, as well as other aspects outlined above, the need exists to put together a suitable definition for the study, based on existing informal sector literature.

2.2.1 Formal definitions of the informal sector

A definition that may be deemed adequate from the starting point is that outlined by the International Labour Organisation. It has been gathered that the International Labour Organisation (ILO) in Geneva has had a lot of influence on the studies concerning the informal sector (Saunders, 2005). The ILO provides a comprehensive and commonly used definition of the informal sector. “The informal sector is largely branded as consisting of units engaged in the production of goods and services with the primary objective of generating employment as well as income to the individuals concerned” (ILO, 2000, p.5). Therefore defining the informal sector encompasses those households with market production on the following accord:

a) Informal own account enterprises may comprise either all own-account enterprises or only those which are not registered under specific forms of national legislation.
b) Enterprises of informal employers may be defined in terms of either the size of the unit below a specified level of employment, or the non-registration of the enterprise or its employees.

Saunders (2005, p.15) highlights the definition of the informal sector according to the System of National Accounts (SNA). The SNA, which is a coherent and integrated set of internationally accepted accounting concepts and rules devised by the United Nations, takes its definition directly from the ILO definition. For statistical purposes, then, the SNA regards the informal sector as a “group of production units which form part of the household sector as household enterprises, or equivalently, non-incorporated enterprises owned by households”. More interestingly, South Africa revised its national accounts under the guidelines of this definition in 1994. However, according to the ILO (2002), the definition in its nature does not capture all dimensions of the informal economy as further attributes need to be incorporated in the definition, thus necessitating a point at which a broader definition needs to be applied.

Some definitions that predate the outlined definitions by the ILO and the SNA, remain relevant within the literature covering this subject and expand and/or incorporate other elements in the definition. For instance, Smith (1994, p.17) defines the informal sector as a market based production of goods and services, whether legal or illegal that escapes detection in the official estimates of GDP''. The same conception is outlined by Schneider (1986, p.194) who describes the informal sector as an economic activity that adds value to the economy, however, cannot be accounted for as the activity is presently not recorded by national measurement agencies. In more recent studies, the same notion applies where the informal sector is defined as an activity undertaken by individuals who participate in the production and sale of goods and services that are legitimate in all respects besides the fact that they are unregistered or hidden from the state for tax and for benefit purposes (Katungi, Neale & Barbour, 2006; Webb, Tihanyi, Ireland & Sirmon, 2009). Based on the legal or illegal aspect, there may seemingly be certain complexities existing when considering what is legal or illegal in terms of the business undertakings. This of course needs to be delved into to give clarity for the purpose of conducting this study. The following segment of the definition of the informal business sector presents a number of criteria and frameworks which aim to bring clarity as well as build on the working definition.

2.2.2 Frameworks and criteria for the informal sector

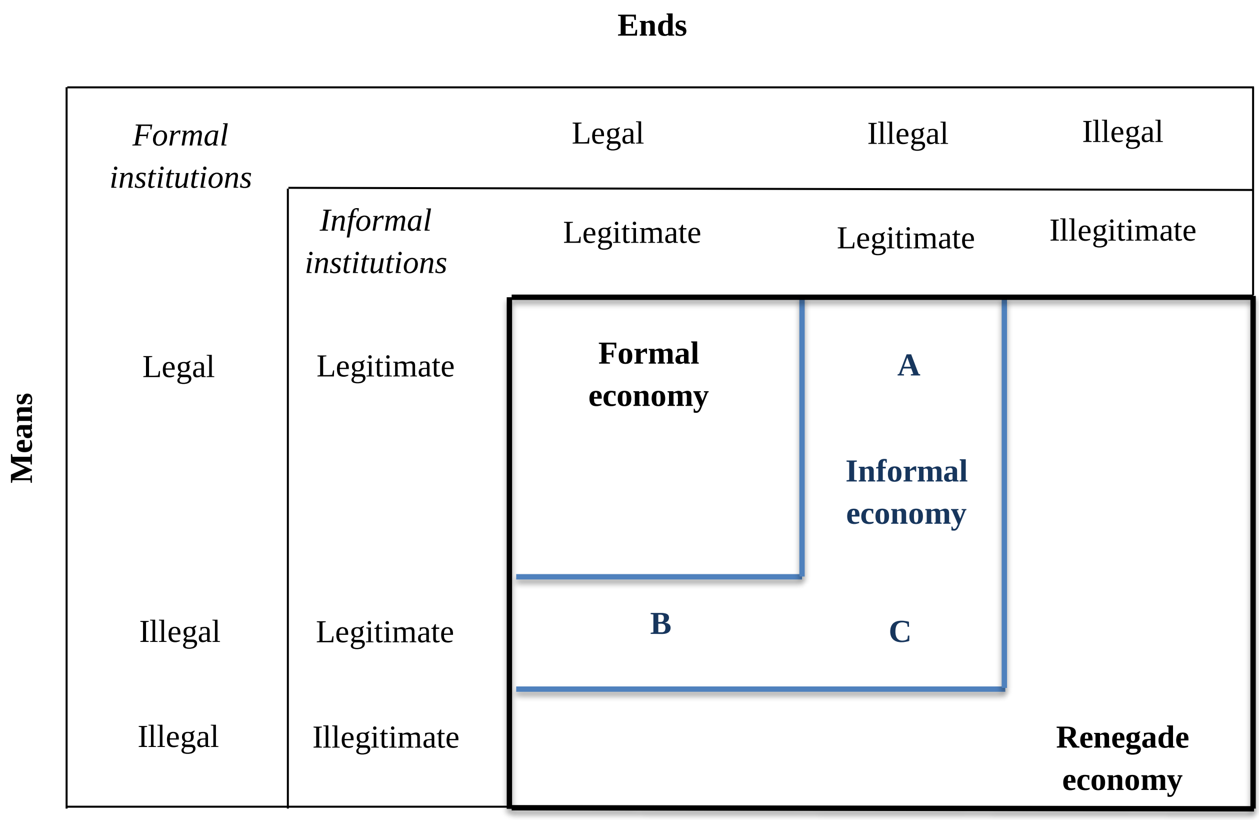
The perspective of the legal or illegal attributes are outlined by Thomas (1992, p.6) where there is a reflection between the output of the informal economy and the process by which this output is created and distributed. According to table 2, informal operators produce legal goods and services and use legal production and distribution channels. Irregular operators reflect a rather contradictory point in the sense that they produce legal goods and services; however, they do not use legal production and distribution channels. Those who out-rightly produce illegal goods and services and use illegal production and distribution channels are classified as unlawful operators.

Table 2.1: Typology of economic activities outside of the formal economy

Sector	Market Transaction	Output	Production Distribution
Household	No	Legal	Legal
Informal	Yes	Legal	Legal
Irregular	Yes	Legal	Illegal
Criminal	Yes	Illegal	Illegal

Source: Thomas (1992, p.6)

Figure 2.1: Institutional categories of entrepreneurial activities



Source: Webb, Tihanyi, Ireland & Sirmon (2009)

Table 2.1 reflecting economic activities outside of the formal economy, presents a far too simplistic perspective of the informal sector which in its nature is difficult to define and/or conceptualise. Figure 2.2 as adopted from Webb *et al*, (2009), presents a case in which entrepreneurial activities in the informal sector are categorised into three groups which in essence breaks down the existing blurred lines which have rendered a situation where it is difficult to discern what is legitimate or illegal when it comes to the various entrepreneurial activities that take place within the informal sector.

According to Webb *et al*, (2009), it should, at first-hand, be understood that the informal sector combines the aspect of illegality and legitimacy. The informal sector in itself contains activities of recognising and exploiting opportunities that occur outside the formal sector, which thus fall within the peripheries of the informal sector. For instance an individual, who is, by nature, entrepreneurial, alert and exploits opportunities, can habitually apply means that can be categorised as unlawful yet produce products that are legal, whereby he or she uses undocumented workers to manufacture authentic products. Figure 2.2 illustrates this phenomenon according to three classifications of business undertakings within the informal sector. In case A, it can be observed that there is a combination of illegal yet legitimate ends and legitimate means. What emerges from this case is the question concerning the good or service produced, not the aspect of production. In this case, an example would be pirated software or counterfeit goods. The means or productions of these goods are not classified as illegal however; the ends produced by the means are classified as illegal. With regards to case B, there is a combination of illegal and legitimate means, coupled with ends that are legal and legitimate, which can for example be in the circumstance where an entrepreneur uses undocumented or unregistered workers who provide the same activities or services as those employees who are documented, and these employees may be willing to receive less remuneration and continue to toil without receiving any benefits. Case C reflects a circumstance where both means and ends are found to be illegal yet legitimate; an example would be the use of undocumented workers who produce counterfeit products (Webb *et al*, 2009).

What distinctively differentiates the formal economy from the informal economy is that the opportunities recognised and exploited by entrepreneurs are based on means and ends that are both legal and legitimate, while the informal sector combines the aspect of illegality and legitimacy. With regards to the difference between the renegade economy and the informal economy, the renegade economy in itself depicts means and ends that are both illegal and illegitimate where the opportunities that are exploited lack the necessary legal support and social acceptability.

Furthermore, Vosloo (2004, p.171) reveals a number of activities that occur within the informal sector environment. Integrating this is certainly helpful in giving an idealistic view between what is legal and illegal in terms of various entrepreneurial activities that occur in the informal sector. This especially reflects what is socially acceptable or unacceptable which aids in eliminating certain misleading notions or perceptions which represent the informal sector, which in reality is not the case.

Table 2.2: Informal economic activities in the informal sector

Legal / Socially Acceptable	**Illegal / Socially Unacceptable**
Producers: Self-employed artisans, shoemakers, dressmakers and tailors, home brewers, craft and curio makers	**Producers:** Cocaine producers
Distributors: Hawkers, flea-market traders,	**Distributors:** Burglars, Pickpocketing
Services: Moneylenders, musicians, barbers, traditional healers, backyard mechanics, pawnbrokers	**Services:** Hustlers, pimps, credit sharks

Source: Vosloo (2004, p.171)

The socially unacceptable activities are in essence the portrayal of the renegade economy as presented in figure 2.2. Where the difference with the informal economy can be classified according to one particular aspect that is, the legitimacy in which a large group of the society support a given set of norms, values and beliefs, the activities carried out by drug cartels, bank robbers, pimping are examples of the renegade economy and the society as a whole does not concur with the legitimacy of such activities taking place, and therefore such activities do not exist within the context of the informal sector (Johnson, Dowd & Ridgeway, 2006).

2.2.3 Classification of the informal sector

Schneider and Enste (2003) outline two categories that define the informal sector. These categories, like the other elements that have been outlined above, are crucial towards building a working definition. More importantly, these categories are some of the elements that concern the very nature of businesses that are dealt with in the study, and are elaborated in the latter part of the chapter. The first category is the 'survivalist' which deals with informal businesses that represent people who are incapable of finding employment within the formal sector. These businesses are usually established on the grounds of the desperate need to survive as the individuals live in abject poverty. The second category pertains to 'micro-enterprises' or 'growth enterprises' that are unregistered but reflect a sense in which they have potential to lead on to a growth path.

The line that demarcates between enterprises that are either registered or unregistered is in itself complex. The informal sector as defined by the Fifteenth Conference of Labour Statistics (ILO, 1993) states that an enterprise is informal if its size is below a nationally determined threshold, or if the enterprise is not recorded in particular systems of the country's regulation. The definition makes no reference to certain regulations authorised by local authorities in relation to individuals attaining business permits or licences (Hussmanns, 2001). In South Africa, it is not uncommon for street hawkers to have trading permits but not be registered for tax purposes.

2.2.4 Working Definition for the informal sector

The question that needs to be asked is what would be the suitable or applicable working definition for the given study. The primary basis of outlining the various aspects in the different sections above is to ensure that the definition befits the context of the study, such that it captures all the economic activity in the informal sector. This is done with the intent of aligning all the necessary attributes with the specific position pertaining to businesses that operate within the informal sector. Based on the contributions of the formal definitions by the ILO, SNA, the sources identified in forming the framework or criterion as well as classifications, the following working definition on the informal sector for the study is;

All transactions of goods or services, whether legal or illegal, which contribute to overall economic activity, but are currently not recognised by official GDP statistics.

2.3 Conceptual view of the informal sector

This section outlines the conceptual overview of the informal sector by detailing the various theoretical paradigms which in essence draw a foundation on which the informal sector is to be conceptually viewed in the context of the study. Therefore situating the study in existing literature concerning the informal sector is important as the informal sector in its nature has different perspectives. As outlined in the previous section, the informal sector manifests itself in different ways in different countries, in different cities within the same country and even in different parts of the same city (International Labour Office, 2000). Considering the latter part of the statement makes it a difficult task to therefore develop a conceptual view of the informal sector regarding the context of the study. However, there are existing theoretical paradigms or perspectives that can be employed as guidelines to reflect a centralised conceptual view of the informal sector regardless of the different perspectives that may exist concerning the informal sector. Historically four basic paradigms, that is: dualist, structuralist, legalist and voluntarists, have been established to explain the existence of the informal business sector; as these paradigms continue to be adopted in the informal sector literature, they are discussed below (Chaudhuri & Mukhopadhyay, 2009).

2.3.1 Theoretical paradigms

2.3.1.1 Dualistic

The dualist paradigm looks at the informal sector of the economy as a make-up of activities that are unique from that of the formal sector, which in essence deliver the opportunity for the poor to establish marginal business undertakings that are considered as a safety net in times of crisis (Hart 1973; ILO 1972; Sethuraman 1976; Tokman 1978).

2.3.1.2 Structuralist

The structuralist paradigm sees the informal sector as a subordinated economic unit in the form of small businesses that ease input and labour costs and thereby, stimulate the level of competitiveness of the large capitalist firms (Moser 1978; Castells & Portes 1989). Castells and Portes are therefore of the view that there is an element of affinity or relationship between the informal and formal sector where the two sectors interact in a situation in which there is a buyer and suppler relationship.

2.3.1.3 Legalist

The legalist school of thought recognises that the emergence of the informal sector is based on the premise that survivalists or micro-entrepreneurs deliberately operate informally with the intentions of avoiding costs associated with the time as well as the effort of formal registrations and the need to seek property rights in order to convert assets into legally recognised assets (de Soto 1989; 2000).

2.3.1.4 Voluntarist

The voluntarist perspective is of the notion that businesses that are established by individuals in the informal sector are purposefully established to avoid regulations and taxation, but unlike the legalist school, does not blame the cumbersome registration procedures (de Soto 1989; 2000).

Based on the outlined paradigms, the pertinent question to ask is what conceptual view does the given study apply in terms of its context concerning the informal sector? In reality, these four approaches cannot be easily separated since they are, in most cases, integrated (2012). The establishment of some of the informal businesses may be based on various sentiments or intentions which therefore open up different interpretations associated with different paradigms.

A selection of any one of the paradigms that would distinctively resemble and/or present a conceptual view of the informal sector in the context of the study would thus be limiting. Some of the informal businesses are established on the grounds of avoiding the costs associated to formal registrations, while others are established with the precise reason of avoiding taxation, and the taxi industry is one such example. Both grounds of establishment of businesses in the informal sector exist within the South African context and therefore have implications towards either the legalist or voluntarist paradigm. The other paradigms, that is, the dualist and structuralist, also apply to the study. In the circumstance of economic crisis, some of the informal businesses are established as safety nets, for instance; employees who have worked in the mining sector once retrenched have no option but to establish small unregistered businesses to generate profits to fend for their families. This directly links to the foundation of the dualist paradigm. Thus, all the outlined paradigms are collectively adopted as the defining paradigms which present the conceptual view of the informal sector for the given study.

2.4 Taxonomy of the informal small, medium and micro-enterprises in context

From a South African context, the taxonomy of the informal sector can be delineated through the National Small Business (NSB) Act 102 of 1996, which from the outset highlights the first two categories which represent the informal sector while the rest of the categories represent the formal sector, according to the various attributes outlined. These categories are as follows:

- Survivalist enterprise: The income generated by survivalists is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial and includes hawkers, vendors and subsistence farmers. (In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector).
- Micro-enterprise: The turnover is less than the VAT registration limit (that is, R 150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than five people.
- Very small enterprise: These are enterprises employing fewer than 10 paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.
- Small enterprise: The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.
- Medium enterprise: The maximum number of employees is 100, or 200 for mining. Electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

Table 2.3: Definitions of SMMEs given in the National Small Business Act

Enterprise Size	Number of Employees	Annual Turnover	Gross Assets, Excluding Fixed Property
Micro	Fewer than 5	Less than R150 000	Less than R100 000
Very Small	Fewer than 10 to 20, depending on industry	Less than R200 000 to R500 000 depending on industry	Less than R150 000 to R500 000, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million depending on industry	Less than R2 million to R4,5 million, depending on industry
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R 50million, depending upon industry	Less than R2 million to R18 million, depending on industry

Source: Falkena *et al.* (2001)

In principle, the informal sector as outlined is composed of businesses that would typically be classified as survivalist enterprises as well as micro-enterprises which indeed dominate the space of the informal sector (Enste & Schneider, 2003). However, gathering what was collected from the ILO (2000, p.5) in defining the informal sector presents a much broader view of what constitutes businesses which form part of the informal sector. The ILO definition stated that; "enterprises of informal employers may be defined in terms of either the size of the unit below a specified level of employment, or the non-registration of the enterprise or its employees as well as revenues generated". Considering these aspects based on the ILO questions the definition of the National Small Business Act 102 of 1996, as there seems to be a misalignment or misrepresentation associated with some of the typical examples of businesses that operate in the informal sector of South Africa. For instance, when looking at the taxi industry which is one of the biggest sectors in the informal sector, or even shebeens (taverns) which operate in the townships of South Africa are owned by certain individuals – these informal businesses characteristically exceed the outlined attributes of the National Small Business Act 102 of 1996. A research undertaken by Hazen and Siller (2014) indicates that a taxi owner, on average, generates R 750 revenue a day. Taking into account that this business operates on a daily basis, considering this revenue on an annual basis accounts to an average of R 273 750 per annum for a single taxi (generally, taxi owners operate more than one taxi). These businesses, although still bearing the aspect of *informal* (that is, they are not registered), employ more employees than the fewer five as stipulated in table 4 and generate higher revenues which are greater than the R150 000 VAT as outlined on the category of micro-enterprises of the National Small Business Act 102 of 1996. Such informal businesses have certain attributes which parallel that of the very small category except that they still bear the aspect of *informal.*

Based on the aforementioned evidence, the study does not only look at the informal sector according to the first two categories, as there may be an overlap of certain characteristics of some of the informal businesses which in practicality resemble those of the very small category. This calls for a much broader view of the informal sector as it cannot be isolated or limited to only two categories, particularly when looking at developing economy such as South Africa. Farazi (2013) supports this notion by stating that many firms particularly those in the emerging economies – including a majority of SMMEs – operate in the informal economy. Thus, the study rather takes an inclusive approach which also accommodates typical businesses such as that of the taxi industry, hence, the title *SMMEs in the informal sector.* This is done with the intention to avoid pinning down the informal sector businesses to merely being classified as either "survivalists" or "micro-enterprises" which, in certain circumstances, is misleading. Therefore, for further reference, the study uses the term *informal businesses* which collectively represent all the businesses including survivalists, micro-enterprises and very small businesses that operate in the informal sector.

2.5 Overview of the informal sector in South Africa: Entrepreneurial perspective

2.5.1 Nature of Entrepreneurship

There are street vendors who push carts in New York City; rickshaw pullers in Calcutta; jitney drivers in Manila; garbage collectors in Bogotá and roadside barbers in Johannesburg (Chen, 2012). Those who work on the streets or in the open air are the most visible informal workers. Some of these people work in small shops and workshops that repair bicycles and motorcycles; recycle scrap metal; make furniture and metal parts; tan leather and stitch shoes; weave, dye and print cloth; polish diamonds and other gems; metal waste; and more. The least visible informal businesses, the majority being women, work from their homes and engage in businesses that make garments and sort and sell cloth (Chen, 2012).

The commonly known features of entrepreneurs within this space, particularly from a South African perspective characteristically come from poor socio-economic backgrounds. Aspects such as poverty and unemployment force the individuals to launch small-scale businesses in the informal sector. The owners of the enterprises operating in this sector generally have the inability to grow their businesses, respective governments often do not lend support to these businesses, and they operate in deprived conditions (Schneider & Enste, 2003). There are several characteristics that distinctly reflect on the nature of entrepreneurship within this environment such as the fact that there are low barriers to entry. This may be considered as an advantage however, the existing disadvantages seem to overshadow the advantages. Considering the continuous growth of the informal economy there is often a high level of contention amongst the businesses, as the entrance for new businesses within this market is relatively easy. Regrettably, individuals who attempt to establish their businesses are often forced to establish themselves in an area close to their established competitors as that is where their customers are situated, thus resulting in the overpopulation and fierce rivalry in these businesses (Berner, Gomez & Knrringa, 2008).

Considering the existence of the low barriers to entry, the informal sector market is saturated and leads to the situation where the offerings or services of the market are traditionally bound on price rather than quality which indirectly reflects the existence of low skills by the entrepreneurs. This translates to the perpetual occurrence of informal entrepreneurs being the type of individuals who merely intend on selling their items instead of selling quality and improving the quality of the products or services they offer. Following this phenomenon is the compromised competitive edge and uniqueness between the businesses of which is a necessity in order to gain ground in realising higher profits as the informal entrepreneurs tend to trade homogenous products or services within the same surroundings. In South Africa, the entrepreneurs within the informal sector receive earnings that do not even match the determined poverty line due to factors mentioned above, other factors leading to this occurrence is the fact that the entrepreneurs trade in activities of low value (Von Broembsen, 2005). Little capital is invested where the individuals have limited technical training and business skills, low productivity operations which are less sophisticated than those in the formal sector. The prospects for growing the businesses are comparatively low when looking at the businesses that operate in the formal economy. (Morris, Jones & Nel, 2006, p.111).

The paragraphs above portray an image where the nature of entrepreneurship is necessity-based, which in essence, reflects a personality or entrepreneurial nature that may categorise the individuals who operate within this sector to be seen as mere survivalists or micro-entrepreneurs. However, the informal sector is broad and multifaceted, there are individuals who have potential and reflect a disposition that may categorise them as lifestyle to high growth entrepreneurs. Therefore there is a presence of various forms or types of entrepreneurship that emerge within the informal sector; however this perception is overshadowed by the predominant image of survivalists or micro-entrepreneurs, acknowledging the fact that the informal sector is at times dubbed the *hidden or shadow economy* where not everything observed from face value is or should be relegated to an image or perception of survivalists or micro-entrepreneurs as there is far more to tell. Therefore one cannot disqualify the fact that there are characteristics which reflect a true entrepreneurial nature that transcends what the informal sector is perceived to be; that is – necessity-based rather than opportunity-based. A number of entrepreneurs operate within the informal sector whether it is in developing economies of the global South which includes strong economies in Africa such a South Africa (Cross, 2000; Das, 2003; Unni & Rani, 2003; Bhatt, 2006; Bhowmik, 2007; Gurtoo & Williams, 2009) or in developed economies in the global North (Williams, 2006; Webb *et al*, 2009; Llane & Barbour; Schneider & Williams, 2013).

