Title

Factors that enable small enterprises to obtain debt financing from a South African financial institution

A research report submitted by:

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2018

March 2018 version

Abstract

1.1.1 Purpose

The purpose of this research is to ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

1.1.2 Design/methodology/approach

Archival data from a stratified random sample of 200 small enterprise business loan applications will be used to conduct the research. Descriptive methods and a statistical software package will be used to analyse the data and interpret the findings. This will be supplemented by a questionnaire survey of 15 small business relationship managers, who will be chosen via a stratified convenient method.

1.1.3 Findings

The findings of the research will add to the body of knowledge about factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa. The findings will be further used to help develop a theory to guide small enterprises to increase their access to debt financing by increasing their application success rates.

1.1.4 Research limitations/implications

The data is readily available, the sample size is relatively small (200) and the statistical analysis required to ascertain and evaluate the factors is relatively straightforward, hence there are no limitations that are anticipated to significantly prevent the research from achieving its stated objectives.

1.1.5 Practical implication

The research will add to the body of knowledge about how to increase small enterprise access to debt financing by South African financial institutions, and by extension help expand the economy by contributing to the dynamism of the small enterprise sector, in South Africa.

1.1.6 Originality/value

The results from this study will create an increased understanding of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa. Previous studies of a similar nature have not been specific to a single major financial institution in South Africa. The level of data access to a single financial institutions small business debt finance application data for research purposes is unprecedented.

1.1.7 Keywords

South Africa, Small Enterprises, SME’s, Factors, Access, Debt Financing

THE DECLARATION

I Nokuthula Jennifer Sibisi, declare that this research report is my own, except as indicated in references and acknowledgments. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signature

Nokuthula Jennifer Sibisi

March 2018

Acknowledgements

I wish to express my profound gratitude to the following people who made this dream a reality:

To my mom and dad Nomusa and Mandlenkosi Sibisi for the value system instilled in me and siblings that education is platinum key to any door; Value of hard work and dedication. I have thrived and made this happen because of you. To my son uSphesihle for being understanding and really allowing mommy to do study and ignore you two years thanks my angel. To my brothers Mabandla and Philani also my two sisters Thabile and Philisiwe that you for moral support and keeping up with all my mood swings during this period. Especially Mac and Thabile for looking after and parenting SpheSihle while I was busy sleeping at WBS. To Zama for being a big sister and Manqoba for keeping Sihle busy. To my helper Nonhlanhla Sibanda; I am truly blessed to have had through this journey and for keeping up with all our demands

To my extended family Lenah Moloi and Mpho Mkhwanazi for allowing Sihle to invade your homes for 2 years most weekends while his mother was busy with an MBA, it takes a village to raise a child. To my MBA bestie Rhengu Hlekane; we cried-laughed “I Learnt to read the brief” in this journey but we made it thus far.

To my partners in crime Simba; Cecilia Lovinga and Early Birds I would have not made it to the finish without you. Thank you for encouragement, words of wisdom and support. For the day and nights, we spent together in syndicate rooms. Especial that to SBSA for their financial support. To my supervisor Mike Mundy; when others were crying about their supervisors I had someone that I could call anytime. I will forever be grateful for your availability, guidance and assistance. Last, but not least, to my nameless “Editor in Chief,” I thank you for selflessly sharing and using your time to read through my assignments throughout this MBA journey.

Thank you Melusi Mthembu and Nonhlanhla Nkosi for your patience with us in this journey.

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CHAPTER 1. INTRODUCTION

This research was designed to answer the question “What are the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa” focusing on Standard Bank of South Africa.

In order to answer this question, the researcher begins with the definition of “small enterprises,” in oder to ensure a common understanding of the subjects of the study. Arbor and Quartey (2010) posits that definitions that relate to size of enterprises are not universally applicable because of the different industry contexts and size measurement criteria. Some authors use number of employees, others use annual turnover, others use net asset value, and others rely on the personal ownership, and management structure to of the enterprise. For the purposes of this study, the researcher has chosen to use a total annual turnover of less than R100 million South African Rand as the main guideline for deciding whether an enterprise is small enough to be included in this study. This choice was informed by guidelines contained in the national small business act (South Africa, 1996). This enables the researcher to manage the arbitrariness used by other sources of small business research (Arbor & Quartey, 2010). It also enables the researcher to avoid awkward prose of having to refer to Small and Medium Enterprises (SME’s), when referring to those enterprises that can simply be referred to as “small enterprises” for the purposes of this study.

Arbor and Quartey (2010) also explore the factors that constrain small enterprise development, which include lack of access to finance, which is often perceived as the most critical constraint to small business success. Arbor and Quartely (2010) state that even though lack of access to finance may be perceived as the most critical constraint to small business development, there are other factors which are more fundamental to the success of a small enterprise than finance, citing that a lot of business who fail for non-finacial reasons, tend to attribute their failure to the lack of access to finance.

This research is motivated by the researcher’s desire to get an indepth understanding of the factors that impact small business access to debt finance

(Arbor & Quartey, 2010). Its context is global, then Africa, then South Africa, then a specific financial institution Standard Bank of South Africa within South Africa as a test case that was conveniently selected because it promised unrestricted access to its small business debt finance application data. Data that would otherwise be inaccessible to the researcher because of confidentiality considerations.

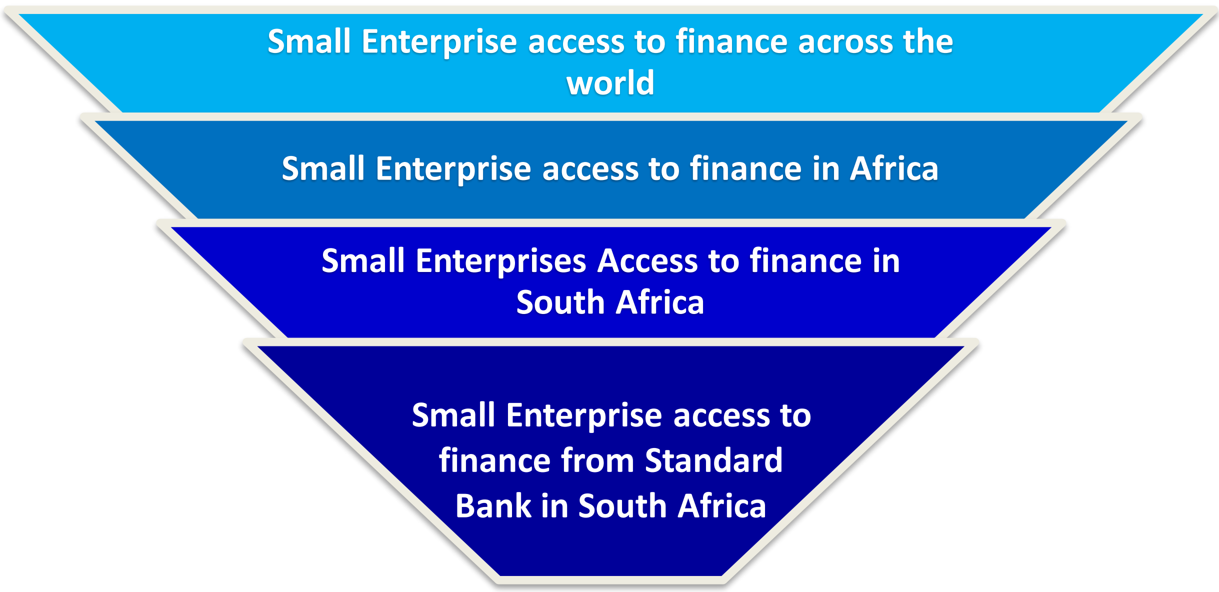

Figure 1: Research Focus Funnel – Narrowing down to the area of study

1.2 Purpose of the study

The purpose of this research is to ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa(SBSA).