Several studies undertaken in developing and developed economies have sought to explore the nature of entrepreneurship in the informal sector. There has been a generally congruent perspective, highlighting the fact that the nature of entrepreneurship within the context of the informal economy is in fact, composed of two different dimensions. There is a state where entrepreneurship is necessity-driven – where individuals establish businesses out of economic need while on the other hand, a glimpse of opportunity-driven entrepreneurship exists – where individuals establish businesses out of choice (Rakowski, 1994; Cross, 2000; Browne, 2004; Williams, 2006; Williams & Yousef, 2014). In some cases, individuals establish their businesses in the informal sector out of both motives of necessity and opportunity (Williams, 2006). Those who establish businesses out of necessity portray an entrepreneurial quality, character or attribute that parallels the notions outlined in the previous paragraphs. For instance, the owner-managers profile is typically of low education, low level of skill and poor socio-economic background. When it comes to aspects such risk-taking they have few tendencies to take risks and start businesses purely because they have no alternative. Furthermore, the types of activities are characteristically based on street vending and daily labouring on subsistence work and they provide goods or services that are homogenous (Garoma, 2012). The individuals who establish businesses out of the motive that is opportunity-driven generally have a profile that reflects a relatively higher educational background, with better skills and are profit oriented. They are willing to take risks and their motive of starting a business is out of choice, even though they operate within the sphere of the informal sector, they use the informal sector as a launch pad for their business ventures. In some cases, these are people who are employed in the formal sector but have entrepreneurial ambitions and start their businesses within the informal sector. Therefore the informal sector acts an incubator for their business potential (Bàculo, 2001; Small Business Council, 2004; Williams 2005a, b, 2006; Evans, Syrett & Willliams, 2006). Furthermore, they have a relatively higher proportion of sales compared to those who are necessity-driven; their entrepreneurial activities are that of small scale manufacturing, service distribution and also work as contractors. To some extent, they have linkages with formal businesses and some of their products or services are differentiated instead of being homogenous (Garoma, 2012).

Gathering from what has been outlined in the nature of entrepreneurship, the conceptual view of the informal sector in the context of the given study embraces an entrepreneurial disposition that encompasses both the necessity-driven and opportunity-driven foundations. Given that the study particularly focuses on the entrepreneurs, these entrepreneurs should be viewed as either necessity-driven or opportunity-driven as they all operate within the informal sector, for by simply reducing the informal sector to base it as being represented by individuals who are necessity-driven would render this study as having a prejudiced view. Therefore a comprehensive view that integrates and embraces an opportunity-based perspective is also essential for the given study, for the establishment of an informal business may be for various motives amongst the individuals who run them.

2.5.2 Linkages: Backward and forward

Linkages in this context are defined as relationships between (inter) and within (intra) sectors, as they are important because they act as mechanisms for spreading growth and resources from one sector to another (Menyah, 2009). The fundamental aspect of relating linkages in this study is to identify how the informal sector of South Africa is linked to other sectors, particularly the formal sector. More importantly, the linkages implicitly reflect the existing entrepreneurial deficiencies that exist amongst the individuals operating businesses in the informal sector. The previous section presented the nature of entrepreneurship which, in essence, portrays the lack of entrepreneurial quality in the informal sector; this viewpoint can at least be seen from the perspective of entrepreneurs who are necessity-driven. However this is not entirely the case for all entrepreneurs operating in this sector, particularly when looking at the entrepreneurs who are opportunity-driven.

According to the ILO (1985) there are two types of linkages; backward and forward. These linkages can be understood, based on the set of factors that influence the phenomenon of demand and supply. In this case, supply side factors generate backward linkages while demand side-side factors generate forward linkages. When an enterprise absorbs inputs from other enterprises or sectors, this would be classified as a backward linkage, while a forward linkage occurs when an enterprise provides inputs to other enterprises. South Africa and Africa collectively, show weak modernising informal segments. This is given on the basis that backward linkages with the formal economy are relatively greater than the forward linkages. This implies that informal businesses tend to purchase inputs from the formal sector at retail prices, but sell their output largely to narrow low-income markets of poor informal producers and consumers, owing to a lack of skills and capital to access higher value formal sector markets (Meagher, 2013). This leads to a dependent and involuntary informal sector constrained to buy dear and sell cheap. Studies of African interfirm linkages tend to confirm the predominance of backward over forward linkages between African informal and formal economies (Meagher & Yunusa 1996; Pedersen & McCormick 1999; Arimah 2001; UNIDO GTZ 2008; Meagher 2010).

Using quantitative methods on a survey of 2,506 enterprises across Nigeria, Arimah (2001) finds backwards linkages to the informal sector two to three times more extensive than forward linkages for all types of informal businesses. More qualitative studies of formal-informal linkages in Nigerian informal manufacturing also find forward linkages to be relatively rare, and also highly unstable and exploitative (Meagher, 2010). Skinner's (2005) survey of 507 informal firms in Durban, South Africa, finds an even more extensive predominance of backward over forward linkages, leading to weak markets and limited growth potential. This in essence speaks to the existing entrepreneurial deficiencies that exist within businesses that operate in the informal sector. Only the more skilled and dynamic small businesses that are represented by the opportunity-driven entrepreneurs are able to enjoy forward linkages. Businesses that lack capital, technical capabilities or entrepreneurial know-how, are therefore incapable of establishing and maintaining forward linkages and cannot realise higher profits or growth. Generally this is what manifests in businesses that operate in the informal sector, however there are exceptions drawn from the case of opportunity-driven entrepreneurs (Meagher, 2010). The reason behind the poor forward linkages to the formal sector can be explained through the lack of certain attributes associated with individuals operating businesses within the informal sector. The following section gives an overview of the lack of specific antecedents which are necessary in laying a foundation towards the successful running of a business by the entrepreneurs in the informal sector.

2.5.3 Entrepreneurial attributes

The underlying problems that were gathered when reflecting the nature of entrepreneurship as well as the linkages of the informal and formal sector are in part pinned on the lack of entrepreneurial attributes that exist among business owners in the informal sector. But, this is not the case for all the individuals who operate within the sphere of the informal sector as it was gathered that some of the entrepreneurs are found to be formal employees and are therefore embedded within the formal economy and have good educational backgrounds and are well skilled. They however use the informal sector as a launch pad for their business ventures which eventually graduate into the formal sector (Bàculo, 2001; Small Business Council, 2004; Williams 2005a, b, 2006; Evans *et al*, 2006). Generally, poor managerial competencies have been linked to small businesses in the informal sector; this also applies in the context of small businesses operating in the formal sector (Gaskill, Van Auken & Manning 1993; Jennings & Beaver 1997; Perry 2001). It is acknowledged that these informal business owner-managers, compared to owner-managers of large businesses in the formal sector have lower formal educational backgrounds, limited skills or knowledge and working experience (Billet 2001; Bartram 2005). Following the effects of the apartheid regime, South Africa has been found to perform below par on a number of small business indicators compared to its African counterparts – in spite of favourable economic conditions (Mass & Herrington, 2006). According to the six years of the Global Entrepreneurship Monitor (GEM), the results have reflected the low levels of education, the absence of knowledge, limited work experience as well as the limited entrepreneurial skills are some of the factors that impede the success of small business activity in South Africa (Maas & Herrington, 2006). Throughout the apartheid era, the native population of South Africa was deprived of the admission to a good educational system, in addition to most basic qualifications required to establish a small business. Post-apartheid, the element of discrimination still persists across South Africa including within the education system which therefore has an impact the on expansion of business activity in South Africa (Orford, Wood, Fischer, Herrington & Segal, 2013). The apartheid regime had barred black South Africans from owning businesses apart from limited areas. The legacy of the apartheid regime coupled with the inefficiency of the current government has led to a situation where small business owners in the informal sector, a majority of whom are black South Africans are still characterised as poorly educated individuals who also have limited business experience. In order to build an entrepreneurial society characterised by businesses that have high growth potential, certain enablers such as a good education systems, need to be addressed. The opportunity to build on experiential self-directed learning of basic entrepreneurial knowledge and skills are important aspects needed, particularly for small businesses in the informal sector of South Africa. Therefore, Maas and Herrington (2006) call for an improvement in entrepreneurial capabilities. In this study, the way in which these entrepreneurial capabilities can be built is through the investment of social and human capitals.

It is less likely for an individual who has limited knowledge, skills, work experience and education to run a successful new venture. The informal businesses in South Africa typically lack such crucial factors and therefore the owners of these enterprises have the incapacity to manage and grow their businesses (Olawale & Garwe, 2010). The possibility of running a successful venture does not only rest on the human capital factors such as knowledge, education and experience, but it also extends to social capital factors, such as networking (Altman, 2008). Research concerning micro-enterprises and small businesses in the formal sector has shown that the managers operating these businesses do not invest time towards building on their social capital, thus compromising the opportunity of obtaining various support services which are essential for the development of their enterprises (Stevenson & St-Onge, 2005). Networking as one of the primary elements within the concept of social capital is necessary for the growth of businesses operating in the informal sector. Coleman (2000, p.16) supports the positive impact of social capital, as it is regarded as a dynamic resource which facilitates a basis in which the business has the capacity to achieve certain ends that would not be attained without its presence. Furthermore, social capital is considered as indispensable on the basis that it enhances the effects of other resources including physical and financial resources, thus human and social capital form a focal point in the given study and are elaborated on in the latter part of the study.

It should be acknowledged that the application of these capitals applies to all informal entrepreneurs regardless of whether they are necessity-driven or opportunity-driven. In the paragraphs above, it is gathered that there is somewhat of an existing entrepreneurial deficiency as expressed through the poor entrepreneurial attributes carried through the informal entrepreneurs. This phenomenon typically represents those who may be considered as the necessity-driven entrepreneurs, therefore calling on the need to improve on their social capitals and human capitals if they seek to perpetuate the survival of their businesses. While in the context of the opportunity-driven entrepreneurs, it may be found that they already possess the necessary social capitals and human capitals at hand, however considering that they are profit and growth oriented and seek to perpetuate their growth, there is always room for improvement, thus calling on more investment in their social and human capitals.

2.5.4 Sources of Finance

Finance is a crucial component in the development of small businesses (Davila, Foster & Gupta, 2003; Cassra, 2004). An analysis of the financial structure of small businesses has revealed that small business entrepreneurs depend on internal sources of capital, including personal savings and retained earnings in financing their small business start-ups (Weston & Brigham, 1981; Kotey, 1999; Ou & Haynes, 2003; Heino, 2006; Bhaird & Lucey, 2006). In principle, informal businesses mainly have personal savings or retained earnings, friends and relatives as a collective representation of their internal sources of finance.

Personal (own) savings or retained earnings

Personal savings or retained earnings are being the personal income or profit left over after payment of taxes and interest. In the view of personal savings, most of the individuals are found to have savings that have been made from their previous work, which are ploughed into their business undertakings. The personal savings or retained earnings are the contributions that the informal business owner-managers reinvest towards accumulating working capital, fixed assets and acquiring various raw materials (Kingsley, 2009). These are considered as the major source of finance for most start-up businesses in the informal sector (Acs, 1985).

Friends and relatives

Entrepreneurs in the informal sector as well as those in the formal sector have benefited from social connections between them and their relatives and friends. Gifts and loans from friends and relatives are seen as part of the internal sources of finance of start-up capital for most of these entrepreneurs (Fraser, 1999). The loans that come from friends and family are different from those catered for by commercial banks in the sense that they are; significantly small in nature, short-term and have no interest rates as they are received in return for some benefits in the future (Basu & Parker, 2001). Furthermore, the loans received from family and friends are offered without screening because informal lenders are assumed to be in possession of private information about the entrepreneur, which is normally not available to formal lenders (Casson, 2003; Hernandez-Trillo, Pagan & Paxton, 2006).

Apart from the outlined forms of internal finance there are external sources of finance within the immediate space of businesses in the informal sector. These include loan sharks – known as *mashonisas* in the townships of South Africa as well as *stokvels* which are classified as credit schemes. Members of this credit scheme are in most cases entrepreneurs who run spaza's, shebeens or even taxi businesses. These entrepreneurs pool their money, allowing each member to be paid out on a rotational basis. This method of saving allows members to access large sums of money at specific times to reinvest this money into their informal businesses, where they are able to acquire raw materials, or accumulate working capital (Verhoef, 2001; Lund & van de Ruit, 2002).

The defined forms or sources of finance above are not sustainable for further growth of the informal businesses, which leads to a negative impact towards income prospects and productivity and growth of these businesses. Therefore, most small businesses often find the need to rather look for sustainable sources of finance from the formal sector. One major player is the commercial banks which generally offer a wide range of loans to businesses (Mutenzo, 2005). However, raising finance from the formal financial market for small businesses particularly informal businesses is challenging, as the entrepreneurs face market inequalities (Binks & Ennew, 1996; Beck & Demirgüc-Kunt, 2006). The following section details the various challenges or obstacles that informal businesses face in the effort of accessing external finance from the formal sector.

2.5.5 Obstacles on financial access to informal businesses

Prior to discussing the various obstacles of financial access to informal businesses, it should be understood that the term *financial access* in the context of this study refers to internally generated funds (discussed in the previous section) and externally generated funds which includes; bank lending (loans) trade credit (accounts payable) and other forms of financial support which includes funds coming from government and venture capitalists. The obstacles discussed in this section are centrally focused on the externally generated funds with more focus on bank lending.

Holding the notion that SMMEs contribute a great portion to the growth of the economy is important to consider within this study. As stated in the previous sections, SMMEs need all necessary resources including finance to grow and therefore contribute to the growth of the economy. In a number of studies, smaller businesses experience high financing difficulties along the capital structure spectrum as compared to the larger organisations (Wattanapruttipaisan 2003; Beck & Demirgüc-Kunt 2006; Beck 2007). These financial difficulties have twice the impact on the growth of smaller businesses in the informal sector than SMMEs in the formal sector and the larger organisations. Banking systems and other financial institutions continue to underserve the SMME sector. This phenomenon cannot be explained from a simplistic view. Literature concerning the financial inaccessibility for SMMEs has been explained through two perspectives, that is the supply-side and the demand-side. As it has been stated in the beginning, the literature concerning this area has mainly been devoted to the supply-side view. Given the nature of the study, the attempt is to explore more of the area around the demand-side view, which, in essence, places the entrepreneurs and their businesses as the subject of concern.

The development and opportunity exploration of small businesses depends on the access of adequate financing, as without, it leads to the detriment of the existence of small businesses. This has been gathered through various cross-country case studies and firm-level analyses (Levine 1997; Fairlie & Robb, 2008). Businesses that are more likely to succeed are those that not only have personal sources of finance, but most importantly, have external sources of finance to draw upon (Parker & Belghitar, 2006). It has been documented that many small businesses in the informal sector including, those in the formal sector, face challenges in accessing finance. Lee and Denslow (2005) found that among nascent entrepreneurs, the overall access to finance is more of a problem during the early stages of a business's development. Fairlie and Robb (2009) traced the importance of access to finance and sources at various phases in the business cycle, finding that at start-up, owner's equity is more heavily relied upon; however, reliance on owner's equity declines and reliance upon outside debt remains high.

As stated by Beck and Demirgüc-Kunt (2006) – small businesses, particularly those within the informal sector face market inequalities when raising finance from the formal financial market. These market inequalities lead to information asymmetries that occur between the lender and the small business entrepreneurs (Stiglitz & Weiss, 1981). The phenomenon of information asymmetries results in credit rationing by financial institutions, specifically banks (Stiglitz & Weiss, 1981; Zeller, 1994; Das, 2004). In the effort of finding a resolution towards this occurrence, banks introduce screening devices to sort out high risk and low risk entrepreneurs. However, the high costs associated with screening and monitoring makes this activity unattractive to the banks. Hence, banks decide to charge higher interest rates to compensate for the screening activity (Tucker & Lean, 2001; Malhotra *et al.,* 2006). This high interest rate has the tendency of discouraging low risk entrepreneurs from seeking credit and they will leave the credit market allowing only high risk entrepreneurs to remain. This lowers expected return of commercial banks, thereby increasing the risks on banks (Hallberg, 2000).

In the attempt to mitigate the high potential risk, banks therefore discard the provision of credit (loan) to businesses that have the following characteristics; reflect high credit risk or are more likely to be vulnerable to market fluctuations, have unreliable financial data, poor business information, lack of credit history, inadequate equity capital on the balance sheet, limited market power and the unavailability of collateral. (UNCTAD, 2001; Wagenvoort, 2003). These are yet some of the tangible obstacles that limit small businesses from accessing finance, particularly those in the informal sector. However, the more relevant obstacles that are aligned to the given study which are an impediment to financial accessibility for informal businesses are those that relate to the aspect of managerial competency. The underlying factors concerning managerial competency include attributes such as the level of education, knowledge, work experience, skills and networking abilities which all play a significant role in the entrepreneur's access to credit (Cavalluzo, Cavalluzo & Wolken, 2002; Abereijo & Fayomi, 2005). These underlying factors are a makeup of social and human capitals, which informal businesses lack, thus hindering these businesses from gaining access to credit from commercial banks. Thomas Bates' study on *Commercial Bank Finance in White and Black Owned Small Businesses* corroborates the outlined by noting that commercial banks have lending preferences on small business entrepreneurs with higher human and social capitals (Bates, 1991). In other empirical studies, such as Smallbone and Weller (2002), Hisrich and Drnovsek (2002) as well as Martin and Staines (2008), particularly find small business entrepreneurs lacking in managerial competencies such as; knowledge of industry, working experience, education and other relevant skills associated with human and social capitals. These entrepreneurs produce poorly thought-out business plans which ultimately lead to rejected loan applications by commercial banks.

Based on what has been gathered concerning the nature of entrepreneurship, linkages, entrepreneurial attributes, the unsustainable sources of finance existing in informal businesses as well as the obstacles of financial access to informal businesses – there is a sketched-out image that reflects a drought of sound entrepreneurial quality within the informal businesses which in essence, plays a part in the occurrence of financial inaccessibility for informal businesses and ultimately affects the growth of SMMEs. Therefore, based on this overview, the study takes a stance in which it evaluates the implications or impact thereof by adopting the social and human capitals as mechanisms that would in essence lead to the legitimacy or soundness of small informal businesses. These are perceived as important factors that would enable small businesses to access finance from financial institutions or investors as well as receive trade credits from suppliers. This is backed by what has been gathered by various authors stating that commercial banks have lending preferences on small business entrepreneurs with higher social and human capitals (Bates, 1991; Smallbone & Weller, 2002; Hisrich & Drnovsek, 2002; Martin & Staines, 2008). In the following section of this chapter, the researcher builds on the theory of social and human capitals as elements that can be adopted with the sense of overcoming the pervasive issue of financial inaccessibility for informal businesses.

2.6 Social and human capital theory

2.6.1 Social capital theory

The history of social capital dates back to the early years of the 20th century. The concept of social capital emerges from the works of Hanifan which can be dated between the years of 1916 and 1920. The works of Hanifan particularly highlighted the significance of social capital in the context of social unity, with the basis of establishing progress in the performance of schools that were operating in the rural communities of North America. The concept has also been contributed by classic scholars such as Marx, and Weber (Woolcock, 1998; Putnam, 2001; Farr, 2004; Halpern, 2005). The theory has been extended by modern developers who have adopted the theory in different academic disciplines, such as economics and sociology (Loury, 1981; Bourdieu, 1986 & Coleman 1988). The concept has mainly been incorporated into current policy debates and discourses by scholars such as James Coleman and Robert Putnam, who have advanced the theory to describe how social organisations have an impact on individual actions through the rational-choice theory (Adam & Roncevic, 2003; Fulkerson & Thompson, 2008). This theory in summary, details the various interactions made with the purpose of obtaining capitals which are of importance to the business or the individual. This perspective is one that also applies to the context of the undertaken study.

Social capital is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups. To quote from Baron and Markman (2003), 'Social Capital refers to the actual and potential resources individuals obtain from knowing others, being part of a social network with them, or merely from being known to them and having a good reputation.' The framework of social capital theory provides the purpose of analysing and understanding how the bonds and connection between different actors leads to different outcomes. There are various definitions attributed to the concept, but central to it are words such as relations, networks, resources and actions. Two perspectives define the concept. The first is that social capital is classified as a resource that members in a group provide (Bourdieu 1986; Portes 2000; Lin 2001) and the second is that social capital is considered as a resource that can be limited to the resources embedded in a particular group or network (Aguilera 2005). Regardless of the perspectives, this study looks at social capital as a resourceful resource facilitating different outcomes. In this regard, the specific focus is its influence towards soliciting financial accessibility on the context of SMMEs operating in the informal sector.

Coleman defined social capital as*: not a single entity but a variety of different entities with two elements in common: They all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible* (Coleman, 1988, p.98).

Several researchers have questioned why some entrepreneurs have had the opportunity to exploit opportunities while others have failed (Sexton & Bowman, 1984; Cooper & Dunkelberg, 1987; Begley & Boyd, 1987). There have been countless efforts made to explain this phenomenon. Some researchers have put forward the major differences in entrepreneurial abilities, which are the results of psychological variables, personal traits and some demographic factors (Low & Macmillan, 1988; Shaver & Scott, 1991). However, human capitals, such as education and experience, are important aspects that give entrepreneurs greater capabilities to recognise and exploit opportunities. These are inadequate to ensure success for entrepreneurs as the entrepreneurs need the collaboration and connectivity to other social ties through friends, family, community and build on organisational relationships with other institutions to access various resources such as finance (Bourdieu, 1983; Loury, 1987; Coleman, 1988).

Entrepreneurs are able to gather various benefits from social capital. These benefits include: access to information, influence, control, power, contacts, connections, discovery and exploitation of opportunities, knowledge acquisition, trust and collective obligations (Adler & Kwon, 2002). Shane and Venkataraman (2000), state that social capital facilitates the exploitation of business opportunities based on the process and utilisation of business information. Through social capital networks, the amount of time and resources required by the entrepreneur to search and collect the necessary information is greatly reduced (Nahapiet & Goshal, 1998; Cohen & Prusak, 2001; Davidsson & Honig, 2003). The entrepreneur is therefore able to gain advantage in a highly competitive environment, thus leading to the prospect of gaining higher returns for the business (Burt, 1992). The informational benefits accessed through social capital are not only limited to the entrepreneur, but also to the business as a whole. An inter-business network of social capital also enhances business's access to relevant information and skills, allowing businesses to exchange vital information which is mutually beneficial (Powell & Smith- Doerr, 1994; Uzzi, 1997: Podolny & Page, 1998).

2.6.2 Human capital theory

According to the studies undertaken by Becker (1964) and Mincer (1958), human capital from the outset was established to estimate the earnings of workers based on their capabilities. It has been established that human capital theory is mainly rooted in theory concerning macroeconomic development (Schultz, 1993). This is supported by Becker's (1993) classic book on *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, where, from the classic economic theory perspective, the concept of human capital is presented as a commodity of labour, which can be traded in terms of purchase and sale. The theory has grown to the extent where it is embraced within entrepreneurial studies. Past studies have particularly looked at human capital in relation to the performance and progress of enterprises (Chandler & Hanks, 1998; Davidson & Honig, 2003; Rauch, Frese & Utsch, 2005).

Following the work of Becker (1964), human capital, is defined as *skills and knowledge that individuals acquire through investment in schooling, on-the-job training and other types of experience*. Sullivan and Sheffrin (2003) explain that human capital is based on a collection of competences, knowledge, and personality attributes which encompass the ability to execute activities in the sense of creating economic value. Researchers have used a variety of variables – all signifying human capital: formal education, training, employment experience, start-up experience, owner experience, parent's background, skills, knowledge and others. Becker (1993) differentiates firm-specific human capital from general-purpose human capital. The firm-specific human capital includes expertise obtained through education and training in management information systems, accounting procedures, or other expertise specific to a particular firm. The firm-specific human capital looks into aspects such as business education, specific skills, industry related experience and managerial experience. The general human capital merely looks at the educational qualifications and the total number of years of working experience (Ganatakis, 2010).

Through various studies conducted, human capital has been identified as a crucial source of economic growth, with education as one of the underlying elements being found as having a direct relationship with economic growth. The concept of human capital has been suggested as an implicit factor which positively influences the survival chances of new businesses (Barreira, 2004). Van Praag and Cramer (2001) have acknowledged the importance of the concept of human capital where, in their study, they have had the opportunity to formalise its impact in the case of the business founder. Other studies, such as that of Cooper, Gimeno-Gascon and Woo (1994), have provided experimental proof for the theoretical substance of human capital.

Human capital theory has been applied in the context of entrepreneurial studies. This can be acknowledged through Schultz’s (1980) study, where he conceives the entrepreneurial ability as a form of human capital. More importantly, what has been deduced from the study is that an entrepreneurial ability can be enhanced through investing in human capital aspects such as education, training and other human capital investments which lead to improvement in technical and allocative efficiency of businesses. Profit as well as productivity of a business can be driven by entrepreneurial human capital (Brüderl & Schüssler, 1991). Bearing this notion in mind it can be found that the more the investment in human capital traits that an entrepreneur carries, the better the possibility for the business’s survival and thus limiting the likelihood of an early exit. Baptista and Karaöz (2006) state that higher productivity through human capital investment translates to more efficiency in organising and managing operations. This in turn, attracts more customers therefore entrepreneurs have greater capacity to negotiate contracts with suppliers in a way that benefits the business. Furthermore, they are able to raise more capital from investors.

Human capital attributes can have a positive effect on venture outcomes. This has been demonstrated through a learning theoretical perspective which specifies various processes which have proven to be beneficial to an enterprise (Unger, Keith, Hilling, Gielnik & Frese, 2009). The fundamental aspect on this theoretical perspective is based on the approach, acquisition and transfer of human capital, where an underlying element of human capital such as knowledge, provides the entrepreneur with an increase in his or her cognitive ability, which leads to more productive and efficient potential activity (Davidson & Honig, 2003). The learning process ability which allows the entrepreneurs to transform their businesses and lead them through the growth process is due to the knowledge and skill they have acquired.

Taking into account that businesses, are constantly confronted with changing environments, it is imperative for the owners to strive for superior competitive advantages, but this requires the owners to enhance their current human capital investments such that they are able to build on vibrant business plans or strategies, which integrate creativity and innovativeness (Marimuthu, Arokiasamy, & Ismail, 2009).

2.7 Social, human capitals and access to finance

2.7.1 Social capital and financial access

The growth of an economy is contributed by various developments in the financial sector. (Goldsmith, 1969). Certain countries that are still on a developing path characteristically have low rates of growth due to the poor development of financial sectors, but there are other factors that lead to this occurrence (Gurley & Shaw, 1955). A successful entrepreneurial atmosphere is typically signified by a financial sector that is inclusive. The opportunity of accessing credit is evaluated across the globe as an indicator which reflects the simplicity of conducting business in various countries. An institution such as the World Bank, on a yearly basis presents a report which evaluates and ranks countries around the globe in terms of credit access. Credit access is therefore considered as an indicator to potential investors in establishing a business depending on the relative ease of accessing credit (Spratt, 2009). Bearing this notion, if credit access was readily available for businesses, one would evidently see many small successful businesses being established, however this is not the case, particularly in the context of the given study. The process of accessing credit in developing economies may considerably be a strenuous effort compared to developed economies due to various underlying aspects concerning both the financial institutions and the enterprises which seek financial support. In the section which discussed the obstacles of financial access, issues such as information asymmetries between the financial institutions and the enterprises seeking financial support were argued as some the problems surrounding the issue of financial access which affect small businesses particularly those operating in the informal sector. There has been a shift in research concerning the access to finance with specific emphasis towards analysing factors which could assist businesses in engaging in ways where they can effortlessly access funds from financial institutions (Beck, Demirgüc-Kunt & Martinez Peria, 2008).

In the framework of socioeconomics, various studies have analysed the relationship between social capital and credit access, particularly from the view of emerging economies where collectivism dominates individualism (Serageldin & Grootaert 2001). These studies have revealed that social capital plays a positive role in accessing credit. This phenomenon has significantly been assessed in the context of micro-enterprises and the microfinance institutions. Through social capital, both entities have been able to gather information about each other, and the various financial schemes or financial products provided by the microfinance institutions have heavily relied on social capital as a tool or mechanism that assists in decimating the occurrence of information asymmetries and adverse selection. This is all based on the constant interactions which are bound by elements such as trust which have established the basis of financial support for the businesses (Serageldin & Grootaert 2001). This phenomenon can be supported by other studies which have looked into the process of credit access, where social capital has been involved and analysed with regard to the group lending repayments. A popular example can be seen from microfinance initiatives such as the Grameen Bank in Bangladesh (Sharma & Zellar, 1998; Van Bastelaer & Learhers, 2006).

Considering that the informal credit market complements the formal sector based on the fact that it assists with the ease of credit constraints which are faced by entrepreneurs in the informal sector, the progress of a business is dependent on its capability to access funds from banks and other institutes that offer funding (Ayyagari & Demirgür-Kunt). Given that there is significant evidence provided which has reflected that small businesses in the informal sector have been able access financial support from microfinance institutions, an important question which underlies the undertaken study is whether informal businesses have the capacity to access financial support from banks and other institutions in the formal economy. Grooteart (1999) argues that capitalising in social capital is a functional approach or tactic which even the underprivileged or low-wealth entrepreneurs in the informal sector can use, however he argues that the low-wealth entrepreneurs have to work hard and exert force in their way to access resources such as finance through social capital while the rich 'buy' their way. A number of informal sector studies have been analysing the relationship of social capital and business development and the logic of the concept of social capital, applied from a context of the informal sector, where the informal entrepreneur does not have the necessary experience and resources for the business start-up. To start the business, the entrepreneur has to gather the necessary business resources, such as finance, from other persons in his or her social capital network. These networks as carried through social capital lead to various benefits, where the informal entrepreneur is able to gain information, influence and establish solidarity with other individuals (Adler & Kwon, 2002).

Social interactions and business transactions

It has been acknowledged that social capital advances the prospect of obtaining finance for informal businesses through: (1) enabling the process in which private information is conveyed based on the interaction between the creditors and debtors (Uzzi, 1999); (2) the collection of a number of various credible contacts therefore establishing a basis of a good reputation (Barr, 2000); and (3) banks can counter on transaction costs associated with writing up contacts and in addition retain its customers (Booth, Aivazian, Demirgüc-Kunt, & Maksimovic, 2000). Given that emerging economies particularly those in Africa have certain institutions that are ineffective and corrupted, like the incompetent judicial structures and financial sectors – social interactions are therefore important to counter such aspects (Biggs & Shah, 2006; Conning & Udry, 2007). When an economy is characterised by relations that are unidentified, undeveloped, and administrative institutes which are inefficient that lack integrity, there is often an emergence of rent seeking behaviour. This immoral phenomenon predominantly exists amongst the political elite and becomes a widespread occurrence, where ordinary citizens also attempt to profit from it through their interactive relations (Dasgupta, 2005). In the midst of such disorder, informal entrepreneurs depend on social capital where they are able to exercise the opportunity of linking up with multi-level social networks which assist in the process of obtaining essential resources such as finance, thus laying a foundation for their business to grow (Talavera, Xiong & Xiong, 2010). Joining multi-level social networks requires interpersonal interactions which are grounded on the concept of social capital. Therefore, social capital should be perceived as a conduit that forms a basis in which a business transaction is activated assuming that a business transaction cannot materialise without some form personal interaction (Coleman, 1988; Callon, 1991; Nahapiet & Goshal, 1998). The interactions that informal entrepreneurs have with other parties are generally unceremonious as they exist in social surroundings, these interactions which are informal can be influenced through political associations and interpersonal relations which could lead to economic benefits (Ruziev & Midmore, 2012).

Information flows and banking

As observed in the section concerning the obstacles of financial access on informal businesses, the problems of information asymmetry were noted. Included in the problem of information asymmetries were; adverse selection, the implementation of written contracts by banks which ultimately decide to ration credit and also demand high collateral for the loans offered (Stiglitz & Weiss, 1981). In the context of the informal sector businesses, microfinance institutions are able to access local information on their debtors which permits a basis where they can offer loans which are less risky for their debtors. As all parties involved engage in informal interactions that advance the relationships and builds trust while also enhancing social capital. This in essence, supports the financial institutions to obtain all necessary information in assessing the financial risk, thus diminishing the predominance of information asymmetries that exist among the creditors and debtors (Ferrary, 2003). Therefore social capital lays the groundwork to decimate the existence of adverse selection and moral hazard thus resulting in the fluidity of information amongst the banks and debtors (Narayan & Pritchet, 1999). Ferrray (2003) posits that when there is a greater outlay or investment towards social capital with the aspect of building interpersonal relationships, there is a greater access to information, therefore channelling opportunities of accessing various resources such as finance. This cannot be achieved if institutional structures dictate a culture where relationships need to be kept strict or inflexible. Therefore social capital should be seen as a mechanism that not only benefits the informal entrepreneurs but should in the same length benefit the banking institution as they are able to access information about their potential debtors (Okten & Osili, 2004).

Information asymmetries are more acute when looking at developing economies; this is due to a number of factors other than those outlined previously. Firstly, most of the SMMEs operating in developing economies are classified as informal operators, who cannot manage to pay for any reputable accounting firms which would assist in compiling financial books that comply with the established standards of accounting reports. Thus the informal businesses produce information that is usually incomplete and poor in quality and banks cannot process such information for the sake of providing the loan to the applicants (Kauffmann, 2005; IMF, 2006). Secondly, considering the fact that businesses that operate in the informal sector do not have any standard documentation of registration where certain information is deliberately concealed for the purpose of avoiding tax which escalates the issue of information asymmetries. This leads to the point where banks lack all necessary information which they could use to analyse the credit history of the applicants. This calls for informal entrepreneurs to undertake informal communication as under-carried through the concept of social capital which can help to counter on the traditional communication channel. Thus, the credibility of the entrepreneur as well as the close relationship they build with banks is just as important as producing the necessary financial statements (Lefilleur, 2010).

As stated in the beginning, developing countries characteristically have societies that are collectivist rather than individualist in which social capital dominates, thus small business owners including those from the informal sector who have social links with bank officers are able to benefit as they seek funding from the financial institutions in the formal economy through the transferal and advancement of private information. The information gathered therefore, prompts banks to explore solutions to the existing issues further than those that are provided in the framework of market relations that are strict or inflexible (Uzzi, 1999). In an example closer to the context of the given study, we have a formal banking institution such as Standard Bank which facilitates microfinancing solutions to its clients. Interactions that bank officers have with entrepreneurs including those from the informal sector, gives bank officers the opportunity to obtain information that is private that is used to evaluate the credit worthiness of the applicant.

2.7.2 Human capital and financial access

Human capital includes various facets such as knowledge, skills, competencies, abilities, talents and experiences that are used by an individual to provide value to a firm in order for it to achieve its goals and support its success (Becker, 1975; Davenport, 1999). It is understood that an investment in human capital forms a key element in the enhancement of a business's assets, where there is an increase in employees' skills, productivity, and the sustaining of competitive advantages. The human capital that an entrepreneur carries, acts as a surrogate indicator of the competence and credibility of the business, which therefore gives a level of confidence to external and internal stakeholders. Thus human capital is considered as a significant source of success in entrepreneurial firms irrespective of their size and formality (Florin, Lubatkin & Schulze, 2003).

The owner-manager is one of the most common components of informal SMMEs and it is acknowledged that the majority of these SMMEs are owned and managed by the same individuals. This however may be different when one looks at large firms, which are normally managed by a team of professionals who are employed by the shareholders of the firms. Nevertheless, the characteristics of owner-managers, such as level of education and experience, affect the firm's survival and access to external financing across all forms of businesses (Gimeno, Folta, Cooper & Woo 2007). Nofsinger and Weicheng (2011) are of the view that owner-manager experiences play an important role towards explaining the differences in external financing. More importantly, Coleman (2000) undertook research in which he analysed education and years of experience as the variables embedded within the concept of human capital. He found some evidence reflecting education as well as years of experience as positively related to the access of external loans. The amount of experience as a feature of human capital determines the propensity to apply for loans. Education, experience and other variables such as knowledge, skills, competencies, abilities, talents which embody the human capital concept are important aspects that are taken into consideration when applying for external formal funding (Vos, Andy, Sara, Stephen, 2007).

An empirical study undertaken by Crépon and Duget (2004) presents compelling evidence of the role of human capital in enhancing the likelihood of accessing a loan from a bank. The specifics of the evidence are underlined on the differentiated role of bank loans and subsidies according to the previous stature of the entrepreneurs on the labour market (employed or unemployed). This evidence reflects that prior experience by the owner-managers positively impacts the possibility of accessing a bank loan. The situation of founders just before the establishment of the business is used to proxy the experience. The study in its nature places the various conditions such as – entrepreneurs who are employed, short-term unemployed, long-term unemployed or non-worker. According to the study, almost half (46.65%) of the founders in the sample have had a job prior to the establishment of their businesses. This prior paid experience reflects a strong link to the access to banks loans, as it has been observed that the greater the level of experience prior to assuming the role of entrepreneurship, the owner-managers have been able to access loans from the bank. The increase of experience corresponding with the increase of access to bank loans can be observed from the starting point of "non-worker" reflecting only 9.81 percent access to bank loans. The accessibility of bank loans rises through the level of bank loans right through to 51.85 percent as represented by "employed". The access of bank loans can be observed also in the context of education (see appendix D).

In the existence of such evidence, it should be taken into account that human capital leads entrepreneurs to make an exerted effort to prepare sound business plans when seeking business loans. Such a commitment forms a signal that the entrepreneurs are well-prepared, therefore reducing the incidence of partial loan denial by banks (Schutjens & Wever, 2000; Blumberg & Letterie, 2008). Individuals who have greater educational attainments or knowledge, greater work experience, especially in the same sector as the new firm (i.e. industry-specific human capital), and greater specific human capital which is either developed through a position where certain managerial responsibilities have been assumed or in prior self-employment have the ability to have a better entrepreneurial judgement (Colombo & Grilli, 2010). Since human capital is measured in various forms; educational background, occupational experience, cognitive abilities and different forms of skills depending on where they have been acquired and have been applied, it therefore has a direct effect on the ability of the entrepreneur to secure financial capital for their new business venture (Harding, 2002). Thus human capital has a significant impact on finance sources (Irwin & Scott, 2010).

2.8 Conceptual framework: The derivation of hypotheses

This study essentially adopts the social capital theory and human capital theory by proposing hypotheses that are formulated and poised on the underlying variables embedded within each of the theories (knowledge, education, experience and networks). These theories, through past research as reflected in the sections above, have been demonstrated across different studies. Some past studies, particularly those undertaken longitudinally have demonstrated social capital and human capital as some of the predictors of successful future performance for new enterprises (Stiles & Kulvisaechana, 2003; Lehtimäki & Karintaus, 2013; Augusto-Felício, 2014). Drawing on the aforementioned logic towards a practical perspective, it is found that investors, such as venture capitalists, have taken cognisance of such variables when considering whether they should invest in a particular business given that the entrepreneurs have invested well in the outlined variables. Bearing this notion, the undertaken study is of the view that these theories in practicality should also be recognised by funders like banks when determining whether financial support should be offered to the businesses when requested by the entrepreneurs in the informal sector.

Collateral as observed in the section on obstacles that SMMEs face in accessing finance has been considered as one of the primary hindrances towards financial access for small businesses in the informal sector. Collateral in all its importance should not be the primary aspect amongst others which determines the provision of loans or trade credit. For in some cases a number of businesses may have individuals or owner-managers who previously have been bequeathed with a number of assets in establishing their small businesses; these individuals in turn may have placed their assets as collateral in the case of requesting a loan from a bank, but this does not mean that they have the capabilities of running successful start-ups that are well capacitated to ensure repayments of outstanding trade credits or loans that have been acquired. Thus other aspects aligned to entrepreneurs' capabilities are of importance towards determining access to credit or any other form of financial support offered to the entrepreneurs' businesses. These aspects which are considered within the given study are all centred on the body of knowledge concerning social capital and human capital theory which in essence are to be evaluated in the context of enterprises operating in the informal sector. More importantly, they are evaluated on the perceptual basis of whether they truly have an implication of helping entrepreneurs in the informal sector in accessing finance.

Following this, the study looks at the following variables for each of the theories: (1) Social Capital – *Networking*; (2) Human Capital - *Knowledge, Education and Experience*. These variables have been derived from the discussion of the literature and are tested to see whether they have a statistically significant relationship in the context of accessing funding. Therefore, the formulated hypotheses focus on the selected variables in association with the access to finance.

2.8.1 Networking

Previous researchers mention a number of definitions concerning networking which include business networks, social networks, formal networks, informal networks (Leroy, 2012). In general, any sustained relationship between a business enterprise and an individual which is mutually beneficial to all the parties involved is defined as networking (Hallen & Johanson, 2004). Networking fundamentally is a set of stable links established for cost effective economic transactions among the networks' members founded on formal and informal links with mutual goals (Scalera & Zazzaro, 2009).

Networking has the ability of increasing a business's legitimacy in order to have access to external finance. Networks play an important role in spreading knowledge about a business's existence as well as help the business learn the appropriate behaviour and thus obtain needed support from the general public (Peng, 2001; Hoang & Antoncic, 2003; Ngoc & Nguyen, 2009). Furthermore, networking has an effective way of assisting SMMEs in accessing external financing, including bank loans. Other external debt financing which SMMEs could use through networking is a loan from relatives and friends as observed in the section on social capital theory. Networking is an element that promotes the firms' access to bank loans by providing information, knowledge and legitimacy advantage. While on the other hand, it forms a basis to access other resources of funding which in certain circumstance reduce the need for bank loans. However the net effect may be different when looking across different types of networks (Ngoc & Nguyen, 2009).

Social network

Social network in the frame of this study is defined as the relationship that connects an entrepreneur to another individual, organisation, or the entire society. This may include family, friends and membership to social associations, but this excludes associations that are aligned to managerial or official networks (Barnes, 1954; Mitchell, 1969, Ngoc & Nguyen, 2009). The managerial and official networks are discussed in the following paragraphs. Social networks are acknowledged to play a significant role in SMMEs' success such that they facilitate an entrepreneur's access to a variety of resources, including access to information and advice, capital and emotional support (Mitchell, 1969; Marwell & Pamela, 1992; Ngoc & Nguyen, 2009). Most of the small business's become more reliant on the owner-managers' personal networks (social networks) to afford their required resources especially in developing economies, as collectivist cultures seem to dominate the developing economies, particularly in Africa, as opposed to the individualistic cultures found in Europe or North America. Social networks can therefore be an indication or signal thereof on the reputation of the SMMEs, based on the dispersion of knowledge about firms and their operation which means a firm's social network can facilitate their access to external financing, including bank financing (Basabe & Ros, 2005).

Official networks

Official networks essentially refer to the networking with government. In a number of countries, particularly in developing countries such as South Africa, the government has a strong influence on business activities (Nguyen, Weinstein & Meyer, 2005). Therefore an entrepreneur's link with government represents a special type of managerial resource in such countries (Peng & Luo, 2000). Building a network with government officials or departments helps small businesses to gain access to scarce resources and thereby improve their business performance (Peng & Luo, 2000; Nguyen *et al.*, 2005). Given that SMMEs play an important role in economic growth and job creation, the government usually offers low interest rate loans to promote the growth of the SMMEs (Smallbone & Welter, 2001). One such example is the Department of Trade and Industry (DTI) through its Small Enterprise Development Agency (SEDA).

Managerial network

Managerial networks are based on the entrepreneur's customers, suppliers and competitors who collectively can increase a firm's legitimacy in numerous ways. This can include the spreading of knowledge about the firm's practices and its existence to the general public. Managerial networks are important when a business applies for a bank loan as it is found that in developing economies, bankers often rely on informal information channels to learn about the potential borrowers, in order to counter the occurrence of the lack of public data (Meier, & O'Toole, 2005). The opportunity of receiving a bank loan increases for businesses which reveal positive information. Thus, the greater the establishment of the network relationship, the higher the chance the business has in accessing finance (Aldrich & Fiol, 1994). This can be practically explained in a situation where a business receives endorsement from its respected buyers or suppliers as well as competitors (Peng & Luo, 2000). Such a notion can be taken into account where a business is able to learn how to appropriately conduct its behaviour which could increase the business's socio-political legitimacy and therefore increase its potential of accessing a bank loan. It is also important to note that the above also applies in the context of attempting to access trade credit from suppliers (Peng & Luo, 2000; Ngoc 7 Nguyen, 2009).

Based on the previous section concerning social capital and access to finance it was found that social capital facilitates a basis in which entrepreneurs are able to access finance. In measuring social capital, the researcher employs the variable of networking as social capital is fundamentally operationalised through networking (Rwigema, Urban & Venter, 2008). Therefore the following hypothesis is outlined:

Hypothesis 1: Entrepreneurs perceive social capital as measured by networking to have a significant positive relationship in accessing finance.

2.8.2 Knowledge

The importance of knowledge in the context of business studies has been stressed by a number of researchers (Barney, Wright & Ketchen, 2001; Davidsson & Honig, 2003; Rauch, Frese & Utsch, 2005). Knowledge is considered as one of the most explored assets in academic literature and has been strongly linked to the studies of business creation and business performance (Dimov & Sheperd, 2005; Arthurs & Busenitz, 2006; Parker, 2006). The form of knowledge as expressed in the given study is classified as 'entrepreneurial knowledge'. According to Gnyawali and Fogel (1994), entrepreneurial knowledge is grounded on the aspect of an individual's competency or the 'ability to enterprise'. This is composed of technical skills and business capabilities which are deemed necessary to start and manage a business. Entrepreneurial knowledge is sourced from previous work experience, advice from experts, imitation and copying as well as education (Vesper, 1990; Sonntag, 1998).

The success of an enterprise or small business lies with the capacity of the entrepreneur's prior knowledge, current knowledge and the knowledge that is yet to be acquired and should therefore be seen as a critical factor. Through knowledge, the owner-managers have the ability to control and apply resources in a manner that leads to competitive advantages and superior performance of small businesses (Gartner, 1990). Knowledge in a business context is characterised by aspects such as; doing environmental scanning, identifying opportunities of growth, formulating strategies in order to exploit the opportunities as well as organisation, management and leadership. These primarily are some of the factors that determine the success of a business (Shane & Venkataraman, 2000). The occurrence of recognising opportunities is triggered through the existence of knowledge, as the discovery of opportunities is related to the information that entrepreneurs already possess which in essence is knowledge (Shane, 2000). Each individual's idiosyncratic prior knowledge creates a "knowledge corridor" which gives a basis for the individual to recognise opportunities while those without prior knowledge cannot easily do so (Ardichvili, Cardozo & Ray, 2003).

As documented through various researches, knowledge, particularly past knowledge, has been recognised as a variable that facilitates opportunity recognition (Ronstadt; 1988; Venkataraman, 1997; Shane 2000). Notwithstanding the account of knowledge in the context of opportunity recognition, knowledge extends its facilitation towards the accessing of other resources, more importantly in this context, it has its form of implicit influence towards the facilitation of finance. Past research enlightens this phenomenon where increased knowledge benefits entrepreneurs with an added advantage when it comes to their participation in bank loan interviews with bankers. This added advantage is attributed to; (1) their prior knowledge which provides an absorptive ability to recognising value in information, assimilating the information and applying it to commercial ends. This allows the entrepreneurs to demonstrate the understanding of the markets they operate in, production processes and establish strategies which are all outlined in their business proposals. (2) The existing knowledge of an individual has a positive impact such that they are able to see solutions to existing problems in the market they operate in, and at the same time, convert those problems into profitable solutions that lead to the growth of their enterprise. (3) Increased knowledge that has been built on existing knowledge therefore allows the entrepreneur to become more efficient in the management of their resources as well as appear more intuitive during the process of the interviews with the bankers (Fu-Lai, 2009).