The research objectives are:

- To identify the key factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa (SBSA).
- To analyse the importance and rank of each of the key factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa in order to understand how small enterprises can increase their finance approval success rates by presenting debt finance applications that

adequately address the key factors that meets SBSA small business funding requirements.

- To sufficiently understand each of the key factors that enable small enterprises to obtain debt financing from SBSA.
- To develop a list of key practices and a route to increasing the success rate for debt finance applications by small enterprises from SBSA.

1.3 Context of the study

Small and Medium Enterprises have been proven to be significant contributors to economic development in both developed and emerging market economies across the world (Fatoki & David, 2010). If rapid economic growth is to be achieved in South Africa, then the number of small enterprise's in the economy needs to be large, rapidly growing, and sustainable (Finlayson, 2003). The positive impact of small enterprises to economic growth, and development is well known to economic policy makers in governments around the world (Luiz, 2001). This assertion is supported in the literature, by the findings of various studies including those conducted by the Bureau of Economic Research (2016), Booysens (2011), Asah and Fatoki (2011), among many others.

Luiz (2001) questions why the growth, and survival of small enterprises in South Africa remain low, given the favourable policy positions that are aimed at stimulating and enabling their growth. The Small Enterprise Development Agency (SEDA) has commissioned various studies into the status, role, impact and growth of small enterprise's in the South African economy (Bureau of Economic Research, 2016). The literature arising out those studies highlights the fact that the challenges that hinder small enterprise growth are not unique to South Africa (Finlayson, 2003). In fact, Finlayson (2003) suggests that these challenges are relatively universal globally. The Bureau of Economic Research, (2016) study suggests that the South African challenges are: access to finance and credit, poor infrastructure, low levels of research and development, onerous labour laws, inefficient government bureaucracy, an inadequately educated workforce, high levels of crime and a lack of access to markets.

Considering the extent to which small enterprises have been studied on government funded research (Fatoki & Odeyemi, 2010). It becomes very important to narrow the scope of this research in order to avoid traversing ground that has already been covered (Luiz, 2001). To that end, this research focused specifically in the area of access to debt financing for small enterprises, in particular the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa, which is the object of this study.

1.4 Problem statement

1.4.1 *Main problem*

Dynamic small enterprises are considered to be a key contributor to employment creation and economic development in emerging markets (Luiz, 2001). Access to debt finance for small enterprises is considered one of the key constraints to the growth of small enterprises, and by implication a barrier to economic growth, and development (Luiz, 2001).

According to Fatoki and Smit (2011) the low levels of business loan approval rates indicate that South African small enterprises have various challenges that prevent them from obtaining debt financing from financial institutions. It follows therefore, that if these institutions are to increase their funds disbursement rates, and small enterprises are to increase their access to debt finance, then both parties need to have a clearer understanding of the factors that influence business loan approval rates. The researcher then identified the need to conduct a study to evaluate the factors that enable small enterprises to obtain debt financing. The study will assist the researcher in developing recommendations for what small enterprises can do to improve their chances of obtaining debt financing from Standard Bank of South Africa.

1.4.2 *Sub- Problem 1*

To ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa, and then to develop recommendations for what small enterprises can do to improve their chances of obtaining debt financing from a South African financial institution.

1.5 Significance of the study

Amongst other things, it is highly probable that small enterprises in South Africa have minimum knowledge or are less informed of the key factors that can unlock their access to finance from financial institutions in South Africa. A significant portion of the information about Standard Bank's financing requirements that small enterprises gather in the market is generic, and not specific enough to enable them to position them to access financial assistance for their businesses. The results of the study will provide both Standard Bank and businesses with a better understanding of the factors and challenges that hinder the granting of credit finance by financial institutions (Fatoki & David, 2010). Small enterprises will benefit from this research from having better understanding of the financial institution requirements for granting debt finance. There will also be wider social benefit as entrepreneurs are responsible for creating vibrancy in the economy (Finlayson, 2003). The country and the South African government will benefit from the resulting economic growth stimulation, though increased tax collections (Luiz, 2001).

The economic reality in South Africa is that a significant number of large enterprises started off as small enterprises, this means effective economic development policy positions put small enterprise development at the core of the economic development strategy in South Africa (Torre et al., 2010). Although most of the big financial institutions in South Africa have separate departments that solely focus on small enterprise finance. There is a significant disconnect between the pronounced policy positions on the development of small enterprise access to finance, and the level of small enterprise access to finance. Beck and Demirguc-Kunt (2006) conclude that even though small enterprises may constitute a significant portion of total employment in a country, one of the main reasons their contribution to economic growth may not be as significant, are the growth hurdles they face.

It is important to look into the factors, and challenges that enable small enterprises to access debt funding from financial institutions, with specific consideration of the criterion used by financial institutions in South Africa to determine which small enterprises to fund and why. Key issues such as collateral, formal education qualifications and personal financial conduct, are some of the variables that are normally overlooked when small enterprises prepare their applications for finance from major financial institutions. There is a need to look at financial institutions individually to see which factors they place emphasis on, and to see if there is a certain standard approach that can be followed to increase small enterprise access to finance.

1.6 Delimitations of the study

Since there has been a number of studies in the general area of small enterprise access to credit (Asah & Fatoki, 2011). This specific study builds on that body of knowledge by focusing specifically on a single South African financial institution (Standard Bank), by examining its historical records on small enterprise finance in order to ascertain and evaluate the factors that contributed to the failure of small enterprises to obtain credit. The applicable period for this study shall be limited to the post-1994 period, where credit policies are assumed to have become more objective, and fair, in line with the constitutional changes in the South African Socio-political macro-environment (Falkena, et al., 2001).

Fatoki and Smit (2011) indicate that is important to look at other variables that may have been overlooked but most importantly the weighting of the variables that determine access to finance. Collateral, formal education qualifications and financial conduct of the directors on their own personal accounts are some of the variables that were considered in this study. There is a need to look at financial institutions, especially commercial banks, individually to see which variables they place emphasis on when making credit granting decisions.

Main factors that are investigated in this study are internal factors and only focused on mainly the supply of debt finance from Standard Bank of South Africa. In South Africa, the small enterprise market is relatively large however, it is not yet fully integrated to the economic mainstream (Luiz, 2001). It often exists outside and without a link to the broader economy in South Africa. Study only assesses the small enterprises that have applied debt finance to a major financial institution Standard Bank.

External factors that impact small enterprise access to debt finance were not investigated. The study is focused on debt finance therefore, equity financing was not investigated. Barbosa and Moraes (2004) found that there are exogenous factors that impact access to debt finance from financial institutions of South Africa such as the legal, policy, and the economic environment. More studies can be done to scrutinize the efficiency on government programmes that are aimed at increasing access to finance for small businesses.

1.7 Definition of terms, in the context of this study

SME: According to SBSA 2017 **Small and Medium Enterprise** is a company or non- subsidiary that employs fewer than twenty employees for small entities and less than ninety employees for medium enterprises. In this paper, all South African SME's that turnover less than R100 million are collectively referred to as "small enterprises" for the purposes of editorial prose, readability, and ease of reference. At the bottom end, unregistered survivalist enterprises are eliminated from the sample population.

GDP: Gross Domestic Product measures the income that is derived from the all final products or services that are produced within the country in a specific period (South Africa) Fatoki and Smit (2011).