2.8.3 Education

The level of education on the basis of the highest degree or certificate acquired is considered as one of the most basic and yet important indicators of human capital. Formal education - regardless the idea of the discipline studied, has the inclination of strengthening the identification of standard practices and procedures, competition with peers, analytically based judgement as well as decision making skills and abilities related to the left brain thinking and development of explicit knowledge (Schilhab, 2007). Considering this notion; individuals with relatively higher levels of educational background should be particularly well suited for working in analytical and logic-based disciplines – such as entrepreneurship. Consolidating what has been gathered it can be concluded that, educational attainment is found to be positively associated to an entrepreneurs' capacity to obtain formal resources of capital such as finance, to develop and grow their businesses (Slavec & Prodan, 2012).

From a general basis, it has been gathered that having a considerable educational background affirms the position where an entrepreneur has the capabilities of establishing a successful business (Oksoy & Ozsoy, 2006). Entrepreneurs who have some form of formal education are able to gain motivation in the attempt of venture creation (Smallbone & Wyer, 2000). In addition, education aids potential entrepreneurs in enhancing their exploratory skills and improves elements such as communication skills and the ability to anticipate certain challenges that are faced in the business environment (Dobbs & Hamilton, 2007). These skills and abilities are a compelling case when it comes to considering the application of a bank loan by an entrepreneur as they are translated or conveyed through the compiled business plans which are often required to reflect accuracy. It can therefore be affirmed that entrepreneurs who have a solid educational background indicates that they have superior human capital, hence creditors hold entrepreneurs with more educational background to be less risky. From this basis financiers are more inclined to offer funding to entrepreneurs with relatively solid educational background.

Accordingly, Coleman and Cohn (2000) have found some evidence of education being positively related to external loans. Bates (1990) analysed the influence of the entrepreneur's characteristics on small business longevity and argued that an entrepreneur's educational background is a major determinant of the financial capital structure of small business start-ups and is one of the strongest human capital variables for identifying business continuance. Recent evidence on the role of education in the context of accessing finance can be explained through a study by Irwin and Scott (2010), who has found that graduates had the least difficulties in accessing finance from commercial banks. Researchers who acknowledge this phenomenon have made various interpretations based on evidence drawn from Irwin and Scott (2010). In the first case, they have found that educated entrepreneurs have the ability to reflect positive financial information as well as present solid business plans. When comparing the levels of education, those entrepreneurs with more educational background have an advantage in building and maintaining better relationships with financial institutions. Secondly, with certain acquired educational background, educated entrepreneurs have the skills to manage various functions of the business such as human resources, marketing and finance, which translates to better performance of the business and at the same time assist in accessing finance. In a study undertaken by Nguyen and Luu (2013), which analysed education and its implications on access to bank credit, broke education into three different variables namely: basic education level, professional educational level and knowledge about enterprise law and tax law. In their study, they found that all the proxies of education qualification as highlighted have a significant positive effect on access to finance.

2.8.4 Experience

There is a link between prior experience and the performance of a business on the basis of the efforts that are made in growing a new business (Dimov, 2010). This notion is largely grounded on the fact that the entrepreneurs bring what they have learned from the past experiences, thus having greater capacity or capabilities to take on present and future related entrepreneurial undertakings (Corbett, 2005). The amount of experience working within different or specific industries has been a well-studied aspect of human capital within entrepreneurial literature. Entrepreneurs who have prior working experience tend to understand the competitive nature of the environment, particularly in the case of an enterprise established within the same industry in which the entrepreneur has been previously employed. From this basis they are able to recognise opportunities, threats, specific regulations and how to build relationships with key customers and suppliers (Kor, 2003). Bearing industry-specific knowledge plays a significant role for the prospective entrepreneur as the individual is not only able to identify opportunities but develop specific plans of the existing opportunities in converting them into viable businesses (Delmar & Shane, 2006). It is therefore not surprising to see an entrepreneur with prior experience having the ability to obtain formal sources of venture funding and launching a business that is fairly larger than others who have less or no existing experience (Roberts, Klepper & Haywood, 2011).

When undertaking new ventures, it is important that prospective entrepreneurs are able to integrate their past experience towards the establishment of their businesses as this is one of the elements that determines the success and performance of their business (Dahlquist, Davidsson & Wiklund, 1999). Experience in the entrepreneurship domain includes having dealt with start-up problems such as generating sales, developing marketing avenues and tactics, obtaining external financing, and dealing with internal financial and general management issues (Rwigema, Urban & Venter, 2008). Timmons (1999) is of the view that entrepreneurs who are successful are those who have a solid base as well as a wide breadth of management skills and know-how from the root of prior work experience.

Prior work experience plays a significant role towards an enterprise’s performance in various ways. Entrepreneurs firstly have the foundation for making knowledgeable actions and decisions in the daily engagements of their businesses. Secondly, considering that on most occasions when entrepreneurs start their businesses they start them from familiar grounds, that is, they either start a business within the same geographical area, meaning that they are well accustomed to the market in which they cater their products or services; and or start a business in the same industry in which they were previously employed (Reuber & Fischer, 1999). Placing this statement in the case of prospective entrepreneurs who have no work experience on record means that such individuals have a higher possibility of failing and at the same time considering the provision of finance from banks, these individuals are likely to default on the payment of loans provided. Having prior work or business related experience means that the individual already has extended networks, increased expertise and possibly an existing financial credit rating with financiers from purchasing certain personal property or items, such as cars or a house which needed bank financing (Metzger, 2006).

Relating the variable of prior experience has been empirically proven to be an important variable of human capital. This has been observed through a study conducted by Gompers, Kovner, Lerner and Scharstein (2008). These researchers have found that venture capitalist consider the aspect of an individual's experience to be important as this is classified as one of the signalling factors to the potential success of the business. An entrepreneur who has a background of experience means that he or she brings along certain skills which are to be ploughed into the new venture thus increasing the chances of a successful business (Cooper *et al.,* 1994). Acknowledging this phenomenon, it has been found that the skills gained from past experience strengthen the relationship between the abundance of opportunity in the economic environment of the business and the performance of the business (Chandler & Hanks, 1994).

Based on the section concerning human capital and financial access it was theoretically articulated that having invested in human capital entrepreneurs are able to create a basis in which they can access finance. There are a number of variables that can be assigned to represent human capital, following the above, the researcher uses knowledge, education and experience as the variables that measure human capital. In this regard the following hypotheses are outlined:

Hypothesis 2: Entrepreneurs perceive human capital factors as having a significant positive relationship in accessing finance specifically:

H2a: Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.

H2b: Entrepreneurs perceive education as having a significant positive relationship in accessing finance.

H2c: Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.

2.8.5 Effects of access to finance on growth

Access to finance is vital for strengthening the degree of success, competitiveness and more importantly, the growth of a business. All forms or sizes of businesses require external finance. Even the most profitable businesses which have the capacity to invest their generated profits have, in most cases, relied on external funding in order to reinvest for growth. External finance lays a foundation for more rapid growth thus opening an opportunity for businesses to scale-up, enter new markets and enlarge the product or service portfolio (London, 2010).

Having established the various underlying variables associated to the theories of social and human capital which are theoretically perceived to have an impact on access to finance, the study extends itself towards examining the impact of financial access to the growth of SMMEs in the informal sector. Growth in the context of businesses can be measured through different indicators. In a number of researches, growth has been measured according to sales, employment, assets, and output (as relating to the number of units of products produced), market share and profits (Wiklund, 1998). In this study, the researcher looks at five relevant indicators or measures of growth which are innovation, profit, hiring of more employees, organisational capabilities and growth strategies. These are however evaluated from a perceptual perspective given that the nature of the study is applied in the context of informal businesses, where tangible or physical measures of growth such as number of assets acquired, sales and other conventional measures of growth would be difficult to account. This is due to the fact that some of the business owners are more than likely to conceal some of their information for the sole purpose of avoiding issues such as taxation and there are no formal accounting systems that would reflect any records concerning sales or assets acquired. It is therefore ideal to look at growth through perceptual based indicators and these are discussed in the following paragraphs.

Innovation

Innovation by firms is an important driver of factory productivity and long-term economic growth around the world (Aghion & Howitt, 1992). The technologically developed businesses source innovation through their investment in research and development (R&D). Subsequent to the process of investing in R&D, businesses are then able to proceed and introduce new patented products, services and build on technological capabilities that develop and grow their business (Acemoğlu, Aghion & Zilibotti, 2006). However one important question that needs to be addressed is how such new products, services and technological capabilities come into play such that a business is able to realise growth. Specifically, what are the sources that underpin the introduction and scaling of innovation? One main source that encompasses innovation is funding (Comin & Hobijn, 2010). However, in past and current researches, it has been gathered that funding is a constraining factor towards the adoption and application of new technologies, products or services. Businesses therefore need sufficient financial resources to properly adapt new technologies products and processes in order to grow (Comin & Hobijn, 2010). It therefore goes without question that innovation is considered as one of the most powerful ways to drive business growth thus the researcher looks at innovation as an indicator of business growth.

Profit

In all areas of business environment, the improved access to finance has an influence to businesses of all sizes (Hallward-Drimeir & Aterido, 2007). One of the primary deductions of modern economics is that access to finance is good for improving the profits of businesses (Cecchetti & Kharroubi, 2012). Studies have provided evidence on the view that access to finance improves the performance of SMMEs thereby increasing the profits of businesses which ultimately lead to the growth of businesses. More recently, researchers were able to move beyond simple correlations and establish a convincing causal link running from finance to improving performance of businesses that translate to increased profits and the growth of SMMEs (Cecchetti & Kharroubi, 2012). It therefore is conclusive to state that given the entrepreneur's ability to manage their businesses efficiently and following the access of finance they are able to realise higher profits which are, in most cases, reinvested for the expansion or growth of the businesses so that they remain competitive. Thus the researcher considers profit as an indicator of growth.

Hiring of employees

The hiring of employees or number of employees hired as referenced through various studies is one of the traditional measures of business growth (Wiklund, 1998). This measure has also been considered to relate to the access to credit. This has been proven to hold ground in various studies which empirically provide the evidence of this phenomenon (Hyytinen & Pajarinnen, 2008; Malesky, 2008; La Rocca, La Rocca & Cariola, 2011). A study undertaken by Monge-Naranjo and Hall (2002) focused on the access to credit and the effect of credit constraints on Costa Rican manufacturing firms. It was found that the main determinants of access to banking credit were associated to the firms' characteristics such as the firm's size in terms of the number of employees hired. One can observe that there are situations or conditions of an interchange of application in the measure of the number of employees hired. The first circumstance may be in the context of financial access, and the other circumstance is where the measure can be accounted as an indicator of business growth. In the former situation, the measure can be reflected in a condition where a business that has the capacity to hire more employees and has all the necessary cash flows to meet the obligations of paying its employees can be perceived as a positive signal to bankers (Malesky, 2008). This implies that they are likely to also meet the obligations associated to the repayment of bank loans. However this situation does not apply to the given study. The latter condition is the applicable condition as the study views the measure of hiring more employees as an indicator of business growth, for it can be well acknowledged that a business that has been able to hire more employees has been able to realise greater volumes of units of products or services which therefore is directly reflective on the growth of a business (Wiklund, 1998). Hence this study uses the hiring of employees as an indicator of growth.

Organisational capabilities

An organisational capability in the perspective of businesses pertains to managing resources effectively, such as employees, in order to dominate over rivals. The focus of the enterprise is entirely about ensuring that it meets the customers demand (Knight & Cavusgil, 2004). The importance of organisational capabilities is rooted in evolutionary economics (Nelson & Winter, 1982), wherein innovation processes are explicitly described. This evolutionary interpretation emerging from economics explains the implication towards building on superior organisational capabilities for businesses. Often businesses need to introduce as well as sustain their innovativeness in order to develop. Through sustaining innovation there is a creation of new knowledge which leads to the development of organisational capabilities. Organisational capabilities are composed of critical competences and embedded routines which lead to the superior performance of a business (Lewin & Massini, 2003). Acknowledging that organisational capabilities are sourced from innovation which in itself is sourced from funding on the basis of research and development processes, this brings the element of finance as an important factor towards the eventuality of built organisational capabilities. Following this, it can be perceived that businesses that constantly improve or build their organisational capabilities are therefore not only able to remain competitive but build on their growth path (Comin & Hobijn, 2010). Therefore organisational capabilities can be classified as a growth indicator.

Growth strategies

A business that has limited or no access to external financing may be constrained in their ability to pursue optimal investment strategies; this in turn is an impediment towards the growth of a business (Demirgüc-Kunt & Maksimovic, 1998; Levine, 2004; Knyazeva, Knyazeva & Stiglitz, 2009). Empirical evidence suggests that an improved access to finance for businesses makes an important contribution towards the growth of business (World Bank, 2006). This is based on the premise that finance builds on the operations of a business in many ways where a business can acquire and allocate more resources which lead to the expansion of a business (Demirgüc-Kunt & Maksimovic, 1998). It is therefore conceivable to state that without finance, businesses cannot focus on their growth strategies which would be implemented in the quest of the growth. Therefore the researcher is of the view that growth strategies are measures or indicators of growth given that the strategies in their very nature are sound and are well implemented to yield to the growth of the business.

Hypothesis 3: Entrepreneurs perceive access to finance as having a significant positive relationship in the growth of business.

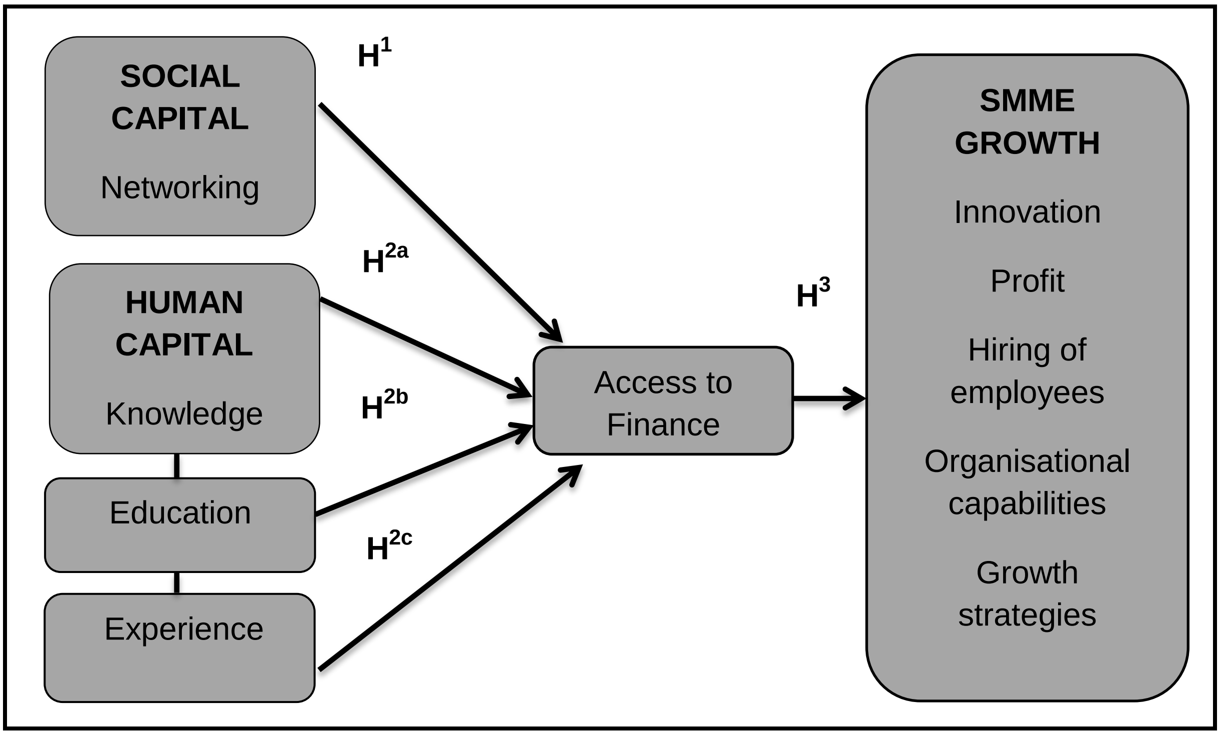


FIGURE 2.2: Proposed hypothetical framework and hypotheses
Source: Researcher's own construction

This hypothetical framework which, in essence, is the conceptual framework, is developed from the theories of social capital and human capital. These theories and the underlying variables as outlined in the sections above are adapted with the basis that they are perceived to be some of the determinants that lead to the access to finance. As illustrated from the hypothetical framework, access to finance is perceived to be directly related to the social and human capitals as respectively represented through the variables of networking, knowledge, education and experience. The relationship of social capital and human capital towards access to finance is examined through various items outlined in the questionnaire that make up each of the variables of social and human capitals, while the access to finance in the context of this study is treated as an intervening variable that links to the growth of a business. The growth of the business is represented through perceptual based indicators of innovation, profit, hiring of employees, organisational capabilities and growth strategies.

2.9 Conclusion of literature review

Having accounted to the overview concerning the informal sector businesses, it has been observed that the lack of access to finance is pinned on the entrepreneurs' characteristics and the underlying structural aspects concerning the businesses they run. This, from a literature perspective, has also been negated as most of the research concerning lack of funding for SMMEs has been aligned to the supply-side perspective. This study builds on the literature on the demand-side view as being an area that is least explored in terms of explaining the phenomenon of financial inaccessibility for SMMEs in the informal sector. After all, the substantial impediments to financial access for all SMMEs in the formal or informal sector are believed to be on the demand side (Falkena *et al*, 2001). Hence, this study uncovers and examines certain factors or variables that can help in overcoming the pervasive issue concerning the lack of funding for SMMEs in the informal sector which therefore hinders the growth of these businesses. This study is of the view that the underlying variables of social and human capitals have an association to the access to credit. These variables being; the entrepreneurs' networks, knowledge, education and experience are hypothesised in the study and are to be attested in identifying their influence towards the access to finance which in is this study is considered as the intervening variable which ultimately is perceived to contribute to the growth of the businesses.

CHAPTER 3

3. RESEARCH METHODOLOGY

This chapter highlights the research paradigm and includes the explanation of the research methodology, whereby data collection and data analysis methods are employed in the study.

3.1 Research paradigm

The term methodology expresses a way in which a research problem is solved in a systematic manner (Kothari, 2006). Different disciplines have a different view of how research is conducted. This study has assumed a positivistic research paradigm. A positivistic research paradigm is also known as a quantitative research methodology. This approach purely uses numbers and mathematical measures of characteristics displayed by individuals and events (Thomas, 2003). The data that has been collected uses numbers, thus requiring a positivistic research paradigm based on the fact that the nature of the study takes the form of experimental testing, by evaluating the impact of the independent variables on the dependent variable. Therefore, this study has adopted theoretical knowledge to describe a certain phenomenon that is experienced from a practical perspective. The study has attempted to explore, quantify, determine, and combine attitudes or perceptions; in this case to an event or object to arrive at a conclusion (Kumar, 2011). As has been outlined in the hypotheses, the purpose is to evaluate the impact that the entrepreneur's social capital (networking) and human capitals (knowledge, education and experience) have on the access to finance in the context of SMMEs operating in the informal sector. Following this, the access to finance is perceptually analysed to see if it has an impact on the growth of a business. The study has taken a cross sectional approach which involves the analysis of data collected from a population or a representative subset, at one specific point in time. The advantage of using this method primarily lies with fact that one can limit the drastic variance and changes in variables, which would therefore make the study more accurate when it comes to exploring and applying various aspects thus, setting a counter on the sporadic nature of the informal sector which may affect the reporting of certain deductions drawn. The method assists with setting specific rules using objective mathematical and scientific tools (Babbie & Rubin 2011, p.40) thus assisting in measuring precisely what is intended to be measured under specific mathematical or scientific tools, such as the validity and reliability of the outlined variables of the study. Other advantages pertain to the fact that a cross sectional study is good for descriptive analyses and provides a basis of generating hypotheses that aid in making conclusive judgments from the empirical findings. The disadvantage may relate to the inaccuracy of the scientific data that is collected from the respondents which has a possibility of altering or even affecting the true reflection of what is being studied thus compromising the results of the hypotheses. For instance, participants or respondents to whom the questionnaire or survey is administered may choose random answers and therefore not provide legitimate responses to the questionnaire. In that case the researcher has to accept these findings even though they are not truly reflective of the reality (Babbie & Rubin 2011, p.40).

3.2 Research design

3.2.1 Primary study

Primary study concerns the gathering of data that has not been previously collected and/or does not exist. In this case, the extraction of primary data was based on a sample to whom the administered questionnaire was addressed (Jugenheimer, Bradley, Kelley & Hudson 2010, p.29). The study as outlined above has assumed a cross sectional framework based on various motives. The first being; the limited time available to conduct the research, second considering that undertaking in a research requires a great deal of funding to do so, a cross sectional framework as outlined in the previous section highlights that such a study is done at one specific point in time and is therefore not a prolonged process which consequently limits any additional costs associated with conducting the research. It is therefore relatively inexpensive to conduct the research based on the adoption of a cross-sectional approach. The third motive is based on the fact that through a cross-sectional framework many factors and outcomes can be assessed. In this case, the study has not looked at one particular factor but has included an additional factor in determining a particular outcome (Levin, 2006).

3.3 Population and sample

3.3.1 Population

In this study, the population that has been targeted comprises all informal enterprises within the Gauteng province which are characterised or defined according to the National Business Act of 1996. The population in this study is a made up of all informal businesses that are classified as survivalist, micro-enterprises and very small enterprises ranging from street vendors who sell fresh produce such as vegetables and fruit, hair salon owners, street vendors who sell food and drinks, *spaza* shop owners who usually operate in busy areas, such as taxi ranks, train stations and central business districts of areas outlined in the study. Amongst these businesses are businesses that reflect high growth potential.

3.3.2 Sample and sampling method

For the purpose of the study, studying a sample of the population was considered to be more suitable as compared to conducting a census, based on the very nature of businesses that operate within the informal sector which as gathered from chapter 2 are characterised by aspects such as low barriers to entry, where the establishment of such businesses is easy and yet hard to monitor as they are unregistered. It should be understood that the greater portion of the informal business operations take place in Central Business Districts (CBDs), where most of the informal business trading takes place in designated areas assigned by municipalities, the sample was therefore based on these particular areas. In accessing the designated areas in which the informal businesses operate, so as to administer the questionnaire, consultation was made with the municipalities of the Johannesburg, Pretoria and the East Rand. With regards to the East Rand it should be acknowledged that this is a municipal region known as Ekurhuleni which extends from towns such as Germiston in the west to Springs in the east and south, down to Nigel and includes towns such as Boksburg, Benoni, Brakpan, Kempton Park, Edenvale and Bedfordview. The sample for the assigned study was also based on the particular areas.

The research was based on a non-probability convenience sampling method and proportional sampling to solicit the responses of a minimum of 385 informal enterprises in Gauteng. Convenience sampling is the process that entails the selection of respondents that are already accessible; it mainly pertains to accessing information from respondents who are available at a particular point in time (Blattberg, Kim & Neslin, 2008; Bryman, 2010; Wood & Ross-Kerr, 2011). The selection of convenience sampling method is based on various reasons that pertain to the dynamics or attributes of the informal business sector. For instance, it is acknowledged that certain businesses operating within this sector have the following characteristics; high mobility and or change to new location (no fixed location), some of the respondents may be reluctant to respond based on the fear of subsequent taxation or harassment by authorities which means that if some of the respondents are not willing to respond one therefore has to address another respondent who may be keen to respond. Based on some of these aspects that have been outlined gives grounding to adopt convenience sampling as it allows the researcher to access information that is available at any given time (Pellsier, 2007).