Debt or Credit: borrowing capacity of a company from a lender (commercial banks) or other institutions Fatoki and Smit (2011)

Credit worthiness: is an assessment that is done by the borrower or lender to assess the probability of repayment history that results in a credit score for a company and or individuals. For a business, this assessment incorporates credit worthiness of the business and that of its members or directors

Start-up Capital: The extent to which the small enterprise demonstrated evidence of the availability of adequate start-up capital that was sufficient for their purposes.

Business Plan Viability: The extent to which the small enterprise business plan was perceived to be viable, believable, and executable.

Collateral: The extent to which the small enterprise balance sheet demonstrates that they can cover the finance risk through any of its assets.

Management skills and experience: The extent to which the management of the small enterprise was perceived to be sufficiently skilled and experience to be able to execute on their business plans.

Credit Record: The extent to which the historical financial conduct of the small business, its principals and its management was considered important in making the latest financing decision.

Market Assessment: The extent to which the small enterprise was perceived to have accurately assessed their environment and found an appropriate niche in a large and rapidly growing market for which their products or services will continue to be demanded in the future.

Credit Risk: The extent to which the small business that is applying for finance is perceived to be undertaking a risky venture. Credit risk assesses the credit worthiness of the business and that of its members of directors

Working Capital: The extent to which the funding that the small business was applying for was going to be used to fund working capital.

Financial Records: The extent to which the small business demonstrated the ability to maintain accurate, auditable financial records.

Firm Size: The extent to which the relative size of the small business was perceived to be a factor in the financing decision.

Firm Age: The extent to which the relative number of years the small enterprise has been in operation was perceived to be a factor in the financing decision.

Cost of Banking: The extent to which the small enterprise was perceived to be able to afford the financial services

The above definitions were derived from adaptations of the definitions in Fatoki and Smit (2011); and Barbosa and Moraes (2004).

1.8 Assumptions

In conducting this study, the following assumptions have been made:

- The enterprise finance applications of small enterprises were received and processed to completion by Standard Bank i.e. decided cases.
- All credit application rules for small enterprises were explicit and they were applied consistently across all small enterprises that apply for debt finance from Standard Bank.
- All small enterprises that applied for credit are formalised enterprises, that are registered with the Companies and Intellectual Property Commission of South Africa, and they have existing banking relationships in the form of transactional accounts.
- The research sample was limited to only the enterprises that have that have used the formal objective channels of applying for finance to Standard Bank.
- Relationship driven finance applications from family and friends were specifically excluded, where it can be identified as such.
- Globally small enterprises are enterprises with an annual turnover of less than R100 million. In South Africa, that can sometimes be considered a medium or large enterprise in some industries, therefore for simplicity this research refers to all SME enterprises with an annual turnover of less than R 100 million as small enterprises.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

According to Booysens (2011); Ntsika Enterprise Promotion Agency (2002); and Smit & Watkins (2012), rapid economic growth is correlated to the rapid growth in the number and health of small enterprises in the economy. Smit and Watkins, (2012) further postulate that access to finance is one of the critical factors in small enterprise development. It is with that understanding that South African financial institutions have made an earnest effort to align themselves with the South African government policy of stimulating economic growth through small enterprise development initiatives (Ntsika Enterprise Promotion Agency, 2002). These efforts by financial institutions have led to an increase in the funds available for small enterprise loans. It has also led to the creation of specialist small enterprise departments in the major banks, with specialist small enterprise credit managers who understand the borrowing requirements of small enterprises (De la Torre, Peria, & Schmukler, 2010). Even with the specialist effort, financial institutions still find themselves unable to meet their funds disbursement targets for small enterprises because of the perceived shortage of suitably qualified small enterprise applicants who meet the minimum borrowing requirements (Fatoki & Smit, 2011).

Researchers who have studied the reasons for small enterprises falling short of the minimum funding requirement have cited a combination of the several critical factors that enable small enterprises to obtain debt financing from South African financial institutions (Asah & Fatoki, 2011), these factors include start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services, among others (Fatoki & Smit, 2011).

2.2 Definition of topic

According to Fatoki and Smit (2011), the factors that enable small enterprises to obtain debt financing from financial institutions include start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services.

2.2.1 *Review approach*

This literature review seeks to consolidate the findings of other researchers on the subject, evaluating the methods that different researchers used to conduct their studies, highlighting their accomplishments, evaluating their strengths, and weaknesses, grouping articles together on the basis of their conclusions, and exploring the relationships in the literature between the seminal articles, and articles that build on the seminal articles.

Asah and Fatoki (2011); and Fatoki and Smit (2011) highlight the critical factors that enable small enterprises to obtain debt financing from South African financial institutions. These factors include start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services, among others.

This literature review is focused on a single area of study, that is the critical factors that enable small enterprises to obtain debt financing from South African financial institutions. Many researchers have conducted studies in this area before, and even though each one of them focusses on different aspects on the critical factors that contribute to the growth and sustainability small enterprises, they are largely in agreement that the following factors, specifically, have an impact on the ability of small enterprises to obtain debt finance from financial institutions (Irwin & Scott, 2010). The reseasrchers whose work the reseacher found significant include: Arbor and Quartey (2010); Asah and Fatoki (2011); Barbosa and Moraes (2004); Beck and Demirguc-Kunt (2006); Booysens (2011); Bureau of Economic Research

(2016); De la Torre, Peria, and Schmukler (2010); Falkena, et al. (2001); Fatoki and Smit (2011); Fatoki and David (2010); Fatoki and Odeyemi (2010); Gichuki, Njeru, and Tirimba (2014); Herrington, Kew, and Kew (2008); Irwin and Scott (2010); Kauffmann (2005); Pretorius and Shaw (2004); Maas, de Coning, and Smit (1999); Singer, Amorós, and Arreola (2015); Smit and Watkins (2012); Le, Vekatesh, and Nguyen (2006); Watson and Netswera (2009).