The distribution of the administered questionnaires was addressed to three respective areas of Gauteng that is Johannesburg, Pretoria and the East Rand. Johannesburg and Pretoria had an equal portion of 128 distributed questionnaires, while an additional 129 were distributed in the East Rand, thus making the sum of the minimum sample of 385 respondents. The minimum sample of 385 responses is made up of a set calculation or equation as outlined by Bartlett, Kortrik and Higgins (2001, p.46) which assists in determining a suitable minimum sample size. The study assumed the following statistical parameters which in turn assist in finding the ideal minimum sample size: Margin of error (confidence interval) of +/- 5 %, and a standard deviation of 0.5 which will reflect how much variance is expected based on the responses. The confidence interval of +/- 5 % directly refers to the confidence level of 95% which is equal to a Z-score of 1.96; therefore the following equation is used to calculate the stated minimum sample size.

$$Neccessary\ sample\ size = [(Z - score)^2\ x\ \ StdDev\ x\ (1 - StdDev)]\ /Margin\ error$$

= [(1.96) ^2 x .5 x (.5)) / (.05) ^2

= (3.8416 x .25) / 0.0025

= .9604 / 0.0025

= 384.16*

*In the case of the given decimals an additional questionnaire was administered, thus equating to 385 responses.

3.4 The research instrument

When each of the responses on a scale are assigned values and calculated to yield a single summative amount, a Likert scale is created (Kothari, 2004). A Likert scale in brief entails a number of statements represented in a series format, which are followed by a number of ordered responses which have alternative options (Monnette, Sullivan & DeJong, 2013).

A self-administered questionnaire has been administered to various respondents across the outlined geographical areas of Gauteng. The measuring instrument in the form of a Likert scale comprises scales ranging from 1-7 in section B, C and D. The Likert scale scores are represented as follows: (1) = not at all important, (2) = very unimportant, (3) = somewhat unimportant, (4) = neutral, (5) = somewhat important, (6) = very important and (7) = extremely important. The language of communication used was English. Taking into consideration that some of these informal business owners have not been exposed to proper formal education to interpret what was questioned, assistance had to be provided. The questionnaire consisted of three sections namely section A which gathered biographical or demographic data concerning the businesses of the respondents (owner-managers), such as their age which according to the scale ranges from 21 years to 60 plus. Gender classification has been broken-down to male or female. The race aspect was split into black, white, coloured and Asian. Highest qualification was split into various classifications which are; Matric, school incomplete, certificate/diploma, Bachelor's degree, postgraduate degree, tertiary education incomplete or did not go to school. Section B comprised statements or items regarding the variables covering social capital and human capital. With regards to social capital the items that were used related to the networking variable of social capital while the human capital comprised items concerning knowledge, education and experience variables. Section C comprised statements which were addressed to respondents (owner-managers) concerning their perceptually view of different factors aligned to social and human capitals that have an impact on various finance alternatives that represent the intervening variable of access to finance. Section D consisted of items concerning the growth of the businesses which was represented by the perceptual based indicators of innovation, profit, hiring of employees, organisational capabilities and growth strategies (see appendix B).

Reverting back to the items expressed on the variable of networking as a primary aspect aligned to the factor of social capital; the items were formulated from the theory gathered from a quantitative study undertaken in 2012 by Machiori, This study focused on the *Impact of networking on access to finance and performance of SMEs in the Buffalo City Municipality, Eastern Cape*. The underlying items associated to the variables of knowledge, education and experience which make up the human capital factor were gathered from a study concerning an entrepreneur's human capital variables as factors leading to access in funding of small enterprises by Matshekga (2012). The Cronbach's alpha scores of the variables were reflected as follows; knowledge (0.857), education (0.789) and experience

(0.796), and the collective items associated to the dependent variable, that is, growth of the business reflected an alpha score of 0.94.

3.4.1 Scale items of variables

The proposed hypothetical framework and hypotheses were derived through the literature as covered in chapter 2. Chapter 2 further outlined each of the independent variables of social capital and human capital as respectively represented through; networking, knowledge, education and experience which all had different items measuring them. The study introduced the intervening variable of access to finance which also had its own scale items. Following this the literature proposed that there is a relationship between the intervening variable and the dependent variable, that is, access to finance having a relationship on the growth of businesses. The dependent variable, which is growth, also had its own items as measured through perceptually based indicators of innovation, profit, hiring of employees, organisational capabilities and growth strategies. Figure 3.2 and table 3.1 are shown for ease of reference in reflecting the scale items of variables.

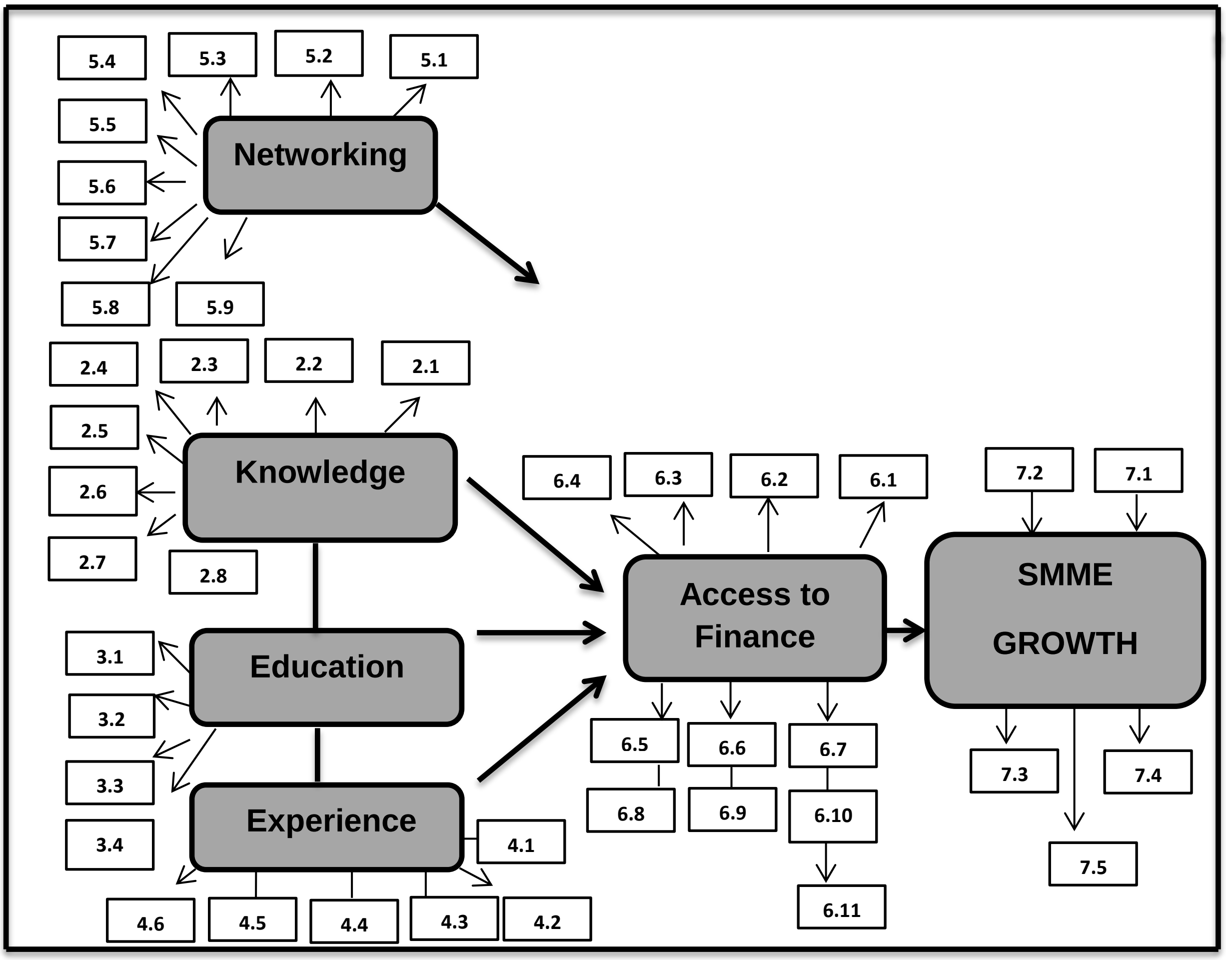


Figure 3.2: Reiteration of hypothesised framework with scale items

Table 3.1: Scale items of Independent, Intervening and Dependent variables

INDEPENDENT VARIABLES
NETWORKING
5.1 Spending more time on social time on social activities (business events).
5.2 Membership of business association (trade associations).
5.3 Being a member of representative organisation such as chamber of commerce.
5.4. Having a relationship with government agencies.
5.5. Maintaining relationships with competitors (similar business).
5.6. Maintaining relationship with suppliers.
5.7. Maintaining relationships with external accountants.
5.8. Maintaining relationships with customers.
5.9 Maintaining relationships with family and friends.
KNOWLEDGE
2.1 Entrepreneur's managerial knowledge and the ability to demonstrate good business knowledge.
2.2 Entrepreneur's ability to read and interpret financial statements (ability to perform financial analysis).
2.3 Entrepreneur's good financial knowledge.
2.4 Good market analysis and competitor's assessment.
2.5 Entrepreneur's ability to manage and control business costs.
2.6 Entrepreneur's ability to define the organisational goals and set their business objectives clearly.
2.7 A track record of running previous businesses.
2.8 Entrepreneur's ability to show knowledge of his/her business, products and services offered.

INDEPENDENT VARIBLES
EDUCATION
3.1 Entrepreneur’s formal education importance.
3.2 Entrepreneur’s ability to write a comprehensive business plan.
3.3 Entrepreneur’s confidence in managing the business.
3.4 Good market analysis and competitor’s assessment
EXPERIENCE
4.1 Entrepreneur’s managerial expertise
4.2 Entrepreneur’s general business skills
4.3 A track record of running previous businesses
4.4. Entrepreneur’s previous work experience
4.5. Good networking abilities.
4.6. Entrepreneur’s ability to manage risk.
INTERVENING VARIABLE
ACCESS TO FINANCE
6.1 Established entrepreneurial networks allow entrepreneurs to access subsidies from government agencies.
6.2 Established entrepreneurial networks allow entrepreneurs to access trade credits from suppliers.
6.3 Established networks allow entrepreneurs to access loans from friends and family.
6.4 Established networks /(connections) with bankers allow entrepreneurs to access bank loans.
6.5 Bankers view entrepreneur’s educational background as a decisive factor in providing a bank loan.

INTERVENING VARIABLE
ACCESS TO FINANCE
6.6 Bankers view entrepreneur's ability to write comprehensive business plans as a decisive factor in providing a bank loan.
6.7 Bankers view an entrepreneur's managerial knowledge as a decisive factor to providing a bank loan.
6.8. Bankers view an entrepreneur's ability to manage and control costs of a business as a decisive factor to providing a bank loan.
6.9 Bankers view an entrepreneur's general business skills as a decisive factor towards providing a bank loan.
6.10Bankers view an entrepreneur's track record of running a previous business as a decisive factor toward providing a loan.
6.11Bankers view an entrepreneur's ability to manage risk as a decisive factor toward providing a loan.
DEPENDENT VARIABLE
GROWTH
7.1 The availability of external finance influences the ability to be innovative.
7.2 External finance influences the profitability of a business.
7.3 Access to finance influences the business to hire more employees with relevant experience.
7.4 External finance enables the business to build or improve its organisational capabilities.
7.5 Access to finance enables the business to focus on growth strategies.

3.5 Procedure for data collection

The procedure for data collection was through the application of a self-administered questionnaire as this gave some degree of a high response rate although clarification had to be made when necessary in order to ensure that the respondents of the administered questionnaire were able to comprehend what is being questioned, based on the set questions as outlined.

3.6 Data analysis

From the gathered data, a data analysis procedure was implemented according to the appropriate statistical methods. Starting with the process of recording the collected data using Microsoft Excel and transferring the data to STATISTICA. The STATISTICA version 12 program was used to analyse the data using descriptive as well as inferential statistics, followed by the process of testing for the validity as well as the reliability of the instrument. Other key in-depth statistical methods which encompass the study were used are discussed in the following sections of this chapter.

3.6.1 Descriptive and inferential statistics

The science of collecting, organising, analysing and interpreting the data is referred to as statistics. From the science of statistics, conclusions are made and from these conclusions, decisions can also be made based on the process of analysis in statistics (Asadoorian & Kantrelis, 2005). Statistics can be split into two main units, namely descriptive as well as inferential statistics. Descriptive statistics in its nature focuses on the presentation and organisation of data, where the data is summarised and presented in an organised manner. Descriptive statistics includes measures of central tendency such as the mean, median and the measures of dispersion such as the standard deviation and range (Lee, Lee & Lee, 2013). Inferential statistics is centred on analysing or studying a selected sample of the population as a whole, where certain conclusions on the sample are drawn to account for the population. From the drawn results on the sample, decisions are therefore made or inferred concerning the characteristics pertaining to the population. The use of inferential statistics is mainly used to eliminate the time and costs associated to conducting research, for in some cases the population which is studied is far too large to account for (Mendenhall, Beaver & Beaver, 2013). This, study has adopted both the descriptive as well as the inferential statistics.

3.6.2 Validity of the measuring instrument

Validity and reliability are two of the most important aspects to consider prior to proceeding with the analysis of data collected concerning a research that is qualitative. These are used in ensuring that the measuring instrument that has been applied in collecting data is valid and yet reliable to make analytical deductions (Saleh & Khine, 2011). Validity is a statistical measure that measures the degree to which observations are meaningfully reflective on the concept that a researcher attempts to measure thus ensuring that the scientific method of the study is valid (Shuttleworth, 2008). Phelan and Wren (2005) outline different ways in which validity of the measuring instrument can be attested. This can be done through the process of a pilot study where the measuring instrument is applied in accordance to a selected sample of the population and from this application the researcher needs to match the results of the instrument in accordance to set goals and objectives of the study. This in essence lays a determining basis that assists the researcher to see if the produced results of the instrument are idealistically what the researcher would anticipate. The other way of attesting to the validity of a measuring instrument is through comparing the instrument against an established valid instrument used in previous studies. If the new instrument yields to similar results of the established instrument then both instruments can be considered as valid.

In quantitative research there are different types of validity which include; face validity, content validity and construct validity (Creswell, Ebersohn, Eloff & van der Westhuizen, 2007). Face validity is relatively less critical in the sense that validity is accounted literally from looking at the instrument's items and evaluating whether the items of the instrument "appear" valid or not. Content validity relates to face validity however, it may be more critical in the sense of how it is evaluated. In this case, content validity is conducted through a process in which panellists or expert analysts are requested to rate whether a certain question or item associated to a certain construct is in fact, proven to be valid or associated to a given construct assigned in the study. In accounting for content validity the assigned supervisor had approved the items outlined in the research instrument. Construct validity is a build-up of theoretical constructs which are brought to reality with the aim of creating the capacity to measure theory which in itself is abstract, therefore the theoretical constructs of cause and effect are brought up to accurately represent the real-world situation (Jackson, 2008). This in essence is the case aligned to the given study where the constructs of social capital and human capital are respectively represented by the various variables of networking, knowledge, education and experience thus enabling the researcher to realistically measure the theoretical concepts of the given study. Therefore construct validity has been adopted in this study. It should be acknowledged that construct validity in itself is demonstrated through the subcategories or subtypes of convergent and discriminant validity. In brief, convergent validity refers to a case in which measures that are purported to be related are in fact related, while discriminate validity expresses that case where measures are suggested to not be related are in fact unrelated. Therefore to demonstrate construct validity, both cases need to exist, neither one alone suffices to classify that construct validity exists (Jackson, 2008).

There are different methods that can be applied to measure validity of constructs. According to Williams, Brown and Onsman (2010), the fields of study concerning education and psychology frequently use the factors, analysis method as a tool for interpreting self-administered questionnaires and thereby ensuring the validity of the constructs or validity of the entire instrument. Factor analysis is a multivariate statistical procedure that has many uses; one of the most important uses is the fact that it reduces a large number of variables into a smaller set of variables which are known as factor loadings. Another important use of factor analysis is that it establishes underlying dimensions between measured variables and latent constructs, which then lays a foundation for a theory to be reformulated or refined (Williams, Brown & Onsman, 2010). There are two forms of factor analysis which are confirmatory factor analysis and exploratory factor analysis. Confirmatory factor analysis (CFA) is a factor analysis approach that is based on the firm idea of the number of factors that will be encountered and about the specific variables that have the likelihood of loading on to each other, while the exploratory factor analysis (EFA) in its nature explores relationships of various variables which from the onset does not acknowledge which factors are likely to load on each other or are in association with each other prior to the research being undertaken, hence the term "exploratory" (Rahn, 2012). This method allows the researcher to form hypotheses on the underlying constructs as observed in chapter 2. Following this, the EFA allows the researcher to estimate factors which influence responses on the observed variables. Thus the given study has adopted the EFA as the researcher had no established confirmed basis about which factors or variables influence or are associated to each other prior to the research being undertaken. Furthermore the formulated hypotheses had not been confirmed in previous studies, particularly in the context of the given study.

Factor loadings provide evidence of validity and are calculated to determine the correlation between a measure and the underlying factor (Bordens & Abbott, 2011). A factor loading of 0.4 is considered fair, and factor loadings that are greater than 0.5 are considered acceptable and are therefore regarded as significant thereby providing adequate evidence of validity in a study (Hair, Anderson, Tatham, Black, 1998). Therefore any items that were below 0.5 were not considered as part of the relevant factor.

3.6.3 Reliability of the measuring instrument

Every measuring instrument's consistency is required in order to ensure that the measuring instrument is error free. The consistency of the measuring instrument is referred to as the term reliability. The occurrence of the error can emerge from the measuring instrument or the measuring situation, that is, the environment and/or the respondent to whom the questionnaire is assigned (Kerlinger & Lee, 2000; Creswell, 2008). To test for reliability of the instrument Cronbach's alphas are used to ensure that the instrument reflects a justifiable status of internal consistency (Tavakol & Dennick, 2011). In order to demonstrate reliability of a measuring instrument as well as reflect how different items of the measuring instrument are related to each other, a number between 0 and 1 is expressed. The higher the value of the alphas i.e. 0.7, signifies a high correlation which therefore increases the reliability of the instrument (Tavakol & Dennick, 2011). This study has considered alpha scores of 0.6 or higher to account for reliability.

Prior to conducting this research a pilot study was undertaken to assess the feasibility of the actual study. Primarily the pilot study was to test the research instrument. The pilot study was conducted in the township of Alexandra in the month of September 2015. The research instrument was administered to a minimum of 30 respondents. Various informal businesses engaged in menial processes ranging from carpentry, selling of second hand items, and general informal traders selling vegetables at various vegetable stalls at the train station and taxi rank were interviewed. From the pilot study there were various outcomes drawn so as to identify whether certain adjustments had to be made to the assigned research instrument. These results that were of interest were specifically drawn on the reliability of the research instrument and it was found that all the variables of social capital (networking) and human capital (knowledge, education and experience) were found to be reliable. Using the SAS university edition software, the Cronbach's Coefficient Alpha reading for social capital as represented by networking was 0.7 as the summary composite. With regards to human capital as measured through knowledge, education and experience, the Cronbach's Coefficient Alpha summary composite was 0.79. Furthermore, the Cronbach's Coefficient Alpha composite summary for financial access was 0.53, which was not anticipated. Therefore an introduction of the intervening variable as represented by access to finance had to be introduced for the final study, which thus had a link to the growth variable as the dependent variable.

3.6.4 Pearson's product moment correlation coefficient

The Pearson's Product Moment Correlation Coefficient (PPMCC) forms an important part of a quantitative research that seeks to study relationships between variables. This statistical method determines the occurrence of an existing linear relationship between two variables. In this regard, the PPMCC Coefficient has been used to determine the correlations between the selected variables in the study. This method quantifies the strength and direction of the relationship which can be identified by the correlation coefficient. A correlation exists when a change in one variable causes a change in another, the change in the dependent variable may be in a direction that is similar or opposite to the direction of the independent variable (Sponaugle, 2014). According to Bordens and Abbott (2011) the PPMCC as a statistical method is a measure of association which scales the dependent measure on an interval or ratio scale. It therefore provides an index of direction and magnitude of the relationship between the two sets of scores. This study has applied this statistical method to measure the strength of internal reliability of the questionnaire as well as to quantify the relationship between the selected independent variables namely; networking, knowledge, education and experience on the intervening variable, that is access to finance. The method has also been applied to measure the strength of internal reliability of the intervening variable (access to finance) and the dependent variable (growth).

The Correlation coefficient reflects a number that represents the strength and direction of the relationship between two variables, which as mentioned above is the independent variable and the intervening variable, as well as the intervening variable and the dependent variable. This number has to fall between -1.0 and + 1.0 and can be calculated using data analysis. The PPMCC is represented by the letter r, where the correlation coefficient determines whether the linear relationship between two variables is positive or negative and weak or strong, or non-existent. A positive correlation will result an r value of 0 to +1.0. A negative correlation will have an r value of 0 to -1.0. If the correlation coefficient is 0, then this means there is no correlation between the variables. Furthermore, the classification of the results of the correlation can be as follows, -1.0 to -0.5 or 1.0 to 0.5 is considered as a strong relation between the variables. However correlation coefficients result of -0.5 to -1.0 or 0.1 to 0.5 is considered weak relations. In addition, a -0.1 to 0.1 reflects a weak relation (Rumsey, 2011; Sponaugle, 2014).

3.6.5 Multiple regression analysis

The statistical method of multiple regression analysis can be used to illustrate how an independent variable can influence a dependent variable (Cohen, Cohen, West & Aike, 2013). It is mostly used in studies that make use of collected data from surveys and questionnaires (Thomas, 2004). Multiple regression analysis helps determine whether relationships exist between two or more variables. Multiple regression analysis further determines whether the relationship between the dependent variable and independent variable is statistically significant at a desired level of confidence (Thomas, 2004; Khotari, 2008). Beta weights or regression coefficients are calculated and assigned to each variable; these coefficients will then indicate how changes in each independent variable affect the intervening and dependent variable (Bond, Sims & Dent, 2013). Therefore, the multiple regression analysis will be used to determine the dependency of access to finance from the independent variables, namely, networking, knowledge, education and experience. The multiple regression analysis will further examine the dependency of growth from the intervening variable of access to finance where access to finance, though regarded as the intervening variable, is perceived as the independent variable in relation to the dependent variable of growth.

3.7 Ethical considerations for conducting the research

An application form on ethical clearance had to be submitted to the Commerce, Law and Management Department of the Witwatersrand University prior to undertaking the research. The ethical considerations for conducting the research were specifically drawn in the case of identifying to whom the research is conducted and identifying if the research infringes on certain rights of the various persons involved. Once the ethical clearance was approved the study could commence.

3.8 Conclusion

This chapter discussed the research methodology, which in essence pertains to the research paradigm of the study that specifically assumes a positivistic approach also known as a quantitative research methodology. This was followed by the research design consisting of subsections concerning the population, sample and sampling method that the study undertook. The research instrument was discussed outlining where various aspects such as the scale items used for each construct are to be found. This was followed by the procedure in which the data was collected. Subsequently an important discussion relating to the data analysis was conducted, which expressed the various statistical methods that have been used for the study.