2.3 Review Structure

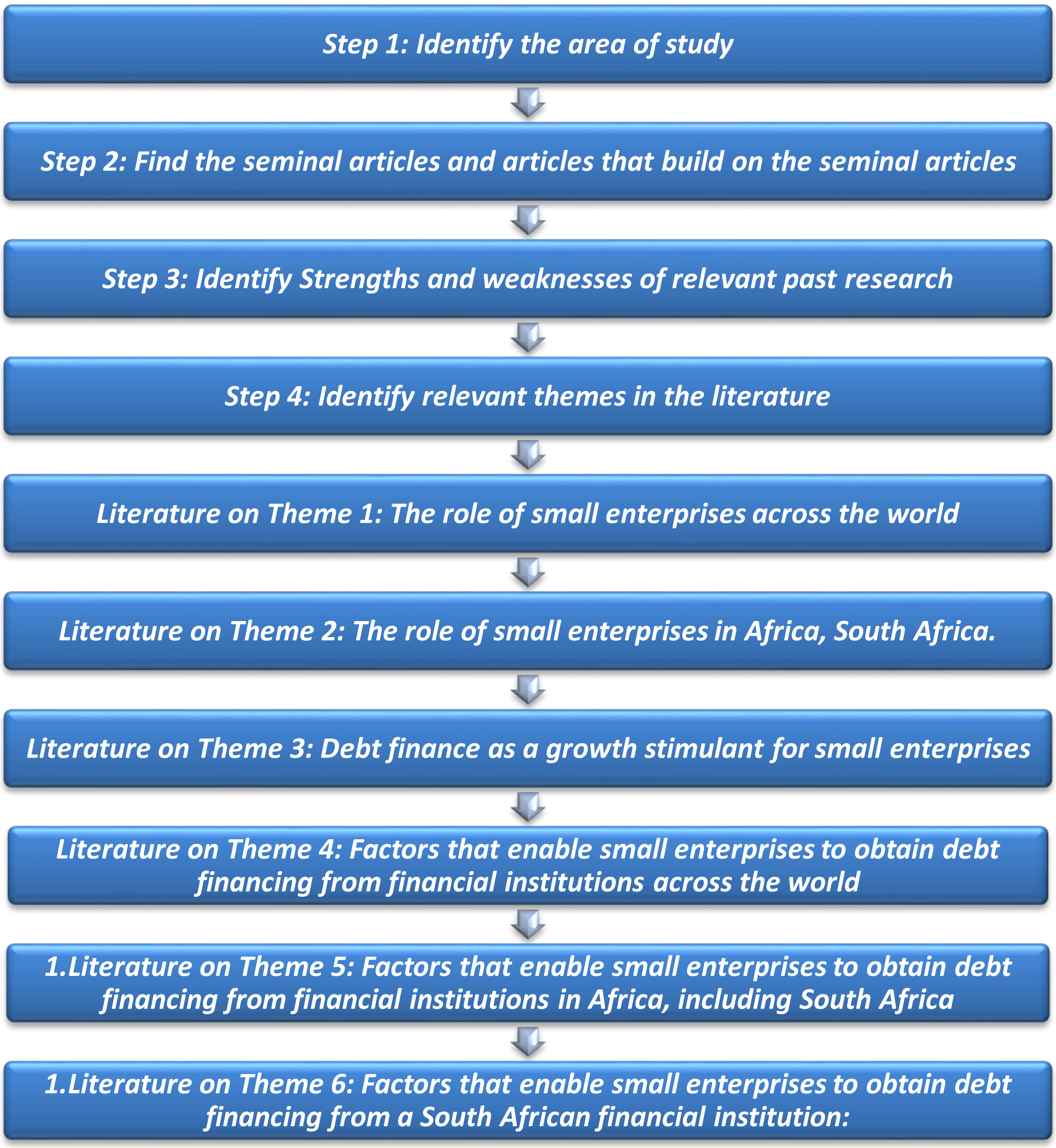

Figure 2: Literature Review Flow Structure

2.3.1 *Area of study*

The general area of study for this research is in the field of entrepreneurship, and small business development. Similar studies in this field were conducted by Osano and Languitone (2016), Falkena, et al. (2001) and Kauffmann (2005).

2.3.2 *Seminal articles and articles that build on the seminal articles*

Subject matter experts in small business research include one Olawale Fatoki, who has co-authored, and co-published several journal articles with other scholars on the subject. Fatoki' s articles include Fatoki and Smit (2011); Fatoki and David (2010); Fatoki and Odeyemi (2010). In addition to that Fatoki is extensively cited by other authors who have published journal artices on the suject including Arbor and Quartey (2010); Gichuki, Njeru, and Tirimba (2014); and Osano and Languitone, (2016).

2.3.3 *Strengths and weaknesses of past research*

Past research on the subject has predominantly focused on the role of small enterprises in stimulating economic development in emerging economies (Luiz, 2001). It would appear that researchers spent too much effort trying to prove the correlation between vibrant small business sector, and rapid economic growth, even after it had become common knowledge among economic policy makers that that small enterprises are significant contributors to GDP growth in emerging economies (Arbor & Quartey, 2010).

2.4 Relevant themes in the literature

The researcher has observed several reoccurring themes in the literature, these were also observed by Arbor and Quartey (2010). The reoccurring themes in the literature that the author has decided to explore further to get to the niche area of study that the researcher has chosen include the following broad themes:

- The role of small enterprises in stimulating economic development in developing economies across the world (Arbor & Quartey, 2010);
- Debt finance as a growth stimulant for small enterprises (Fatoki & David, 2010); and
- Factors that enable small enterprises to obtain debt financing from financial institutions (Osano & Languitone, 2016).

From that perspective, the researcher’s area of study builds on the conclusions of Osano and Languitone (2016).

The researcher then collected all the relevant articles and grouped them in the identified themes in a step by step build up to the focus area of study as follows:

2.4.1 *Theme 1: The role of small enterprises across the world*

According to Arbor and Quartey, 2010), small enterprises are the key to rapid economic growth in developing economies across the world. Other authors that support this view include Herrington, Kew, and Kew (2008), Le, Vekatesh, and Nguyen (2006); Irwin and Scott (2010); Luiz (2001); Maas, de Coning, and Smit (1999); and Sorooshian, Zulkifli, Yusoff, and Mohd (2010).

2.4.2 *Theme 2: The role of small enterprises in Africa, including South Africa.*

The global phenomenon that has been observed that small enterprises are significant contributors to economic vibrancy, is also observable in the developing economies in Africa, including south Africa (Arbor & Quartey, 2010). Other authors, and researchers have also observed the generalisability of studies to the role of vibrant small enterprises in stimulating economic growth in Africa, including South Africa. The researchers whose studies support this theme of small enterprises stimulating economic development in African include Gichuki, Njeru, and Tirimba (2014); Asah and Fatoki (2011); Arbor and Quartey (2010); Barbosa and Moraes (2004); (Finlayson (2003). Other researchers that support this theme of small enterprise stimulating economic development, especially in South Africa include the Bureau of Economic Research (2016); Ntsika Enterprise Promotion Agency (2002); Falkena, et al. (2001); Finlayson, 2003; Fatoki and David (2010); Herrington, Kew, and Kew, (2008); Kauffmann (2005); Irwin and Scott (2010); Mass and Herrington (2006); Maas, de Coning, and Smit, (1999); and Smit and Watkins (2012). The interest of the researcher in this subject is to contribute towards improvement of providing to SME finance. To clarify the minimum requirements from Standard Bank, due deligence is critical for financial institutions.

2.4.3 *Theme 3: Debt finance as a growth stimulant for small enterprises*

Arbor and Quartey (2010) observe that access to debt finance is a significant growth stimulant for small enterprise development across the world. This is a reoccurring theme in the literature that can also be observed in all of the main articles the researcher has encountered when conducting this literature review including Falkena, et al. (2001); and Beck and Demirguc-Kunt (2006). Other researchers that support this theme of access to finance as a growth constraint/stimulant for small enterprises include Asah and Fatoki (2011); Falkena, et al. (2001); De la Torre, Peria, and Schmukler (2010); Fatoki and Smit (2011); De la Torre, Peria, & Schmukler, (2010); Fatoki and David, (2010); Fatoki and Odeyemi (2010); Gichuki, Njeru, and Tirimba (2014); and Le, Vekatesh, and Nguyen (2006)

2.4.4 *Theme 4: Factors that enable small enterprises to obtain debt financing from financial institutions across the world*

In their own literature reviews, Arbor and Quartey (2010); Osano and Languitone (2016), observed that start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services are some of the key factors that either enable or hinder small enterprise access to debt financing across the world, a view that is supported in the literature by (Pretorius & Shaw, 2004).

2.4.5 *Theme 5: Factors that enable small enterprises to obtain debt financing from financial institutions in Africa, including South Africa*

As it relates to this theme, the researcher also found that, in their own literature review, Arbor and Quartey (2010); and Osano and Languitone (2016) observed that the factors that enable small enterprises to obtain debt financing from financial institutions are generalizable across all emerging economies, including Africa, and South Africa. The financial institutions systems were designed to be standard and evaluate applicants in a similar manner however, for SME's this creates a challenge, due to the fact that their ideas have not been proven yet and they might not be in possession of all documents required by banks however they require financial assistance for starting their venture. Further evidence of this was found in the work of Herrington, Kew, and Kew (2008); Kauffmann (2005); Fatoki and Smit (2011); Gichuki, Njeru, and Tirimba (2014); and (Pretorius & Shaw, 2004).

2.4.6 *Theme 6: Factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa:*

Even when specifically considering a single financial institution. The generic factors that have been established in the literature to be applicable in debt finance grant decision making by financial institutions remain relevant. start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services can be said to be applicable to the decisions of a single financial institution (Osano & Languitone, 2016). Authors whose studies support this theme of factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa include Asah and Fatoki (2011); Falkena, et al. (2001); (De la Torre, Peria, and Schmukler (2010); Fatoki and Smit (2011); De la Torre, Peria, & Schmukler, (2010); Fatoki and David, (2010); Fatoki and Odeyemi (2010); (Gichuki, Njeru, and Tirimba (2014); and Le, Vekatesh, and Nguyen (2006).

The researcher set out to conduct a study that would confirm the observation of this theme as it had has been observed by other scholars in the literature (Osano & Languitone, 2016).

2.5 Definition of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa

It has been observed from the low levels of small enterprise loan approval rates that there are critical factors that enable small enterprises to obtain debt financing from South African financial institutions (Fatoki & Smit, 2011). It follows therefore that if institutions are to increase their funds disbursement rates, and small enterprises are to increase their access to debt finance, then both parties need to have a clearer understanding of the factors that contribute to the low levels in small enterprise loan approval rates by the financial institutions. This gives rise to the need to conduct a study to ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

According to Asah & Fatoki (2011), researchers have identified the critical factors that enable small enterprises to obtain debt financing from South African financial institutions to include the following: start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services, among others (Fatoki & Smit, 2011). In the following paragraphs, the writer explores the citations in the literature for each factors that most authors agree that the most critical in accessing debt finance from Standard Bank of South Africa.

2.5.1 *Start-up capital*

The decision by a small enterprise owner to go into business, whether they are a survivalist or an opportunity entrepreneur, almost always takes into consideration the availability of start-up capital (Herrington, Kew, & Kew, 2008). Mass and Herrington (2006) observed that the availability of start-up capital almost always has a significant influence on the nature of second stage funding for small enterprises. They particularly observed that access to bank credit depends on a demonstration of healthy cash flows, and future cash projections, all of which cannnot be made possible without the availability of the innitial start-up capital.

2.5.2 *Business plan viability*

According to Barbosa and Moraes (2004) a viable business plan is one of the most critical documents to be prepared by small enterprise owners who seek debt financing for their businesses. This view is supported by Pretorius and Shaw (2004), Bureau of Economic Research (2016), and Falkena, et al. (2001), among others.

2.5.3 *Collateral*

According to Barbosa and Moraes (2004), collateral is also one of the most critical elements required by small enterprises who require debt financing. This view is supported by Pretorius and Shaw (2004), Bureau of Economic Research (2016), and Falkena, et al. (2001). Fatoki and Smit (2011) add that collateral mitigates the risk for lenders by reducing behavioral risk associated with moral hazard while also benefiting the enterprises by facilitating access to lower interest funds.

2.5.4 *Management skills and experience*

According to Fatoki and Smit (2011), managerial skills and experience play a key role in enabling small enterprises to access debt financing. This is largely due to the fact that skilled management often have the educational capacity to understand their market; and to create a strategy that is composed of inimitable capabilities to create a sustainable competitive advantage, based on a sound business model. Herrington and Wood (2003) add that, on the flip side, the lack of management competencies and experience are significant contributors to small enterprise failure to obtain debt financing due to poor business model articulation.

2.5.5 *Credit record*

Evidence in the literature indicates that, for the most part, small enterprise credit approval comes down to the creditworthiness of the enterprise and its principals (Pretorius & Shaw, 2004). The literature further indicates that the financial institutions place a high value on credit worthiness in their decision-making criteria because they believe that credit worthiness is one of the more objective credit assessment methods available to them (De la Torre, Peria, & Schmukler, 2010)

2.5.6 *Market assessment*

Enterprises need to understand their own positioning in the markets in which they operate in order to be better able to understand and project the sustainability of their business models in those markets (Pretorius & Shaw, 2004). This makes the ability of small enterprises to conduct a proper market assessment one of the key success factors in obtaining debt finance from financial institutions, because the application process involves the requirement to demonstrate business sustainability in the medium to long term.

2.5.7 *Credit risk*

Credit risk is derived from the credit record of the enterprise, and its principals. Mass and Herrington (2006) posit that financial institutions place a high value on the credit risk profile of small enterprise applicants when considering granting debt finance to those enterprises (Mass & Herrington, 2006).

2.5.8 *Working capital*

Small enterprise credit applicants usually have a variety of reasons for requiring a cash injection into their businesses (Beck & Demirguc-Kunt, 2006). The literature indicates that financial service institutions consider the reasons why small enterprises require finance. Even though this is a very subjective measure, applying for working capital funding is often viewed as red flag for an enterprise that is unable to manage its cash flows (Beck & Demirguc-Kunt, 2006).

2.5.9 *Financial records*

Proper record keeping for small enterprises is often viewed as an indicator for the degree to which the small enterprise can be relied upon to fulfil its financial obligations to its creditors (Gichuki, Njeru, & Tirimba, 2014). Evidence in the literature suggests that proper record keeping assists in creating a perception of reliability for small enterprises, therefore leading to a higher success rate in obtaining debt financing for small enterprises that demonstrate an ability to keep auditable financial records (Naude, Gries, Wood, & Meintjies, 2008).

2.5.10 *Firm size*

The size, and growth rate of a small enterprise plays a very important role in the perception of sustainability by credit lending institutions (Fatoki & Smit, 2011). On a more objective measure, Fatoki and Smit (2011) are of the view that relatively larger enterprises are more likely to obtain debt finance from financial institutions, because their assets enable them to have healthier leverage ratios. In addition to that, larger enterprises tend to be more diversified, which insulates them against market failures in specific industries.

2.5.11 *Firm age*

The literature indicates that the age of the enterprise is often correlated with the size of the enterprise, and its survival ability (Fatoki & Smit, 2011). Therefore, firm age has become one of the most significant factors in determining the viability of a small enterprise. It is also one of the main factors that financial institutions rely upon in determining the ability of small enterprises to service their debt.

2.5.12 *Cost of banking services*

The cost of banking services is a significant factor in the perception of how small enterprises conduct their accounts. Small enterprises with poor cash flows are sometimes unable to adequately provide for their debt service obligations. This has a negative impact on their ability to maintain a clean credit record, and as a consequence, their ability to raise debt finance in the future (Gichuki, Njeru, & Tirimba, 2014).

It has been observed from the low levels of business loan approval rates that there are critical factors that enable small enterprises to obtain debt financing from South African financial institutions (Fatoki & Smit, 2011). It follows therefore that if institutions are to increase their funds disbursement rates, and small enterprises are to increase their access to debt finance, then both parties need to have a clearer understanding of the factors that contribute to the low levels of small enterprise loan approval rates by the financial institutions. This gives rise to the need to conduct a study to ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

According to Asah & Fatoki (2011), researchers have identified the critical factors that enable small enterprises to obtain debt financing from South African financial institutions to include the following: start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services, among others (Fatoki & Smit, 2011).

2.6 Ascertaining and evaluating the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

The literature is settled on the factors that enable small enterprises to obtain debt financing from South African financial institutions (Fatoki & Smit, 2011). What remains to be done is to study the extent to which these factors have impacted small enterprise credit applications at Standard Bank of South Africa in the relatively recent past, 2017.

The factors that enable small enterprises to obtain debt financing from South African financial institutions include a combination of the following: start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services among others (Fatoki & Smit, 2011).

Developing valuable, and useful recommendations for what small enterprises can do to improve their chances of obtaining debt financing, from SBSA, will depend on the quality of the understanding of the financial institution's requirements. Additionally, the research findings could empower the researcher to be able to create best practises for small enterprises by advising them on the correct procedure for accurately completing the finance application documents, and collating the necessary documentation required to support a finance application. The research recommendations will empower small enterprises to approach the bank with a full understanding of the full requirements when applying for finance.