CHAPTER 4

4. EMPIRICAL RESULTS

The empirical results chapter entails different statistical methods which have been employed in order to reflect on the results concerning the study. This chapter commences with descriptive statistics which is entirely focused on the biographical results of the respondents which reflect the general information of the informal SMMES. This is followed by validity and reliability results of the measuring instrument from the captured data. Furthermore, the study employs other in-depth analyses such as the Pearson Product Moment Correlation Coefficient as well as the multiple regression analysis to test the respective hypotheses proposed in the given study.

4.1 Biographical results of the respondents

Section A of the administered questionnaire pertained to information concerning the biographical data of the respondents. This information sought to extract data on the biographical aspects concerning the owner-managers in the context of the informal SMMEs, which detailed information such as gender, age, race and the educational background of the owner-managers as outlined in table 4.1. Section A extended by investigating other pertinent aspects of the informal businesses by collecting and presenting data regarding the sectors in which some of the informal businesses operate, the number of years these businesses have been operating, the number of employees employed within each of the 385 businesses that have been sampled. Furthermore other features such as the turnover, as well as where the respective owner-mangers learned to run a business and the number of years of working experience were detailed according to table 4.2.

Table 4.1: Biographical information pertaining to the owner-managers in context of informal SMMEs

Gender	Frequency	Percentage
Male	212	55.06
Female	173	44.94
Total	**385**	**100.00**

Age	Frequency	Percentage
21-25	42	10.91
26-35	142	36.88
36-45	143	37.14
46-60	57	14.81
60 plus	1	0.26
Total	**385**	**100**
Race	**Frequency**	**Percentage**
Black	172	44.68
White	36	9.35
Coloured	101	26.23
Asian	76	19.74
Total	**385**	**100**
Education	**Frequency**	**Percentage**
Matric or grade 12/NQ 4	197	51.17
School incomplete	133	34.55
Certificate/Diploma	32	8.31
Bachelor’s degree	12	3.12
Postgraduate degree	4	1.04
Tertiary uncompleted	7	1.81
Did not go to school	0	0
Total	**385**	**100**

From table 4.1 it can be seen that there were more males (55.05%), than females (44.94%) who run the informal businesses. Most of the owner-managers were between the ages of 36-45 (37.14%) followed by the age group range of 25-35 (36.88%). With regards to race characteristic, most of the owner-managers who run the informal businesses are considered to be black individuals (44.68%) followed the coloured people, who represent more than half of the black individuals as represented by the percentage of 26.23. The Asian owner-managers represent 19.74 percent of the sample while white owner-managers operating in the informal business sector represent a small percentage of 9.35. Looking at the characteristic of education which forms an important part of the study it was found that more than half of the owner-mangers had attained a matric or NQ 4 school leaving certificate (51.17%), which was followed by a number of owner-managers who have never completed school as reflected by a percentage of 34.55. Interestingly, it has been found that some of the owner-managers operating businesses within the informal sector have been found to have attained bachelor's degrees, postgraduate degrees and other forms of higher education qualifications.

Table 4.2: Structural aspects and biographical information of the owner-managers in context of the informal SMMEs

Business sector	**Frequency**	**Percentage**
Manufacturing	78	20.26
Business service	131	34.03
Retail	176	45.71
Total	**385**	**100**
Age of business	**Frequency**	**Percentage**
Less than 1 year	29	7.53
1-2 years	99	25.71
3-4 years	127	32.99
5 years and over	130	33.77
Total	**385**	**100**
Number of employees	**Frequency**	**Percentage**
0	167	43.38
1	89	23.12
2	71	18.44
3	34	8.83
4	7	1.81
5	8	2.08
6	3	0.78
7	1	0.26
8	2	0.52
9	1	0.26
10	1	0.26
11	1	0.26
Total	**385**	**100**

Business Turnover	**Frequency**	**Percentage**
0-99	2	0.52
100-199	146	37.92
200-299	90	23.38
300-399	59	15.32
400-499	44	11.43
500-599	28	7.27
600-699	13	3.38
700-799	3	0.78
Total	**385**	**100**
Where did you learn to run a business	**Frequency**	**Percentage**
Self-taught	89	23.12
Whilst managing the business itself/on the job	80	20.78
Previous job/work experience	120	31.17
Training programmes/courses	28	7.27
University/college (tertiary education)	7	1.82
Mentor/Advisor	41	10.65
Spouse	20	5.19
Total	**385**	**100**
Number of years of working experience	**Frequency**	**Percentage**
Never worked before	3	0.78
Less than 1 year	25	6.49
1-2 years	93	24.16
3-4 years	129	33.51
5 years and above	135	35.06
Total	**385**	**100**

Table 4.2 represents the structural as well as additional biographical information pertaining to the informal SMMEs. The owner-managers of the informal SMMEs were required to provide information concerning the sector in which their businesses operate, that is either the manufacturing, service or retailing sectors. It was found that a majority of the informal businesses operate in the retailing sector (45.71%), followed by the services sector (34.03%), while the manufacturing sector accounted for 20.26 percent.

A majority of the informal SMMEs had been in operation for a period of 5 years and over (33.77%), second to this, are those that have been in operation for 3 to 4 years (32.99%). With regards to the number of employees employed within these businesses it should be noted that according to the questionnaire the response did not categorise the number of employees but rather had an open-ended question. Therefore in this regard the highest number of employees hired by a particular business in the informal sector was 11 employees. However, what can be deduced from this aspect is that a majority of these businesses in fact, had not employed any employees or in the very least had just one employee employed. This is respectively represented by the 43.38 and 23.12 percentages.

On the aspect relating to the turnover made by the businesses as measured on a day-to-day basis, most of the businesses where making a turnover of R100.00 to R199 (37.92%), followed by a number of those making a turnover of R200.00 to R299.00 (23.38%) on a daily basis. The aspects or attributes which are structural but more inclined to the biographical information aligned to the owner-mangers in conjunction with the businesses they operate include; where the owner managers learned to run their businesses and the number of years of working experience. In the first attribute, it was commonly found that most of these individuals learned to run a business either from their previous job, self-taught or learned to run a business whilst managing the business itself all respectively represented by 31.17, 23.12 and 20.78 percentages.

In terms of the second attribute, that concerns the number of years of working experience prior to the establishment of the businesses, it was found that a majority of the owner-managers have had past working experience of 5 years and over (35.06%). This was closely followed by owner-managers who had past working experience of 3 to 4 years (33.51%), then a scaling-down of the owner-managers who have had 1 to 2 years past working experience prior to the establishment of their businesses (24.16%).

4.2 Validity and reliability analysis results – Independent variables

As stated in chapter 3, the study has assumed an exploratory factor analysis (EFA). The EFA was applied to the assigned independent variables, intervening variable as well as the dependent variable. Table 4.3 below presents the factor structure of the independent variables of the given study. Factor loadings of 0.5 and higher have been recognised as sufficient in providing evidence for validity (Hair *et al*. 1998). The factor structure table is followed by the presentation of both the validity and reliability.

Table 4.3: Factor Structure – Independent Variables

Item	Knowledge	Education	Experience	Networking
Know1	**0.713**	-0.321	-0.027	0.015
Know2	**0.555**	0.145	-0.107	0.076
Know3	**0.814**	0.115	-0.140	0.141
Know4	**0.754**	0.432	0.100	0.132
Know5	**0.718**	-0.032	0.023	-0.104
Know6	**0.802**	0.411	-0.084	0.132
Know7	**0.818**	0.345	-0.034	-0.199
Know8	**0.801**	0.217	0.037	0.423
Edu1	0.043	**0.826**	0.090	-0.452
Edu2	0.321	**0.841**	0.242	0.065
Edu3	0.043	**0.621**	-0.032	0.040
Edu4	0.210	**0.727**	0.043	-0.043
Exper1	0.265	0.134	**0.527**	-0.114
Exper2	0.441	0.032	**0.822**	0.193
Exper3	0.374	0.342	**0.724**	-0.214
Exper4	0.432	0.143	**0.751**	-0.123
Exper5	0.021	0.221	**0.677**	0.231
Exper6	-0.325	0.292	**0.822**	0.334
Netw1	0.272	-0.157	-0.451	-0.317
Netw2	0.423	0.141	0.196	**0.730**
Netw3	-0.242	-0.298	-0.288	**0.821**
Netw4	0.122	0.015	-0.087	**0.934**
Netw5	0.456	0.476	-0.130	0.179
Netw6	0.405	0.234	0.233	**0.753**
Netw7	-0.213	-0.113	-0.221	**0.733**
Netw8	0.345	0.043	-0.063	0.064
Netw9	0.344	0.213	-0.134	**0.812**
Expl. Var	5.350	4.130	2.342	4.213
Prp. Totl	0.691	0.511	0.234	0.431

Reliability as stated in chapter 3 is reflected by the Cronbach's alpha coefficient. Ideally coefficients of 0.7 or greater are a good indication of the reliability of the measuring instrument. However coefficients of 0.6 are considered, given that other indicators of the framework of constructs are proved to be satisfactory (Hair, Black, Babin, Anderson & Tatham, 2006). As stated in chapter 3, construct validity is a made up of the subcategories of convergent and discriminate validity, where in the case of convergent validity all items purported be related are in reality related while discriminate validity expresses the case where measures that are suggested not to be related are in reality unrelated (Jackson, 2008). Based on the factor structure above, it can be seen that each item representing each variable shows a high positive relation which demonstrates convergent validity while when looking at each item across other variables there is no existing relation thus demonstrating discriminate validity. Therefore the factor structure above depicts a case for construct validity.

The following sections pertain to the reporting of validity as well as the reliability outcomes of the independent variables (Knowledge, Education, Experience and Networking).

Table 4.4 Validity and reliability of Knowledge

% of Variance: 5.346		Cronbach's alpha: 0.915		
Item	**Indicate the level at which you think the following impacts on external finance.**	**Factor Loading**	**Item- total correl.**	**α after deletion**
Know1	Entrepreneur's managerial knowledge and the ability to demonstrate good business knowledge.	0.713	0.764	0.921
Know2	Entrepreneur's ability to read and interpret financial statements (ability to perform financial analysis).	0.555	0.634	0.932
Know3	Entrepreneur's good financial knowledge	0.814	0.843	0.923
Know4	Entrepreneur's good market analysis and competitor's assessment.	0.754	0.624	0.911
Know5	Entrepreneur's ability to manage and control business costs.	0.718	0.721	0.976

Table 4.4 Validity and reliability of Knowledge (continued)

% of Variance: 5.346		Cronbach's alpha: 0.915		
Item	**Indicate the level at which you think the following impacts on external finance.**	**Factor Loading**	**Item- total correl.**	**α after deletion**
Know6	Entrepreneur's ability to define the organisational goals and set their business objective clearly.	0.802	0.823	0.960
Know7	An entrepreneur's track record of running previous businesses.	0.818	0.848	0.935
Know8	Entrepreneur's ability to show knowledge of his/her business, products and services offered	0.801	0.841	0.901

All eight items assigned to measure the factor of *Knowledge* loaded together (Know1, Know2, Know3, Know4, Know5, Know6, Know7, Know8 and Know9), with factor loadings ranging from 0.555 to 0.818 which have been reported for this particular variable. Therefore this construct is proved to be valid. The *Knowledg*e variable in this case explains 5.346 % variance of the study's data. Followed by the variance is the reporting on the Cronbach's alpha of 0.915 suggesting that the scale measuring the given construct is reliable.

Table 4.5 Validity and reliability of Education

% of Variance: 4.130		Cronbach's alpha: 0.840		
Item	**Indicate the level at which you think the following impacts on external finance.**	**Factor Loading**	**Item- total correl.**	**α after deletion**
Edu1	Entrepreneur's formal education importance.	0.826	0.852	0.881
Edu2	Entrepreneur's ability to write a comprehensive business plan.	0.841	0.743	0.862
Edu3	Entrepreneur's confidence in managing the business.	0.621	0.532	0.861
Edu4	Entrepreneur's good market analysis	0.727	0.623	0.815

With regards to the factor of *Education* all four items loaded together as can be seen on table 4.3 of the factor structure (Edu1, Edu2, Edu3 and Edu4). According to table 4.5, it can be seen that the factor loadings reflecting on the factor of *Education* ranges from 0.621 to 0.841, thus providing evidence for validity. Furthermore, *Education* explains 4.130% of the variance in the data. In addition, *Education* reflects a Cronbach's alpha coefficient of 0.840, thus providing the necessary proof on the reliability of the construct.

Table 4.6 Validity and reliability of Experience

% of Variance: 2.342		**Cronbach's alpha: 0.722**		
Item	**Indicate the level at which you think the following impacts on external finance.**	**Factor Loading**	**Item- total correl.**	**α after deletion**
Exper1	Entrepreneur's managerial expertise.	0.527	0.771	0.794
Exper2	Entrepreneur's general business skills	0.822	0.639	0.687
Exper3	An entrepreneur's track record of running previous businesses.	0.724	0.714	0.786
Exper4	Entrepreneur's previous work experience	0.751	0.637	0.736
Exper5	An entrepreneur's good networking abilities.	0.677	0.741	0.880
Exper6	Entrepreneur's ability to manage risk	0.822	0.826	0.894

Proceeding on to *Experience* which is also one of the variables or factors representing human capital other than *Knowledge* and *Education*, all the six items assigned to measure *Experience* loaded together (Exper1, Exper2, Exper3, Exper4, Exper5 and Exper6). Factor loadings ranging from 0.527 to 0.822 can be observed from the presentation of table above as well as on table 4.3 of the independent factor structure. Regarding the factor of *Experience*, it can be observed that it explains 2.342% variance of the data. Following this is the fact that the construct is considered to be reliable through the indication of Cronbach's alpha coefficient of 0.722.

Table 4.7 Validity and reliability of Networking

% of Variance: 4.213		**Cronbach's alpha: 0.968**		
Item	**Indicate the level at which you think the following impacts on external finance.**	**Factor Loading**	**Item- total correl.**	**α after deletion**
Netw2	Membership of business association (trade associations).	0.730	0.614	0.724
Netw3	Being a member of a representative organisation such as chamber of commerce.	0.821	0.642	0.726
Netw4	Having a relationship with government agencies.	0.934	0.702	0.877
Netw6	Maintaining relationships with suppliers.	0.753	0.861	0.895
Netw7	Maintaining relationships with external accountants.	0.733	0.762	0.824
Netw9	Maintaining relationships with family and friends.	0.812	0.644	0.723

Only six of the eleven items which have been established to measure *Networking* as the variable or factor of social capital loaded together (Netw2, Netw3, Netw4, Netw6, Netw7 and Netw9), while items Netw1, Netw5 and Netw8 did not load, as it has been stated that the study maintains a factor loading threshold or cut-off of 0.5. Hence items; Netw1, Netw5 and Netw8 were excluded from the study for the use of further analysis. These low factor loadings can be seen according to table 4.3. In regards to table 4.7 the factor loadings range from 0.730 to 0.934 for the respective items which still maintains validity of the given construct. *Networking* accounts to 4.213% variance of the study's data and the construct is considered to be reliable as indicated by the Cronbach's alpha coefficient of 0.968.

4.3 Validity and reliability analysis results – Intervening and dependent variables

In the previous section there was a presentation of the factor structure concerning the factor loadings of the independent variables. In this section, the study presents the factor structure of the intervening/interdependent variable and the dependent variable. Following this is a presentation and discussion on the validity and reliability of the respective variables.

Table 4.8: Factor structure – Intervening variable and Dependent variable

Item	Access to Finance	Growth
Finan1	0.437	0.376
Finan2	**0.823**	0.085
Finan3	0.360	0.062
Finan4	**0.824**	-0.078
Finan5	**0.739**	0.411
Finan6	**0.760**	-0.050
Finan7	**0.818**	0.404
Finan8	**0.835**	0.123
Finan9	**0.833**	-0.004
Finan10	**0.727**	0.034
Finan11	0.247	0.021
Growth1	0.484	**0.822**
Growth2	0.118	**0.533**
Growth3	0.343	**0.644**
Growth4	0.395	**0.753**
Growth5	0.395	**0.822**
Expl. Var	5.234	3.533
Prp. Totl	0.504	0.347

Table 4.9 presents the validity and reliability results of the intervening variable. It should be noted that this is not assigned as a construct of given concept as it has been observed with the other variables such as human capital being represented by the constructs of *Knowledge*, *Education* and *Experience* or social capital being represented by the construct of *Networking.*

4.3.1 Intervening variable

Table 4.9: Validity and reliability of Access to Finance

% of Variance:5.234		**Cronbach's alpha: 0.925**		
Item	**Indicate the level at which you perceive the following to have an impact on the following finance alternatives**	**Factor Loading**	**Item-total correl.**	**α after deletion**
Finan2	Established entrepreneurial networks allow entrepreneurs to access trade credits from suppliers.	0.823	0.704	0.868
Finan4	Established networks/ (connections) with bankers allow entrepreneurs to access bank loans.	0.824	0.832	0.855
Finan5	Bankers view entrepreneur's educational background as a decisive factor in providing a bank loan.	0.739	0.654	0.735
Finan6	Bankers view entrepreneur's ability to write comprehensive business plans as a decisive factor in providing a bank loan.	0.760	0.644	0.746
Finan7	Bankers view an entrepreneur's managerial knowledge as a decisive factor to providing a bank loan	0.818	0.742	0.862

Table 4.9: Validity and reliability of Access to Finance (continued)

% of Variance:5.234		Cronbach's alpha: 0.925		
Item	**Indicate the level at which you perceive the following to have an impact on the following finance alternatives**	**Factor Loading**	**Item-total correl.**	**α after deletion**
Finan8	Established entrepreneurial networks allow entrepreneurs to access trade credits from suppliers.	0.835	0.711	0.851
Finan9	Established networks/ (connections) with bankers allow entrepreneurs to access bank loans.	0.833	0.723	0.833
Finan10	Bankers view entrepreneur's educational background as a decisive factor in providing a bank loan.	0.727	0.624	0.723

A similar circumstance to the *Networking* factor was encountered with regard to the intervening variable of *Access to Finance*, where certain items such as Finan1, Finan3 and Finan11 which were supposedly associated to measure *Access to Finance* had to be excluded, however items: Finan2, Finan4, Finan5; Finan6; Finan7; Finan8; Finan9 and Finan10 loaded together. Therefore the intervening variable is considered to be valid for the given study. The intervening variable is found to explain 5.234% of the variance in the data. Furthermore, the intervening variable is reported to be reliable for the given study as it can be observed from the Cronbach's alpha coefficient of 0.925.

As outlined previously, the intervening variable of Access to Finance is not an assigned construct of a given concept of the study, it is however put as an interdependent variable that has an implication on the dependent variable. Further analyses are to be made in connection with the intervening variable.

Table 4.10 presents the validity and reliability of the dependent variable which, according to the study is represented as *Growth.*

4.3.2 Dependent variable

Table 4.10: Validity and reliability of Growth

% of Variance:3.533		**Cronbach's alpha: 0.834**		
Item	**Over the PAST TWO years, the enterprise I work for/own…**	**Factor Loading**	**Item-total correl.**	**α after deletion**
Growth1	The availability of external finance influences the innovativeness of a business.	0.822	0.732	0.742
Growth2	External finance influences the profitability of a business.	0.533	0.732	0.836
Growth3	The availability of external finance influences the hiring of more employees with relevant experience.	0.644	0.734	0.823
Growth4	External finance influences the organisational capabilities of a business.	0.753	0.769	0.778
Growth5	The access to external finance influences the growth of a business.	0.822	0.763	0.743

All of the five items drawn to measure the variable of Growth were found to load together (Growth1, Growht2, Growth3, Growth4 and Growth5). This can be seen according to table 4.8 of the factor structure representing both the intervening and dependent variable.

According to table 4.10, the items representing *Growth* range from 0.533 to 0.822 which therefore confirms the validity of the given variable. *Growth* explains 3.533% of the data's variance. More importantly it can be seen that Growth's Cronbach's alpha coefficient is 0.834. This significant indication of reliability therefore surpasses the required threshold of 0.70 therefore rendering the variable of *Growth* as reliable.

4.4 Descriptive statistics

Descriptive statistics as stated in chapter three are based on summarising and displaying the collected data in an organised manner. This form of statistical analysis consists of measures of central tendency such as the mean and median. Furthermore, descriptive analysis includes measures of dispersion, such as the standard deviation and range which are used to locate the centre of the data set and its range (Asadorian & Kantarelis, 2005) The following table presents the mean scores, standard deviation and the frequency distributions of each of the assigned variables, that is the independent, intervening and dependent variables.

Table 4.11: Descriptive statistics (N=385)

Variables	Mean	Std. Dev	Not Important %	Neutral %	Important %
Independent Variables					
Knowledge	5.63	0.54	12.47	5.20	82.33
Education	5.12	0.50	23.89	2.60	73.51
Experience	6.02	0.53	5.71	2.60	91.69
Networking	5.63	0.29	12.47	4.67	82.86
Intervening Variable					
Access to Finance	6.64	0.55	11.94	4.68	83.38
Dependent Variable					
Growth	6.58	0.32	0.78	0.52	98.70

Commencing with the independent variables, *Knowledge* obtained a mean score of 5.63, with the majority of the informal business operators (82.33%) agreeing on knowledge as an important factor aligned with the prospect of accessing finance (funding). However, a small number of the informal business owner-mangers had a different view of the variable of *Knowledge*, where some considered it as not being an important factor (12.47%) to accessing finance while other informal business owner-managers had a rather neutral view about it (5.20%). The *Knowledge* variable being followed by *Education* had a mean score of 5.12 which when rounded-off the nearest ten equates to 5, which accordingly represents somewhat important in the Likert Scale. With further analysis, it can be seen that *Education* is considered as an important factor to accessing finance as 73.51 percent of the informal business owners perceive it to be a crucial factor aligned to accessing finance. Conversely, 23.89 percent considered *Education* as not an important factor in accessing finance and only 2.60 percent had a neutral view of *Education* in this regard.

Experience as another independent variable representing the concept of human capital, reflected a mean score of 6.02; this reveals that there has been a general perception that informal business owner-managers consider *Education* to be a very important factor in accessing finance as represented by the Likert scale score of 6 according to the administered questionnaire. More evidently it can be seen that a majority of the informal business owner-managers agree with *Experience* in association with the prospect of accessing finance (91.69%).

Networking, an independent variable and a construct of social capital indicated a mean score of 5.63. A positive common perception held by the informal business owner-manager reflects that *Networking* is an important factor in accessing finance (82.86%), while 17.14 percent had a different view regarding this aspect. This 17.14 percent represents two different views that is; 12.47 percent of the informal business owners-mangers consider *Networking* as not an important factor in accessing finance, while the remainder which is 4.67 percent had a neutral view of *Networking* as an important factor in accessing finance.

Access to Finance was proposed as the intervening or interdependent variable and had certain underlying statements that link from the independent variables to the intervening variable. From this it, it can be observed that a majority of the owner-managers consider these statements to not only represent the intervening variable but also consider these statements as important statements associated with the intervening variable as reflected by the mean score of 6.64. Growth classified as the dependent variable was perceptually evaluated in relation to it being linked by the *Access to Finance*, where various statements associated to the *Access to Finance* link to the *Growth* of the business. It can therefore be deduced that a majority of the owner-managers of informal businesses agree with the fact that *Access to Finance* is an important factor to the Growth of the business (98.70%).