2.7 Propositions to be tested

2.7.1 *Proposition 1*

The literature indicates that the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa include the following: start-up capital, business plan viability, collateral, management skills and experience, credit record, market assessment, credit risk, working capital, financial records, firm size, firm age, and cost of banking services among others (Fatoki & Smit, 2011).

It is proposed that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively. This study will therefore test this proposition to ascertain and evaluate the positive enablers.

2.8 Conclusion of Literature Review

This literature review begins by painting a picture of the role of small enterprises in stimulating economic development in developing economies (Naude, Gries, Wood, & Meintjies, 2008). Several authors posit and agree that development of small enterprises is one of the most effective ways of creating economic vibrancy in developing economies (Luiz, 2001).

The researcher then develops the idea of the role small enterprises in economic development by exploring the following themes in the literature to get to literature that supports the research purpose, which is ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

The factors that enable small enterprises to obtain debt financing from financial institutions is not unique to South Africa. According Arbor and Quartey (2010), and Osano and Languitone (2016) the same factors are encountered by small enterprises in many developing economies across the world. Studies that support this view in the literature have been conducted in Ghana (Arbor & Quartey, 2010); in Kenya (Gichuki, Njeru, & Tirimba, 2014), in Mozambique (Osano & Languitone, 2016), and in Botswana.

2.9 Propositions to be tested

2.9.1 *Proposition 1*

It is proposed that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively. This study will therefore test this proposition to ascertain and evaluate the positive enablers and to develop recommendations for what small enterprises can do to improve their chances of obtaining debt financing from a South African financial institution.

CHAPTER 3. RESEARCH METHODOLOGY

The researcher's thinking and practices on research methodology are predominantly informed by the work of Saunders and Lewis (2012). Saunders & Lewis (2012), themselves rely heavily on the work of Clough & Newbrown (2008), Creswell (2008), Hair, Black, Babin, & Anderson (2009), Levitas (1996), and Wallace & Wray (2011), all of which have been found and referenced by the writer directly where applicable. The reseacher choice was due to the alignment of literature to their own research.

3.1 Research methodology

According to Creswell (2008) there are three different types of research methodologies namely, qualitative research; quantitative research and mixed methods research.

In a qualitative research the researcher focuses on various historical data and interpretations by different individuals. In the case study the researcher focuses on data collection and performing analysis within a specific period of time. The data tends to be described more in words than numbers (Creswell, 2008)

A quantitative research measures the reliability of the findings and it is objective as compared to the qualitative research which is viewed to be subjective (Creswell, 2008) The methodology builds on existing frameworks and it involves doing statistical analysis; performing numeric analysis and its independence is proven through data collection (Creswell, 2008). The findings from the quantitative research are explanatory; predictive and confirming. There are three broad classifications of quantitative research: descriptive experimental and causal comparative (Leedy & Ormrod, 2001).

Table 1: Qualitative and Quantitative Methodology

	Quantitative	Qualitative
Philosophical	Deductive, reductionist	Inductive, holistic
Aim	To test pre-set hypothesis	To explore complex human issues
Study Plan	Stepwise, predetermined	Iterative, Flexible
Position of Researcher	Aims to be detached, and objective	Integral part of the research process
Assessing quality of outcomes	Direct tests of validity and reliability using statistics	Indirect quality assurance methods of trustworthiness.
Measures of utility of results	Generalizability	Transferability

Source: Marshall (2006)

According to Creswell (2008) in mixed methods studies, the researcher mixes both qualitative and quantitative research method. This method is commonly used for clear understanding, analysis of data and the research problem. Creswell, Plano and Clark (2007) are of the view that mixed method tactics can be used as both a method and a methodology.

In this research, the primary method of research that was relied upon was quantitative, then some qualitative techniques were introduced as a means for substantiation and validation. Overall this research has relied on applying quantitative research methods. The researcher analysed small enterprise finance applications from SBSA, using archival secondary data that was obtained directly from the financial institution's small enterprise credit system. In order to substantiate the findings, the researcher then collected primary data by sending a questionnaire to 15 small business relationship managers via email.

3.2 Research Design

The analysis of the research was predominantly quantitative, that is highlighting useful patterns in the data (Saunders, Lewis, & Thornhill, 2009). This enabled the researcher to understand the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa. To that end, the findings were compared to the theory that was gleaned from the literature review in order to help interpret and describe the patterns that exist in the data (Levitas, 1996). Even though the structure of the research was designed on the basis of an academic literature review, which implies a deductive approach to the research (Saunders, Lewis, & Thornhill, 2009). The research findings were used in an inductive approach to develop a theory and recommendations about the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa (Saunders, Lewis, & Thornhill, 2009). When considering the research onion that was developed by Saunders, Lewis, and Thornhill (2009). The researcher has considered and made the following choices regarding research type, philosophy, approaches, strategies, choices, time dimensions, techniques and procedures:

3.2.1 *Research Philosophy: Pragmatism*

Research philosophy helps one to think about thinking (Clough & Newbrown, 2008). All good research design starts with crystallising the research philosophy that will be utilised to conceptualise the study (Saunders, Lewis, & Thornhill, 2009). For the most part, the research philosophy that the researcher adopted for this study was pragmatism; in the sense that the researcher was willing to allow the study to go wherever the research questions lead in order to find the answers. This means in the end the approach might end up drawing on more than one philosophical approach (Creswell, 2008).

3.2.2 *Research Approaches: Deduction vs Induction.*

By definition deduction is a research approach which involves the testing of theoretical propositions, whereas induction is a research approach which involves the development of theory from data analysis (Saunders, Lewis, & Thornhill, 2009).

The primary approach for quantitative studies is deductive, which, as per the Saunders, Lewis, & Thornhill (2009) definition, involves the development of a theory as a result of analysing data that has already been collected (Clough & Newbrown, 2008). However, in this study, the process of induction was also used in establishing the validity and reliability of the research results (Creswell, 2008). This again as per the as per the Saunders, Lewis, & Thornhill (2009) definition, entails testing of the theoretical proposition by explaining the causal relationship between variables (Saunders, Lewis, & Thornhill, 2009). Therefore, the research result from this study come from a combination of approaches that include both inductive and deductive methodologies.

3.2.3 *Research Type: Descriptive and Explanatory*

By definition, according to Saunders, Lewis, & Thornhill (2009), case research pertains to the investigation of a particular research topic in its real-life context, using multiple sources of evidence to understand why the subjects of research behave in a certain way. This definition of case study research lends itself to being the most suitable research type for use in explanatory, and exploratory studies. Case study research is limited to the extent that the results of the study cannot always be generalised to similar organizations (Levitas, 1996). This study possesses many of the characteristics of a case study research in the sense that it uses data from a single financial institution to study the factors that influence the outcome of small enterprise debt finance applications from that financial institution. It asks the question why and then sets out to find the answers using archival data from the case organization. It is for this reason that, at the initial stages of the research process, the researcher was reluctant to take a firm position on the exact research type that would be used for this study, as the case was likely to lend itself to mixed methods that combine a variety of explanatory and descriptive research strategies (Creswell, 2008).

3.2.4 *Research Strategies: Survey and Archival*

The choice of research strategies is informed by the source and nature of the data that would be used in the research (Saunders, Lewis, & Thornhill, 2009). Since the data for this study was obtained from archives at the financial institution SBSA, the research strategy that was employed incorporates some elements of archival research with elements of case study research (Creswell, 2008), as the study was limited to a specific case of a single financial institution in South Africa.

3.2.5 *Research Method: Mixed – Quantitative and Qualitative methodology*

The choice of research methodology is largely influenced by the data type, data availability, and validation techniques (Clough & Newbrown, 2008). So, in order to validate the findings that were derived from the quantitative analysis of the data, there was some level of qualitative validation via surveys with small business relationship managers at the bank. From that perspective, it can be said that this research used mixed methods in order to achieve its stated objective and support the validity of its findings (Creswell, 2008).

3.2.6 *Research Time Dimensions: Cross-sectional*

The time horizons for this study is a relatively static snapshot of the data in a specific period in time, hence the research can be considered a cross-sectional study of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa during the applicable period in 2017 (Saunders, Lewis, & Thornhill, 2009).

3.2.7 *Research Techniques and Procedures*

The primary research technique that was employed in this study is quantitative in terms of analysis techniques and data collection procedures (Clough & Newbrown, 2008).

Table 2: Types of data

Data Types	Definition	Centrality	Spread
Categorical data	No numerical meaning, indicates membership in groups (race, gender, industry)	- % in each group - mode (most common response)	- % in each group
Ordinal Data	Indicates rank, no mathematically meaningful (0-15 yrs; 16-25yrs)	- Median only	- Interquartile range
Interval Data	Continuous data. Low to high on a reasonable scale. No natural zero point (differences between dates)	- Mean/average - Median	- standard deviation (SD) - Interquartile range
Ratio Data	Continuous data. Has a zero point and can take any value upwards from it. Difference & ratio between scores meaningful (100 days vs 1000 days)	- Mean/average - Median	- standard deviation (SD) - Interquartile range

Source: (Lee, 2016)

3.3 Population and sample

3.3.1 *Population*

The population of the sample was all small enterprise customers of a particular financial institution who were also debt or credit facility applicants during the applicable period. The population of small enterprises were limited to those small enterprises that trade under a formalised legal entity that is registered with Companies and Intellectual Property Commission (CIPC). Sole traders and other informal survivalist enterprises have been specifically excluded from both the sample and the population. For the secondary data, this entailed a total population of 5570 small enterprises that applied for debt finance at the financial institution during the applicable period (which is the 2017 calendar year) and 2000 applicants were rejected. According to Creswell 2008 for this Masters research minimum feedback required in fifteen for any quantitative research. As a result, for the primary data 15 relationship managers were surveyed.

3.3.2 *Sample and sampling method*

The researcher had access to the entire sample frame of small enterprises that have applied for debt finance from a specific financial institution Standard Bank during the in the 2017 calendar year. Due to the availability of data the researcher used the convenience sampling technique, as described by Marshal (2006). The assurance of access to the entire sample frame makes it possible for to use the most rigorous probability sampling method, i.e. stratified random sampling (Saunders, Lewis, & Thornhill, 2009). According to Marshal (2006), convenience sampling entails using the most accessible data and is considered to be it is the least rigorous method that should be avoided when the option of using a more rigorous method becomes available, the researcher selected through random sampling selected 10% equals to 200 of the rejected applications. Clough and Newbrown (2008) indicate the benefits of convenience, time and costs savings are far outweighed by the disadvantages of lacking intellectual credibility. The measuring tool was design to measure the business instruments or variables that prevent the availability of debt finance to SME's. The empirical study concentrated on the branches of the one of the four major banks in South Africa; Standard Bank and the Small Business that applied for debt finance.

For the purposes of this study, the strata that was used in the stratified random sampling was focused on the nine geographic provinces of South Africa, and the sample was further stratified using magisterial districts in the urban centres of the provinces with metropolitan areas. The sample was selected using a specific time period, which is envisaged to be a period of a year in 2017. This means the sample only included small enterprises that applied for debt financing during the period that begins from January of 2017 through to December 2017. The researcher collected two hundred (200) small enterprise credit applications from Standard Bank of South Africa.

The questionnaire was administered to 15 respondents from SBSA from a population of 100 relationship managers at SBSA. The researcher validated the findings by sending and receiving feedback questionnaires to 15 small business relationship managers who are responsible for small enterprises within the financial institution. A questioner with 12 questions was design for the purposes of this research. The five-point Likert scale was 1. Not important and 5 being extremely important were used in the questioner. All 12 factors were internal factors to SBSA.

Table 3: Profile of respondents

Sampling		
Description of respondent type	Number to be sampled	Data type
Relationship Managers	15	Questionnaire
SME Finance Applicants	200	Secondary data

3.4 The research instruments

The data sample of 200 enterprise finance applicants was collected directly from the financial institution's credit application system. The validation questionnaires were distributed to small business relationship managers via email, and a follow-up telephone call was made by the researcher to encourage them to participate. The questionnaire that was used is attached in appendix B.

3.5 Procedure for data collection

Once management approvals to utilise the small enterprise data had been obtained, collection of the data sample was relatively straight forward as the researcher had direct access to the source data in the financial institution's credit application systems archives. The survey components were done via internal email within the financial institution. Therefore, the response rate was relatively high as was expected. The respondents were given a 5 to 10 days' time frame to respond to the questionnaire before data analysis and interpretation could commence.

The population of SMEs was 5570 and 2000 rejected applications. Asah and Fatoki (2011) sample size calculator was used to calculate the sample size. According Asah and Fatoki (2011) Raosoft sample size calculator is statistical software that enables researchers to determine the sample size given the following variables: The margin of error, The confidence level, the population and the expected response distribution Asah and Fatoki (2011) and Raosoft, 2010. Raosoft provided a minimum recommended sample size of 200.

Through archival data from a sample of 200 small enterprise loan applications were used to conduct the research. Descriptive methods and a statistical software package SPSS was used to analyse the data and interpret the findings. The relationships between the variables in the data was examined with a statistical software package using t-tests for categorical data, spearman's correlation for ranked categorical data, and regression analysis for numerical data (Saunders, Lewis, & Thornhill, 2009).

3.6 Limitations of the study

The data is readily available, and the sampling methodology chosen is stratified random sampling, which is the most rigorous sampling methodology available for the level of research (Saunders, Lewis, & Thornhill, 2009). In addition to that, the sample size is relatively small, and the statistical analysis required to ascertain and evaluate the factors is relatively straightforward, hence there are no limitations that were anticipated to significantly prevent the research from achieving its stated objectives. However, the following limitations still need to be taken into consideration, and managed.

- Research was limited to formally registered entities only
- Research was limited to enterprises who have applied for the debt finance from R50 000 – R100 million Rands only.
- The research only focuses only focuses on a 12-month period in 2017
- The research has excluded all other methods of finance and focused only on debt finance
- The research data did not fit perfectly into the chosen stratification criteria
- The archival research data was not available in the envisaged research categories
- The definition of small enterprises in the literature was not in line with the financial institution's internal definition of small enterprises.

3.7 Validity and reliability

Research validity has to do with whether or not the research method is able to achieve what it set out to achieve in a manner that is believable to a rational objective third party. The reliability of a study generally assesses the consistency and the reproducibility of the results (Saunders, Lewis, & Thornhill, 2009). The researcher believes that this study passes the test of validity and reliability because the necessary precautions to ensure a valid, reliable study have been taken.

3.7.1 *External validity*

According to Saunders, Lewis, and Thornhill (2009) external validity has to do with the applicability of the research results beyond the sample. The researcher believes that the results of this research can be generalised into the entire sample frame because the sampling method used was stratified random sampling of all small enterprises who applied for debt financing from a financial institution during the applicable period. There is a limit to the extent to which the results of the study can be generalised into the entire population of small businesses in South Africa that applied for debt financing from other financial institutions (Saunders, Lewis, & Thornhill, 2009). However due to the highly-regulated environment in which financial institutions operate in South Africa, it will be possible to draw inferences from the results of this study and apply them to other small enterprises, and financial institutions. From that perspective, the resulting recommendations may be universally applicable in so far as they relate to compliance with the applicable credit lending legislation such as the National Credit Act (South Africa, The National Credit Act, 2007).