Standard deviation accounts for the average measure of the observations from the arithmetic mean (Kolher & Kreuter, 2005). The interpretations of standard deviation in this regard reflect the spread of the observations from the mean, which indicates how far or how close the responses are from the average. A low standard deviation reflects that the spread of the observations or responses does not vary from the mean, while a high standard deviation points to the fact that the observations or responses scatter by a considerable amount from the mean point. Table 4.11 also presents the standard deviations across the independent, intervening and dependent variables. According to this presented table it can be seen that all variables have standard deviations which are less than 1 which simply means that there is a relatively low level of variance across that various variables. This implies that there is somewhat of a great level of agreement from the respondents towards the proposed relations of the variables that are examined within this study.

4.5 Pearson's product moment correlation coefficients

The adoption of the Pearson's product moment correlation coefficient in this study has solely been used to examine the correlations among all the variables assigned to the given study. Table 4.12 presents the findings of the examined variables as presented through the calculated correlation coefficient (r). The significant positive correlations ($p < 0.05$) were reported across all the independent, intervening and dependent variables.

Table 4.12: Pearson's product moment correlation coefficients

Factors	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
Factor 1	1.000	**0.732**	**0.559**	**0.634**	**0.813**	**0.248**
Factor 2	**0.732**	1.000	**0.867**	**0.717**	**0.935**	**0.125**
Factor 3	**0.559**	**0.867**	1.000	**0.674**	**0.832**	**0.068**
Factor 4	**0.634**	**0.712**	**0.684**	1.000	**0.812**	**0.387**
Factor 5	**0.813**	**0.935**	**0.832**	**0.812**	1.000	**0.831**
Factor 6	**0.248**	**0.125**	**0.068**	**0.387**	**0.831**	1.000

(p<0.05)

Factors one to six represent each of the variables assigned in the study all addressed as; *Knowledge*, *Education*, *Experience*, *Networking*, *Access to Finance* and *Growth* respectively. Factor one, *Knowledge* is reported to have a strong positive correlation with the factors *Education* (r=0.732), and *Access to Finance* (r=0.813) which are presented as factors two and five respectively. Factor one, *Knowledge* shows a moderately strong positive correlation with factor three *Experience* (r=0.559) and factor four *Networking* (r=0.634), however a weak positive correlation is shown with regards to factor six *Growth* (r=0.248).

Factor two, *Education* shows a weak positive correlation with factor six Growth (r=0.125). A contrasting point is however reflected where factor two *Education*, shows a strong positive correlation with factors three (r=0.867), four (0.717) as well as factor five (0.935) as respectively represented by *Experience*, *Networking* and *Access to Finance*.

Factor three, *Experience* reported a moderately positive correlation with factor one *Knowledge* (r=0.559) and factor four *Networking* (r=0.674), while a strong positive correlation with factors two (0.867) and five (0.832) as respectively represented by *Experience* and *Access to Finance*. A very weak positive correlation is indicate between *Experience* and *Growth* (r=0.068).

Factor four *Networking* shows a weak positive correlation with *Growth* (r=0.387), though a moderate positive correlation exists regarding *Knowledge* (r=0.634) and *Experience* (r=0.684). There is a rather strong positive correlation of *Networking* on *Education* (r=0.712) and *Access to Finance* (r=0.812).

All five independent factors or variables, that is, *Knowledge, Education, Experience,* and *Networking* reflect a strong positive correlation to Access to Finance as shown by the following correlation coefficients: r= 0.813; r=0.935; r=0.832; and r=0.812. There is also a strong positive correlation between *Access to Finance* and *Growth* as represented by the correlation coefficient of r=0.831. However, when looking at factor six, *Growth*, there is a weak positive correlation across factors one to four as shown by the correlation coefficients (r=0.248, r=0.125, r=0.068, r=0.387).

Therefore from the results gathered above, there is an established evidence of correlations amongst all the variables assigned in the study as carried through the Pearson’s product moment correlation coefficient calculations.

4.6 Multiple regression analysis

The ultimate statistical analysis used in the given study concerns the multiple regressions which are used to analyse or determine the relationships among the independent, intervening and dependent variables. More notably this part of the analysis presents a case in which the researcher is able to make certain determined conclusions on the hypotheses as outlined in chapter two. The first multiple regression analysis is presented in the table 4.13 below which analyses the influence or impact of the various independent variables on the intervening variable, that is; *Networking, Knowledge, Education*, and *Experience* on *Access to Finance.*

Table 4.13: Influence of the independent variables on Access to Finance

Intervening variable: Access to Finance	**R-Square = 0.919**		
Independent Variables	**Beta**	**t-value**	**Sig.(p)**
Networking	**0.248**	**7.238**	**0.000*****
Knowledge	**0.231**	**6.244**	**0.000*****
Education	**0.739**	**8.421**	**0.000*****
Experience	**0.215**	**2.336**	**0.034***

(*p<0.05; **p<0.01; ***p<0.001)

According to the table above, it can be observed that that there is a positive linear relationship (0.000; p<0.001) between *Networking* and *Access to Finance*. This positive linear relationship proves that the entrepreneurs operating businesses in the informal sector perceive networking as an important factor for accessing funding as there is evidence that attests to the fact that networking influences the access to finance for entrepreneurs, therefore proving the phenomenon outlined in hypothesis 1.

Entrepreneurs perceive social capital as measured by networking to have a significant positive relationship in accessing finance.

Table 4.13 also shows a significant positive relationship (0.000; p<0.001) between *Knowledge* and *Access to Finance*. This significant positive relationship indicates that knowledge as contextualised in the frame of business, where entrepreneurs for instance have a successful track record of having run previous businesses or have good financial knowledge as outlined in the items of the questionnaire (including other relevant items) therefore has an influence on the entrepreneurs in accessing funding. These aspects in practice are some of the elements that bankers, venture capitalists and funders look for as determining factors when considering whether entrepreneurs are deserving of any necessary funding for their businesses. This is the perceptual view held by the informal business operators thus confirming hypothesis 2a.

Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.

The relationship between *Education* and *Access to Finance* is reflected as significantly positive (0.000; p<0.001), therefore entrepreneurs in the informal business sector perceive education as an important factor for accessing funding, therefore implying this factor as plays a role in influencing the opportunity for entrepreneurs in accessing funding; therefore affirming what has been proposed regarding hypothesis 2b.

Entrepreneurs perceive education as having a significant positive relationship in accessing finance.

Following this relationship is the regression analysis on the *Experience* and *Access to Finance*, which also reflects a significant positive relationship (0.034; p<0.05), suggesting that entrepreneurs perceive experience as an important factor in accessing funding. This factor has been expressed through various important items which are recognised by funders as attributes that entrepreneurs need to have in the process of requesting funding, such as; entrepreneurs need to demonstrate that they have good general business skills, managerial expertise and are able to manage risk, thus confirming what has been outline according to hypothesis 2c.

Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.

A second regression analysis was carried out to determine the relationship between the intervening variable and the dependent variable, that is; *Access to Finance* and *Growth*. Table 4.14 presents the results below

Table 4.14: Influence of the Intervening variable on Growth

Dependent variable: Growth		**R-Square = 0.710**	
Intervening Variable	**Beta**	**t-value**	**Sid.(p)**
Access to Finance	**0.257**	**3.429**	**0.001****

(*p<0.05; **p<0.01; ***p<0.001)

From this table, it can be seen that there is a significant positive relationship (0.001; p<0.01) between *Access to Finance* and *Growth*, although measured perceptually, that is from the view of informal entrepreneurs – the growth of a business is therefore influenced by the access to funding. This is a collective agreement made by the entrepreneurs as it can clearly be understood that finance plays an important role in various aspects in a business such that it leads to the expansion of the business thereby confirming hypothesis 3.

Entrepreneurs perceive access to finance as having a significant positive relationship in the growth of business.

4.7 Conclusion

The results of the multiple regression analysis as well as the previous statistical calculations which have built on to the multiple regressions have helped the researcher to respond to the formulated hypotheses regarding the given study. The intention of the study was to examine the impact of the social capital and human capital (as represented by the underlying independent variables) in accessing finance. Subsequently, the study examined the impact of the access to finance on the growth of the business. All these were relationships as presented through the proposed hypotheses outlined in chapter two. Considering that the researcher had carried-out all the necessary statistical analysis to either reject or accept the outlined hypotheses, the following table draws the conclusion:

Table 4.15: Acceptance or rejection of the hypotheses

Hypotheses	**Accept/Reject**
H1: *Entrepreneurs perceive social capital as measured by networking to have a significant positive relationship in accessing finance.*	Accept
H2a: Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.	Accept
H2b: *Entrepreneurs perceive education as having a significant positive relationship in accessing finance.*	Accept
H2c: *Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.*	Accept
H3: Entrepreneurs perceive access to finance as having a significant positive relationship in the growth of business.	Accept

CHAPTER 5

5 DISCUSSION OF THE RESULTS

5.1 Introduction

The presentation of this chapter is based on a discussion regarding the empirical results presented in chapter four. As outlined in chapter three, the study has made use of descriptive and inferential statistics presented in chapter four. The use of descriptive statistics in this regard was to primarily present, organise and summarise the data in a simplified manner for interpretation. The inferential statistics were employed so as to draw conclusions or make inferences concerning the population through the selected sample. A comprehensive discussion of the results is conducted in this chapter by firstly discussing the biographical results or the demographical aspects concerning the owner-managers of the informal businesses as well as other structural aspects concerning the businesses that the owner-managers run. Furthermore, the chapter recaps the findings of validity and reliability as these are the technical conditions that needed to be met in order to qualify the study and take on further in-depth statistical methods or analyses. Subsequently, the results are also discussed in line with the employed descriptive statistics in order to reflect the importance of each independent variable (networking, knowledge, education and experience) with the access to finance, as well as the importance of the intervening variable (access to finance) to the dependent variable (growth). Following the descriptive statistics is the discussion on the results of the hypotheses as tested through the correlation analysis and multiple regressions, and based on the results an integration of the theory compiled is reflected upon together with the findings of past studies.

5.2 Biographical results of the respondents

The biological results or demographical aspects as presented through Section A of the administered questionnaire pertained to information concerning the gender, age, race, educational background of the managers, number of years of working experience and where the owner-managers learned to run a business. This was followed by structural aspects regarding the businesses that these owner-managers run, which included turnover (as measured on a daily basis), the number of employees the business employs, as well as questioning the number of years the informal business had been in operation.

The ages of the respondents as outlined in the questionnaire ranged from 21 to 60, it was found that a majority of the respondents, that is the owner-managers, were between the ages of 36-45 (37.14%). From the overall data collected, most of the respondents were males as represented by 55.06% which outweighed the percentage of females (44.94%). This may be true in the case of the sample to which the research was targeted, however based on the literature it was gathered that the informal sector is broad and is dubbed the *hidden or shadow* economy where not everything that one perceives or is evident about the informal sector should classify a traditional perspective in which it should be viewed. From face value one may find that the informal sector is dominated by males rather than females while in some cases this may be proven otherwise. For instance according to the literature, some business related activities that exist in the informal sector were found to be less evident. This may include those activities that operate from a household perspective such as child-minding, sewing and the operation of unregistered liquor outlets where in general, most of these activities are run by females (Ormet, Land Delivery Task Group, 2003). Most of the owner-managers were black and represented 44.68% of the sample surveyed. This concurs with what has been outlined in the literature review, where it was stated that a number of the informal businesses are established and are operated by black business owners operating in various niches within the urban informal business sector. Following the race classification is the educational background of the respondents, where at least 51.17 % had a school leaving certificate (Matric or NQ 4), while 34.55% did not complete school. 34.55 % may still be regarded as a relatively high percentage of individuals who may have not completed school. Formal education particularly from a basic foundation is important for entrepreneurs at it is was highlighted in literature that it provides individuals with the basis in which they are able to accumulate other forms of capitals such as, building on explicit knowledge and skills which are essential for entrepreneurs (Rwigema, Urban & Venter, 2008). Such a high percentage typically reflects the extant attribute that reflects the predominance of necessity-driven entrepreneurs within the sphere of the informal economy. However, as gathered from the literature review, the informal sector is not only represented by informal entrepreneurs who are necessity-driven but it interestingly also includes opportunity-driven entrepreneurs.

In other educational background qualification classes as outlined in the questionnaire, it was found that some of the owner managers had attained a diploma, bachelor's degree or a postgraduate degree as respectively reflected by 8.31%, 3.12% and 1.04%. This was not anticipated, since much of the literature review expressed that individuals who operate within the informal sector generally have poor educational backgrounds especially in the context of a developing economy such as South Africa. However in the course of collecting the data, the researcher came across individuals who remarkably had certain qualifications that resemble individuals who operate businesses from a formal sector context. In the broad and multifaceted view of the informal sector, these individuals are typically regarded as the opportunity-driven entrepreneurs who as stated in the literature review, are individuals who use the informal sector as a launch pad for their business venture (Bàculo, 2001; Small Business Council, 2004; Williams 2005a, b, 2006; Evans *et al*, 2006). Therefore the informal sector in this context acts as an incubator for their business potential from which their businesses eventually graduate into the formal sector.

However such a perspective should not be held as a general view as some of the individuals who have these high qualifications may not necessarily be opportunity-driven or even necessity-driven. For instance, part of the sample was directed to unregistered businesses such as student communes which are typically run by families looking to have additional cash flows even though the owner-managers or respondents have their day-to-day jobs in the formal sector yet, they impressively have higher qualifications. Such a circumstance was not limited to businesses like the student communes but included car mechanics, seamstresses, and other forms of businesses where the owner-managers find additional time on weekends to run their small-time businesses in the townships, but are employed elsewhere or in some cases the businesses are run on their behalf during weekdays. Therefore the notion that these individuals are neither or either opportunity/necessity driven is debatable. In the perspective of opportunity-driven entrepreneurs, it was established in literature that such individuals seek high growth and are generally classified as risk takers. While such an observation exists – can one therefore classify these individuals who run such businesses out of leisure assume the role of being opportunity-driven entrepreneurs? To some extent one may commit to say that they are opportunity-driven given the fact that they took the opportunity to start such a business out of choice motives – however, they continue with their jobs in the formal sector, and do not necessarily intend to grow their businesses such that they graduate into the formal sector. Therefore it would be too forward to suggest that they are opportunity-driven entrepreneurs, while in the context of necessity-driven entrepreneurs it was established that such individuals establish their businesses because they do have not any alternatives of employment given their poor qualifications/educational background. This view in the context of the businesses outlined above is unbefitting to classify such individuals as necessity-driven as they currently have jobs within the formal sector.

Most of the informal businesses had been in operation for either five years or more (33.77%), followed closely by those that have been in operation for 3 to 4 years (32.99%). A majority of the informal businesses make a turnover of R200.00-R299.00 on a daily basis (37.92%). There were some outliers, where a percentage of the businesses were generating a turnover of over R500.00 R599 as represented by 7.27 %. These were typically businesses operated by respondents who own taxi empires. As established in literature the taxi industry is one of the major sectors in the informal sector which characteristically reflects massive growth and consists of substantial revenues which are generated. Therefore the reporting of the results in this circumstance is truly reflective of what was gathered in literature concerning this particular industry within the sphere of the informal sector.

With regards to the feature concerning the prior work experience of the owner-managers, a majority had some form of prior work experience ranging from less than a year (6.49%) to five years and above (35.06%). This confirms what has been gathered in the theory compiled in the literature review, where individuals bring what they have learned from the past experiences, thus building on a basis in which entrepreneurs have greater capacity or capabilities to take on present and future related entrepreneurial undertakings (Corbett, 2005). A considerable number of the informal businesses did not have any employees employed (43.38%) or in some cases had one or two employees (23.12% 18. 44% respectively). This has an indirect indication on the subject concerning financial access. Generally businesses that have access to finance have the capabilities of growing - carrying that notion it would be expected that such businesses have a relatively larger workforce. Regrettably, this is not the case in the informal SMMEs, which confirms the circumstance highlighted in the literature review where such businesses are found to have lack of access to finance. This is consequentially reflected by the results emerging from the data collected where it can evidently be seen that informal SMMEs do not have the capacity to employ individuals, given the pervasive issue of the lack of access to finance.

5.3 Discussion pertaining to hypothesis 1

Hypothesis 1 was predicted to have a positive relationship on the access to finance. That is, H1 predicted that social capital as measured by networking is perceived to be an important factor in accessing finance. Prior to testing the hypothesis certain statistical processes had to be undertaken, to qualify networking as being a valid as well as a reliable variable to test the given hypothesis. According to the results of the factor loadings, three of the nine items proposed as representing networking did not load on to the factor of networking, leaving networking with six items that would represent the construct. The remaining items were found to be above the threshold of 0.5 with items such as *having a relationship with government agencies or being a member of a representative organisation such as the chamber of commerce impacts on the prospect of accessing external finance* had a strong link. The scores of Cronbach's alphas were above 0.60 therefore qualifying networking as a valid and reliable construct. Subsequently descriptive statistics were also employed to gather a general view from all respondents on how they view networking in relation to accessing finance which was summed to three evaluative perspectives which were; *not important, neutral* and *important.* From this, it was gathered that networking was perceived to be an important factor to accessing finance as 82.86 percent of the respondents (owner-managers) concurred with this phenomenon.

Following this, further statistical valuations needed to be undertaken to test the proposed hypothesis of H1. Commencing with the correlations as carried out through the statistical method or analysis of Pearson's Product Moment Correlation Coefficient (r), it was found that networking correlates with access to finance as reflected by the r-score of 0.812. This means that there is an existence of association or an established linear relationship between networking and access to finance. In addition, a multiple regression analysis was also undertaken to further evaluate the magnitude of this existing relationship and it was found that there was a significant positive relationship between networking and access to finance (0.000; $p<0.001$). These results concerning social capital and its importance to accessing finance concur with what has been covered in the literature review as well as in a recent study undertaken by Heshmati (2013), a study titled *The Impact of Networking on Access to Bank Finance for SMEs: A Comparison Between Iran and Sweden*, which directly evaluated the networking in the lending process where the data collected was conducted in an interview format to two sets of respondents which were the owners of the SMEs and the banks officers across the two countries. The substance of the research reflects that networking as a component of social capital influences the access to a bank loan in both Iran and Sweden. In a study that was undertaken by Nguyen and Ramachandran (2006) which is rather more relevant to the given study in the sense that it was undertaken in an African context, bearing the notion that Africa as a whole is more of a collectivistic society where aspects such as social capital dominate; the results were more revealing in the sense that social capital as carried out through building close relations with financial institutions enables SMEs to get preferential access to credit over their competitors and hence, employ more debt, more specifically short-term debt in their capital structure.

From all that has been gathered, this study therefore confirms H1: *Entrepreneurs perceive social capital as measured by networking to have a significant positive relationship in accessing finance.*

5.4 Discussion pertaining to hypothesis 2

Hypothesis 2 was predicted to also have a positive relationship on the access to finance. That is, H2 predicted that human capital as represented by the variables of knowledge, education and experience are perceived to be important factors in accessing finance. Given that human capital was represented by these three variables, three sub-hypotheses were tested which were:

> *H2a: Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.*
>
> *H2b: Entrepreneurs perceive education as having a significant positive relationship in accessing finance.*
>
> *H2c: Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.*

The same process of testing for validity and reliability on the each of the variables was followed. Knowledge, education and experience had all their items loading above the threshold of 0.5. With regards to knowledge, items such as *the entrepreneur's good financial knowledge and their ability to define the organisational goals and set their business clearly, as well as having a good track record of running previous business* were found to load strongly in line with accessing finance. The construct of education having an item such as *the ability of the entrepreneur to write a comprehensive business plan* and experience carrying items such as the *ability of the entrepreneur to manage risk* as well as bearing *general business skills* were considered to load strongly. In terms of the reliability of each of the constructs it was found that a majority had Cronbach's alpha scores varying between 0.7 and below 0.9, thus qualifying knowledge, education and experience as valid and reliable variables which were fit to represent the concept of human capital.

Following these tests, descriptive statistics were applied to each of the variables in the same manner in which descriptive statistics was applied to the variable of networking. It was found that knowledge, education and experience were perceived to be important factors in accessing finance as perceptually evaluated across all the respondents, with 82.33%, 73.51% and 91.69 % respectively representing the constructs of knowledge, education and experience.

Following this, further statistical valuations needed to be undertaken to proceed with the process of testing the proposed hypotheses of H2a, H2b and H2c, where the researcher would be able to deduce if there is any form of existing relationship as outlined according to the proposed hypotheses. The Pearson's Product Moment Correlation Coefficient (r) analysis had to be used to test these hypotheses. The variables were found to have a positive correlation with access to finance. Knowledge had a positive correlation r-score of 0.813, education having an r-score of 0.935 and experience an r-score of 0.832.

In addition multiple regression analysis was run to identify the magnitude of the existing relationships. Significant positive relationships were found to exist across the proposed hypotheses. Knowledge had a significant positive relationship with access to finance (0.000; $p<0.001$), education was found to have a significant positive relationship with access to finance (0.000; $p<0.001$) and the same significant positive relationship existed with experience and access to finance (0.034; $p<0.05$). These were the results that were anticipated according to the compiled literature review and are also in agreement with past studies that have looked at human capital and its influence on the access to finance. For instance, a research paper by Coleman (2000) examined education and years of experience of owner managers and access to finance and found evidence that education as well as the past experiences of owner mangers relate to the access to external loans. Considering that there may be different forms of financing sources available to small businesses including those coming from venture capitalists who intend to invest in small start-ups showing potential, it is acknowledged that management competencies which may be built through formal education, experience and business knowledge as representing the concept of human capital are some of the selection criteria's that venture capitalist look for. From a macroeconomics perspective where the economic growth has been studied, human capital has been closely linked as one of the components that contribute to the productivity and wealth of an economy. Similarly when one looks at the subject of human capital investments in the context of business the same logic follows where the productivity, profitability and growth of a business manifests. The concept of human capital has been suggested as an implicit factor which positively influences the survival chances of new businesses (Barreira, 2004). Van Praag and Cramer (2001) have acknowledged the importance of the concept of human capital where, in their study, they have had the opportunity to formalise its impact in the case of the business founder. Other studies such as that of Cooper, Gimeno-Gascon and Woo (1994), have provided experimental proof for the theoretical substance of human capital. Bearing this notion it can be found that the more the investment in human capital traits that an entrepreneur carries, the better the possibility for the business's survival and thus limiting the likelihood of an early exit. Baptista and Karaöz (2006) state that higher productivity through human capital investments translates to more efficiency in organising resources and managing operations, and accessing different forms of resources. More importantly in this context, human capitals such as knowledge, education and experience are argued to have an impact in accessing finance. Therefore it is confirmed that human capital is an important trait that facilitates the accessing of finance.

From all that has been gathered, this study therefore confirms H2a, H2b and H2c.

H2a: Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.

H2b: Entrepreneurs perceive education as having a significant positive relationship in accessing finance.

H2c: Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.

5.5 Discussion pertaining to hypothesis 3

Hypothesis 3 was predicted to have a positive relationship on the growth of the business. In this case, hypothesis 3 was based on predicting that entrepreneurs perceive that access to finance as the intervening or interdependent variable has an influence on the growth of a business. Growth considered as the dependent variable was measured through perceptually based indicators such as innovation, profit, hiring of employees, organisational capabilities and growth strategies. Given the condition or opportunity of access to finance an organisation or a small business in this case is able to grow such that it is able to innovate, realise profits, hire more employees as it expands, build or improve on its organisational capabilities and take the plans outlined in their growth strategies through financial access.

Similarly access to finance as the intervening variable and growth as the dependent variable had to go through the process of testing for validity and reliability prior to testing the hypothesis. Access to finance had eleven items measuring it and it was found that only eight of the eleven items loaded on the variable, with all eight items reflecting factor loadings above the threshold of 0.5. All growth’s items were found to load and were found to have factor loadings of above the required threshold, with regard to reliability both access to finance and growth had Cronbach’s alpha score of above 0.6, thus qualifying the intervening and dependent variables as valid and reliable.

According to the descriptive statistics results concerning access to finance facilitating the process of business growth, it was evident that respondents regarded access to finance to be an important factor for growth where 98.70% of the owner-managers confirmed its importance. Such a phenomenon has been agreed on all respective points concerning growth, where the respondents perceive access to finance to be an important factor leading to innovation, profitability, the hiring of more employees, building or improving on organisational capabilities and embarking on growth strategies.

In confirming the outlined hypothesis, correlation analysis was undertaken and it was gathered that access to finance correlates with growth as reflected by the correlation coefficient of 0.831. Given that there was an existing linear relationship between access to finance and growth, a multiple regression analysis was also undertaken to identify the magnitude of this existing relationship. It was deduced that there is a significant positive relationship (0.001; $p<0.01$) between access to finance and growth.

It can therefore be perceived that financial access has an impact on the growth of business. Reverting to the literature, it was gathered that one of the main sources underpinning the elements of business growth is funding (Comin & Hobijn, 2010). Through the access of finance small businesses including those in the informal sector have the ability to scale-up, enter new markets and enlarge the product or service portfolio (London, 2010).

For instance, looking at one of the important aspects, such as innovation, is primarily supported through the access of finance. The adoption and/or application of new, innovative technologies, products or services that need to be introduced by small businesses cannot materialise, thus compromising the growth of the firm. The organisational capabilities as closely associated to innovation are also impacted by the access to finance. A study undertaken by Ayyagari, Demirgüc and Maksimovic (2007) examined the access to finance in relation to innovation. This study was conducted by analysing the responses that each firm had in line with innovation-related questions and other aspects associated to innovation. Even though there was an inclusion of various control variables applied to the relation there were however reverse causality techniques applied. In the event, it was found that the access to external funds was related with more innovation. Several studies have looked at the relationship of access to finance and growth. A recent, longitudinal study, undertaken by Muiruri (2014), has analysed the role of funding to the growth of small enterprises which have been operating in the Thika Municipality in Kenya. This study has shown that those businesses that were able to obtain finance from banks had reported growth in sales, revenue and the number of employees employed. Given that this current study has tested the access to finance on growth of businesses from a perceptual perspective, Muiruri's study therefore corroborates these results from a practical perspective, thus highlighting that access to finance is an important factor on the growth of businesses.

From all that has been gathered, this study therefore confirms H3: *Entrepreneurs perceive access to finance as having a significant positive relationship in the growth of business.*

5.6 Conclusion

The purpose of this chapter focuses on a discussion concerning the empirical findings which indicate much of what was put forth from the literature concerning the informal sector and more importantly what emerged from the theory regarding the significance of social capital and human capital. Compelling evidence from the informal entrepreneurs as carried through the quantitative research has, in principle, indicated that social capital and human capital are perceived to be important factors in accessing finance. Furthermore, access to finance is also perceived to lead to the growth of the business, such that it is enabled to innovate, realise growth in its profits, hire more employees, build on its organisational capabilities and focus on its growth strategies.

CHAPTER 6

6 CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter sums up the study by providing the conclusion of the overall research and provides the limitations concerning the given study. Furthermore, a brief discussion on the implications and recommendations are made, as well as suggestions for further research on the subject are proposed.

6.2 Conclusion of theory and empirical results

As gathered in literature, social capital and human capital are some of the important elements encompassing the entrepreneurial body of knowledge. Fundamentally, social capitals and human capitals are some of the key components underpinning the success of SMMEs and in the midst of these key components are other key resources, such as financial capital which open up an opportunity for businesses to grow. This study sought to examine the impact of social capital and human capitals on financial access (expressed in different forms ranging from bank loans, provisions of funding from government, financial capital provided by venture capitalist and also the inclusion of trade credits provided by suppliers). Subsequently, the study examined the impact of financial access on the growth of SMMEs operating in the informal sector, specifically the informal sector of the Gauteng province. The examination of the impact on the various relations was rather carried out from on a perceptual perspective, that is, identifying the perceptions of the respondents on how they see the relations of social capital and human capital on financial access, and on how financial access relates to the growth of a business.

Three hypotheses were proposed which were all aligned to the relations as outlined and it was found that social capital and human capitals were significantly important in accessing finance. Following this, financial access was also found to be significantly important for the growth of the SMMEs. These findings were in agreement with the literature presented in the study and were also consistent with the findings of previous studies. Individually looking at the results of each independent factor in relation to the respective dependent factors, commencing with social capital, past researches, taken in different contexts identify social capital as an important factor in accessing finance. A study done in the United States (Uzzi,

1999) demonstrates that transactions undertaken by small businesses where social relationships and networks are well entrenched; small businesses are enabled to gain better access to bank financing at more competitive prices. These findings on social capital as represented by networking parallel the findings of this given study.

With regard to human capital similar findings were drawn out from past studies where human capital was found to have an impact on access to finance, although, certain underlying attributes or variables assigned in representing human capital were slightly different to the given study. For instance, a study closer to home undertaken by Matshekga (2012) looked at the concept of human capital with similar variables that is; knowledge, education; however differing with the third variable where expertise was used instead of experience. There may be certain differences outlined in the respective variables. A scenario clearly identifying the discrepancy between the two can be highlighted directly in the context of entrepreneurship. A certain individual may be an expert in running a business, clearly indicating that they are excellent in running it, while another may have experience in running a business – but does that mean that the experienced individual is good at it? This somehow has rendered a situation where the selected variable of experience is questionable even though it has been reported to be important in accessing finance in this study. However, the variable is welcomed given that the context of the study was directed to the informal sector where the variable of 'expert' would certainly be "too rich" to apply as most of these businesses are operated by owner-managers who are relatively less business knowledgeable than those who have businesses operating in the formal sector, and evidently Matshekga's study was applied in the context of the formal sector thus making the expert variable more suitable in that context.

As finance continues to be an issue affecting small businesses, literature has mostly focused more in the supply side context as stated in chapter one. This study has therefore sought to introduce and explore possible solutions to the existing problem of access to finance from a demand-side context, which has been found to be lacking in literature as indicated by Seghers, Manigart and Vanacker (2009) and recently by Cámara and Tuesta (2014). This study has therefore contributed to the knowledge base concerning determinant factors that possibly help businesses to overcome the pervasive issue of lack of finance, which in essence is an important resource for the growth of SMMEs operating in the informal sector.

In as far as examining the impact of social capital and human capital this study has proved that these factors are important in accessing finance. This study has also proved that access to finance does indeed have an impact on the growth of the business, where the relation of access to finance and growth was proven to be positively significant.

Table 6.1: Empirical results of the hypotheses

Hypotheses	Accept or Reject
H1: Entrepreneurs perceive social capital as measured by networking to have a significant positive relationship in accessing finance.	Accept
H2a: Entrepreneurs perceive knowledge as having a significant positive relationship in accessing finance.	Accept
H2b: Entrepreneurs perceive education as having a significant positive relationship in accessing finance.	Accept
H2c: Entrepreneurs perceive experience as having a significant positive relationship in accessing finance.	Accept
H3: Entrepreneurs perceive access to finance as having a significant positive relationship in the growth of business.	Accept

6.3 Limitations of the study

Due to the limited time assigned for the study, the study has taken on a cross section research design which may be limiting as it may occur that there may be different results in another time frame. The application of using self-administered questionnaires may somewhat not be a true reflection from the gathered data as the respondent may have chosen to respond to questions randomly without truthfully responding to the questions. For instance, it was found that certain items relating to the construct of networking were not found to load and were therefore deleted, the same occurred with the access to finance items.

6.4 Implications and recommendations

Primarily this study is intended to fill the existing gap concerning the demand-side perspective as most of the academic literature concerning the pervasive issue of financial in-access has been devoted to the supply-side perspective. This opens an opportunity for academic researchers to explore more determinant factors aligned to the entrepreneurs, which may start to provide solutions to overcome the perpetual problem of financial inaccessibility. Acknowledging that research does not exist only for the sake of academic purposes, it can also be used to resolve or address issues that are happening in reality. Thus the study implicates and provides recommendations to other stakeholders such as the government, financial institutions, investors and more importantly, the entrepreneurs who play an important role in the growth of the economy.

It should be taken into account that enterprise development is but one of the responsibilities that the South African government assumes, and that certain policies are outlined and acted upon by agencies like the Small Enterprise Development Agency (SEDA), acknowledging the fact that there are a great number of informal businesses operating in Gauteng and the rest of South Africa, of which some of these businesses are not deliberately established to avoid issues such as taxation, but rather, are established because they cannot compete in the formal sector. This follows the issue that the owner-managers do not have the necessary business acumen as set through the underlying elements of social and human capitals renders a situation where banks discard their loan applications, and investors overlook the opportunity of investing in their businesses and suppliers do not offer them trade credits leads to a situation where these businesses are undermined thereby undermining the growth of the economy.

Therefor this study provides direction to the government in line with its policy-making to try to reach out to businesses operating in the informal sector and look beyond the exercise of providing them with trade licences which allow them to operate in certain areas. These entrepreneurs should therefore be trained to improve on their social and human capitals, which would increase the legitimacy of their businesses such that they are able to access finance and grow their businesses to graduate into the formal sector as we need them to provide the necessary growth of the South African economy.

6.5 Suggestions for future research

The context of the study was focused in the informal sector of the Gauteng province. In chapter two, it was established that the informal sector manifests itself in different ways in different countries, in different cities within the same country and even in different parts of the same city (International Labour Office, 2000). This occurrence may reflect a situation where the findings of this given study may differ given the focus of the context, where it can be suggested to future researchers to replicate this study in the context of rural areas to see if similar results may occur. Social capital is carried through different forms of networks. This study generalised networking instead of focusing distinctively on the various forms such as; social networks, official networks and managerial networks which as gathered in literature, are different from one another. Further studies can look into identifying the differences of each of these forms in relation with access to finance, acknowledging that social capital in this context was perceptually evaluated with the basis of accessing finance. However from a practical perspective, it should be noted that individuals need social capital skills to operationalise the concept in a practical perspective, therefore requiring one to have invested in human capitals. Future research should look into evaluating the importance of human capital in enhancing social capital as an intangible asset which facilitates the access to various resources in a business framework.

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APPENDIX A: LETTER OF CONSENT

The Graduate School of Business Administration

2 St David's Place, Parktown,

Johannesburg, 2193,

South Africa

PO Box 98, WITS, 2050

Website:www.wbs.ac.za

Masters of Management Research Consent Form – Research Report

INFORMATION SHEET AND CONSENT FORM

Who I am

Hello, I am Neo Motsau I am conducting research for the purpose of completing my MM at Wits Business School

What I am doing

I am conducting a research on the Impact of Social Capital and Human Capital on Access to Finance and Growth of SMMEs in the Informal Sector. This research is conducted as quantitative study to assess the impact of social and human capitals in accessing finance and to assess the access of finance to the growth of SMMEs in the informal sector through the outlined questionnaire provided.

Your participation

I am asking whether you will allow me to conduct one interview with you. If you agree, I will ask you to participate in one interview for approximately 15 minutes**.**

Please understand that **your participation is voluntary** and you are not being forced to take part in this study. The choice of whether to participate or not, is yours alone. If you choose not to take part, you will not be affected in any way whatsoever. If you agree to participate, you may stop participating in the research at any time and tell me that you don't want to continue. If you do this there will be no penalties and you will **NOT** be prejudiced in **ANY** way.

Confidentiality

Any study records that identify you will be kept confidential to the extent possible by law. The records from your participation may be reviewed by people responsible for making sure that research is done properly, including my academic supervisor/s. (All of these people are required to keep your identity confidential.)

All study records will be destroyed after the completion and marking of my thesis. I will refer to you by a code number or pseudonym (another name) in the thesis and any further publication.

Risks/discomforts

At the present time, I do not see any risks in your participation. The risks associated with participation in this study are no greater than those encountered in daily life.

Benefits

There are no immediate benefits to you from participating in this study. However, this study will be extremely helpful in understanding your perception of social and human capital in accessing finance and your perception of access to finance to the growth of the business in a manner that supports the research.

Who to contact if you have been harmed or have any concerns

This research has been approved by the Wits Business School. If you have any complaints about ethical aspects of the research or feel that you have been harmed in any way by participating in this study, please contact the Research Office Manager at the Wits Business School, Mmabatho Leeuw. Mmabatho.leeuw@wits.ac.za

If you have concerns or questions about the research you may call my academic research supervisor. (011 717 3600).

CONSENT

I hereby agree to participate in the research. I understand that I am participating freely and without being forced in any way to do so. I also understand that I can stop participating at any point should I not want to continue and that this decision will not in any way affect me negatively.

I understand that this is a research project that does not necessarily benefit me personally in the immediate or short term.

I understand that my participation will remain confidential.

……………………………..

Signature of participant **Date:…………………..**

I hereby agree to the tape-recording of my participation in the study**.**

……………………………..

Signature of participant **Date:…………………..**

APPENDIX B: QUESTIONNAIRE

This questionnaire will take approximately 15 minutes to complete. It would be highly appreciated if you could take time to answer the questionnaire. This questionnaire is aimed at the founder (owner) or managing member. Please note that all the answers will be treated confidentiality and will solely be used for the purpose of this research. No individual information will be used or forwarded to any external organisation.

Section A

Demographics: General information of the business

1. Gender:

Male		Female	

2. Age of the founder or managing member:

21-25		26-35		36-45		46-60		60 plus	

3. Race:

Black		White		Coloured		Asian	

4. Education: Highest qualification

Matric or Grade 12/ NQ 4	
School incomplete	
Certificate/Diploma	
Bachelor’s degree	
Postgraduate degree	
Tertiary uncompleted	
Did not go to school	

5. Business Sector: Type of business

Manufacturing		Business Service		Other	

6. If other please specify……………………

7. Age of business: When was the business established?

Less than 1 year		1-2 Years		3-4 Years		5 Years and Over	

8. Number of employees….

9. Business's turnover (per day)

10. Where did you learn to run a business: Please choose one

Self-taught	
Whilst managing the business itself/on the job	
Previous job or work experience	
Training programmes/courses	
University/college (tertiary education)	
Mentor/Advisor	
Spouse	

Section B: Social Capital and Human Capital Variables

1. Please indicate the number of years of work experience you had before starting the business (tick one)

☐ Never worked before ☐ Less than 1 Year ☐ 1-2 Years

☐ 3-4 Years ☐ 5 Years and above

2. Business Knowledge

On a scale of 1 to 7, please indicate the level at which you think the following impacts on an entrepreneur's ability to access external finance. (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate box.

2.1 Entrepreneur's managerial knowledge and the ability to demonstrate good business knowledge

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.2 Entrepreneur's ability to read and interpret financial statements (ability to perform financial analysis)

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.3 Entrepreneur's good financial knowledge.

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.4 Good market analysis and competitor's assessment

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.5 Entrepreneur's ability to manage and control business costs.

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.6 Entrepreneur’s ability to define the organisational goals and set their business objectives clearly.

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.7 A good track record of running previous businesses.

☐ ☐ ☐ ☐ ☐ ☐ ☐

2.8 Entrepreneur’s ability to show knowledge of his/her business, products and services offered.

☐ ☐ ☐ ☐ ☐ ☐ ☐

3. Education

On a scale of 1 to 7, please indicate the level at which you think the following impacts on an entrepreneur’s ability to access external finance. (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate.

3.1 Entrepreneur’s formal education importance.

☐ ☐ ☐ ☐ ☐ ☐ ☐

3.2 Entrepreneur’s ability to write a comprehensive business plan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

3.3 Entrepreneur’s confidence in managing the business.

☐ ☐ ☐ ☐ ☐ ☐ ☐

3.4 Good market analysis and competitor’s assessment

☐ ☐ ☐ ☐ ☐ ☐ ☐

4. Experience

On a scale of 1 to 7, please indicate the level at which you think the following impacts on an entrepreneur’s ability to access external finance. (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate box.

4.1 Entrepreneur’s managerial expertise

☐ ☐ ☐ ☐ ☐ ☐ ☐

4.2 Entrepreneur’s general business skills

☐ ☐ ☐ ☐ ☐ ☐ ☐

4.3 A good track record of running previous businesses.

4.4. Entrepreneur's previous work experience

4.5. Good networking abilities.

4.6. Entrepreneur's ability to manage risk.

5. Networking

On a scale of 1 to 7, please indicate the level at which you think the following impacts on an entrepreneur's ability to access external finance. (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate box.

5.1 Spending more time on social activities (business events)

5.2 Membership of business association (trade associations)

5.3 Being a member of a representative organisation such as chamber of commerce.

5.4. Having a relationship with government agencies.

5.5. Maintaining relationships with competitors (similar business).

5.6. Maintaining relationship with suppliers.

5.7. Maintaining relationships with external accountants.

☐ ☐ ☐ ☐ ☐ ☐ ☐

5.8. Maintaining relationships with customers.

☐ ☐ ☐ ☐ ☐ ☐ ☐

5.9 Maintaining relationships with family and friends.

☐ ☐ ☐ ☐ ☐ ☐ ☐

Section C

6. Access to finance

On a scale of 1 to 7, please indicate the level at which you perceive the following to have an impact on the following finance alternatives. (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate box.

6.1 Established entrepreneurial networks allow entrepreneurs to access subsidies from government agencies.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.2 Established entrepreneurial networks allow entrepreneurs to access trade credits from suppliers.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.3 Established networks allow entrepreneurs to access loans from friends and family.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.4. Established networks /(connections) with bankers allow entrepreneurs to access bank loans.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.5 Bankers view entrepreneur’s educational background as a decisive factor in providing a bank loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.6. Bankers view entrepreneur’s ability to write comprehensive business plans as a decisive factor in providing a bank loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.7. Bankers view an entrepreneur's managerial knowledge as a decisive factor to providing a bank loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.8. Bankers view an entrepreneur's ability to manage and control costs of a business as a decisive factor to providing a bank loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.9 Bankers view an entrepreneur's general business skills as a decisive factor towards providing a bank loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.10 Bankers view an entrepreneur's good track record of running a previous business as a decisive factor toward providing a loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

6.11Bankers view an entrepreneur's ability to manage risk as a decisive factor toward providing a loan.

☐ ☐ ☐ ☐ ☐ ☐ ☐

Section D

7. Growth

On a scale of 1 to 7, please indicate, from your perceptual view, the level of importance of external finance in influencing the following aspects of business growth (1- Not at all important, 2- Very unimportant, 3- Somewhat unimportant, 4- neutral, 5- Somewhat important. 6- Very Important, 7- Extremely important). Please tick the appropriate box.

7.1 The availability of external finance influences the ability to be innovative.

☐ ☐ ☐ ☐ ☐ ☐ ☐

7.2 External finance influences the profitability of a business.

☐ ☐ ☐ ☐ ☐ ☐ ☐

7.3 Access to finance influences the business to hire more employees with relevant experience.

☐ ☐ ☐ ☐ ☐ ☐ ☐

7.4 External finance enables the business to build or improve its organisational capabilities.

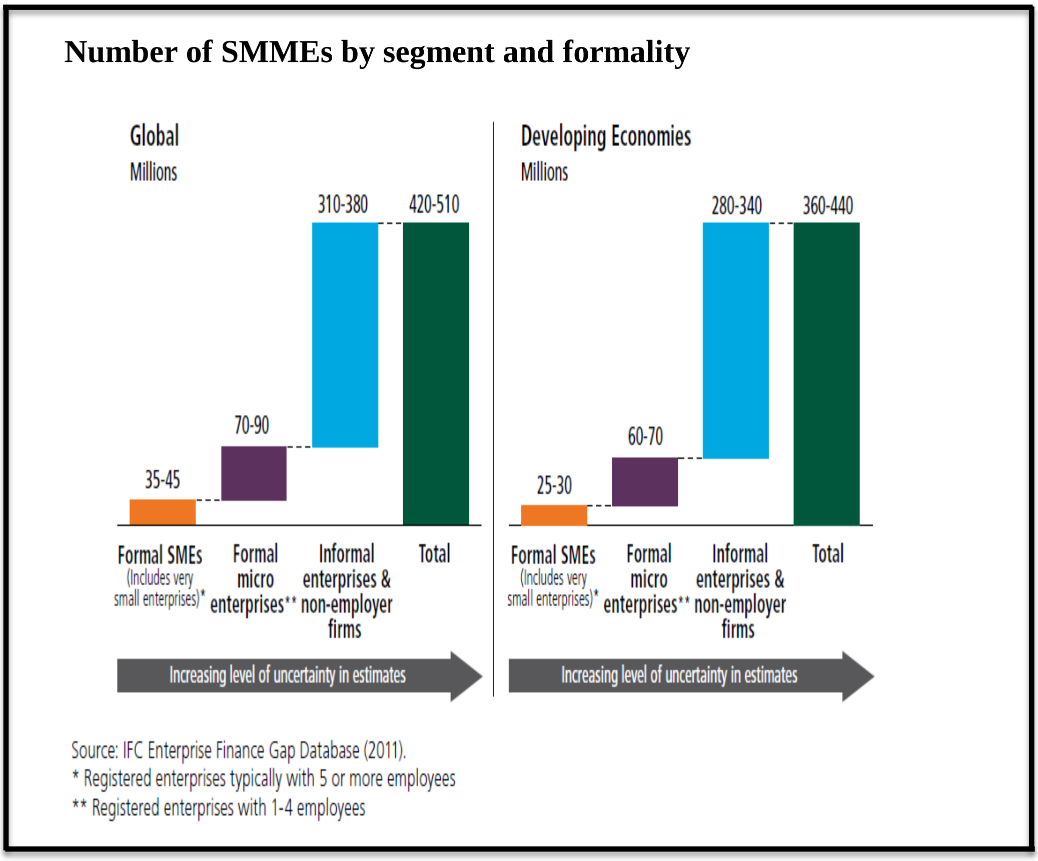
☐ ☐ ☐ ☐ ☐ ☐ ☐

7.5 Access to finance enables the business to focus on growth strategies

☐ ☐ ☐ ☐ ☐ ☐ ☐

THANK YOU FOR YOUR PARTICIPATION

APPENDIX C: Figure on IFC – 2013 Report



Number of SMMEs by segment and formality

Source: IFC Enterprise Finance Gap Database (2011).
* Registered enterprises typically with 5 or more employees
** Registered enterprises with 1-4 employees

Source: International Finance Corporation - 2013 report

APPENDIX D: Characteristics of the entrepreneur in the bank loan screening

VARIABLES	Bank loans	No bank loan	Pearson chi2 (Pchi2) and probability (Pr))	All founders	Log rank test for equality of survivor function
CHARACTERISTICS OF ENTREPRENEURS					
Education:					
1. No diploma	15.55	18.74		18.04	
2. Technical undergraduate	42.11	30.91	P chi2 (3)=620.3292 Pr= 0.000	33.35	P chi2 (3)=164.77 Pr=0.000
3. Secondary school level	18.32	18.07		18.12	
4. Post graduate level	24.03	32.28		30.48	
SPECIFIC HUMAN CAPITAL: SITUATION OF FOUNDERS BEFORE CREATION					
Experience:					
5. Employed	51.85	45.20		46.65	
6. Short term unemployed	23.78	19.05	P chi2 (3)=599.1561 Pr=0.000	20.08	P chi2 (3)=558.08 Pr=0.000
7. Long term unemployed	14.55	18.93		17.97	
8.Non-worker	9.81	16.83		15.29	

Source: On French Data, Crépon and Duguet (2004)