3.7.2 *Internal validity*

According to (Levitas, 1996), internal validity has to do with the responsiveness of the dependant variables to actions on the independent variables. Since this is a quantitative study, based on secondary data for which the entire data frame is available, the risk of introducing subjective elements that may corrupt the analysis or findings is minimal. The researcher has made adequate provisions to eliminate their own biases by adopting stratified random sampling.

The secondary data was validated using the primary data sourced from the questionnaire completed by small enterprise relationship managers. From the research outputs Cronbach alpha was used to test internal reliability table 4 below illustrates the acceptable ranges for Cronbach alpha

Table 4: Cronbach Alpha ranges

Cronbach Alpha	Guidelines
>.80	Good. Approve the reliability scale – you can aggregate items into one score
<.65	Bad. Assess if caused by a few deviant items / items do not fit together
.65>alpha>.80	Moderate. Usually OK, but should aim to strengthen

Source (Lee, 2016)

3.7.3 *Reliability*

According to (Levitas, 1996), reliability has to with the extent to which data collection methods and analysis procedures can objectively produce consistent findings, regardless of who the researcher that is using them is. In this study, the researcher has made adequate provisions to eliminate all the known biases that may threaten the reliability of the research findings and conclusions. The decision to use secondary data contributed significantly to that effort. For accuracy, the research followed the recommendations of Lee (2016) and used p values to indicate the statistical significance in the hypothesis testing. The researcher also tested if can R^2 be differentiated from zero, which is the test of the null hypothesis (Lee, 2016).

Table 5: Testing the Null Hypothesis

P-value	Null hypothesis: Statistic = 0	Alternate hypothesis: e.g. Statistic ≠ 0
Low (say p < .05 or .01)	*Reject*. Assume that statistic different from 0.	*Supported* (not per se proved).
High (say p > .05 or .01)	*Accept*. Statistic may be 0 (not necessarily, but you can't tell).	*Not supported* (not necessarily disproved).

Look at: (a) Statistical Significance and (b) Low P-values

Source: Source (Lee, 2016)

According to Fatoki 2011 Validity and reliability were ensured by using a statistician and a panel of experts to evaluate the research instrument for conceptual clarity, pre-testing the research instrument in a pilot study and comprehensively reviewing the literature for theoretical constructs and empirical conclusions.

3.7.4 *Research Believability*

There are several factors that impact research results believability. Most of them have to do with researcher biases that impact on subject selection, history, testing, and ambiguity about causal direction (Saunders, Lewis, & Thornhill, 2009). The researcher has made a conscious effort to identify and eliminate all the known biases that may threaten the believability and validity of the study into factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa. The researcher acknowledges that sometimes they may not be aware of their own biases, so the effort to eliminate biases is limited to the extent that it only deals with the biases that can be brought into the researcher's consciousness. Unconscious biases may still have some unknown impact on the research believability. In addition to that, the research instrument, questionnaire, was sent to independent parties whose responses were then used to identify correlations between what the secondary data says, and what relationship managers who deal with small enterprises everyday have to say about the same research questions.

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

In this chapter, the researcher presents the empirical results of the study, in the form of raw findings arising out of the statistical analysis of the collected data. This includes descriptive statistics and T-test data collection, and the primary survey data from questioning relationship managers at the financial institution under study. Responses from the questionnaire that was sent to small business relationship managers from the institution under study are presented with comments. Raw response data has been attached as an appendix.

4.2 Demographic profile of respondents

The respondents that the data was derived from are from five provinces in South Africa. Fifteen (15) relationship managers that responded were mainly from KwaZulu Natal (KZN), Mpumalanga, Gauteng, Eastern Cape and Free State. The relationship managers were both men and women. The significance of the responses is that 100% of the relationship managers participated.

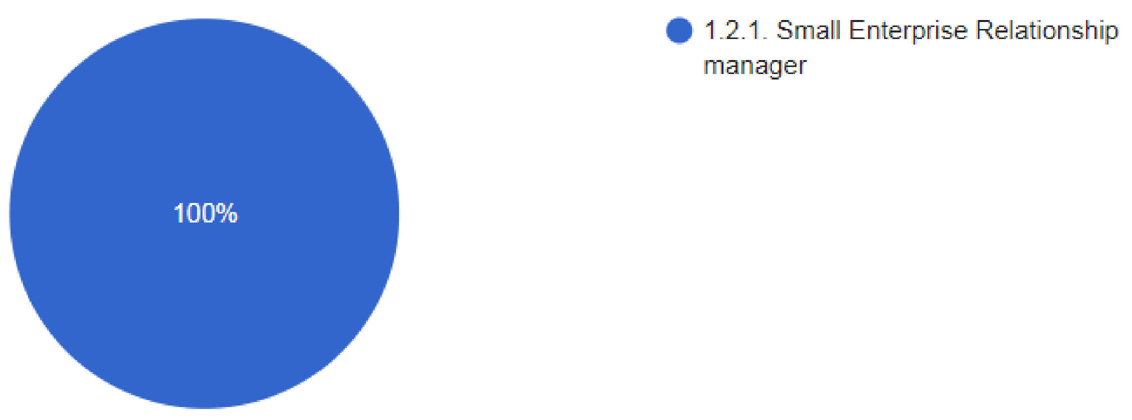

Figure 3: Respondent Occupations

Most respondents (relationship managers) were from KZN 37.5%, 25% from Gauteng; 18.8% from Eastern Cape; 12.5% from Mpumalanga and 6.2% from Orange Free State.

Seventy percent 70% of the respondents have been working for the financial institution in their roles for more than 7 years and the other 30% have over three years' experience.

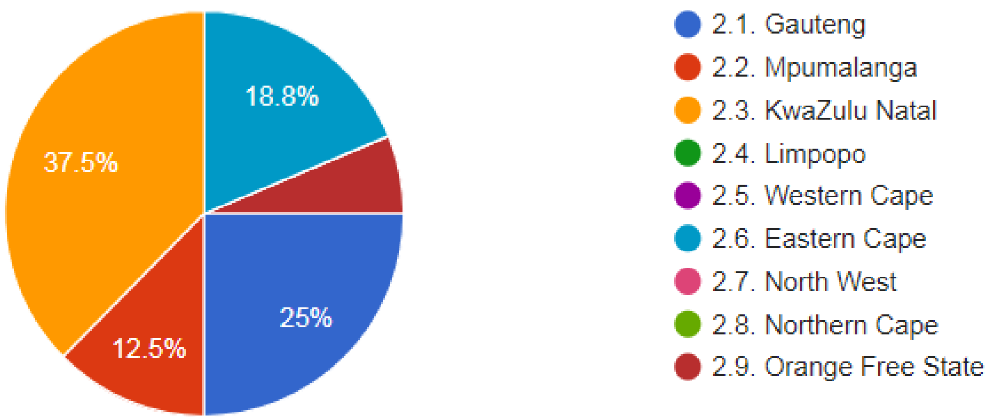

Figure 4: Respondent geographic spread

4.3 Secondary Data Demographics

A sample of two hundred and twelve entities of declined applications from January of 2017 to June of 2017 was sampled through stratified random sampling from a total of 2000 declined applications to confirm the reasons for declining credit applications from the financial institution. Province with the highest declines is Gauteng Province at 27% followed by KwaZulu Natal Province at 26% and the Western Cape Province at 17%.

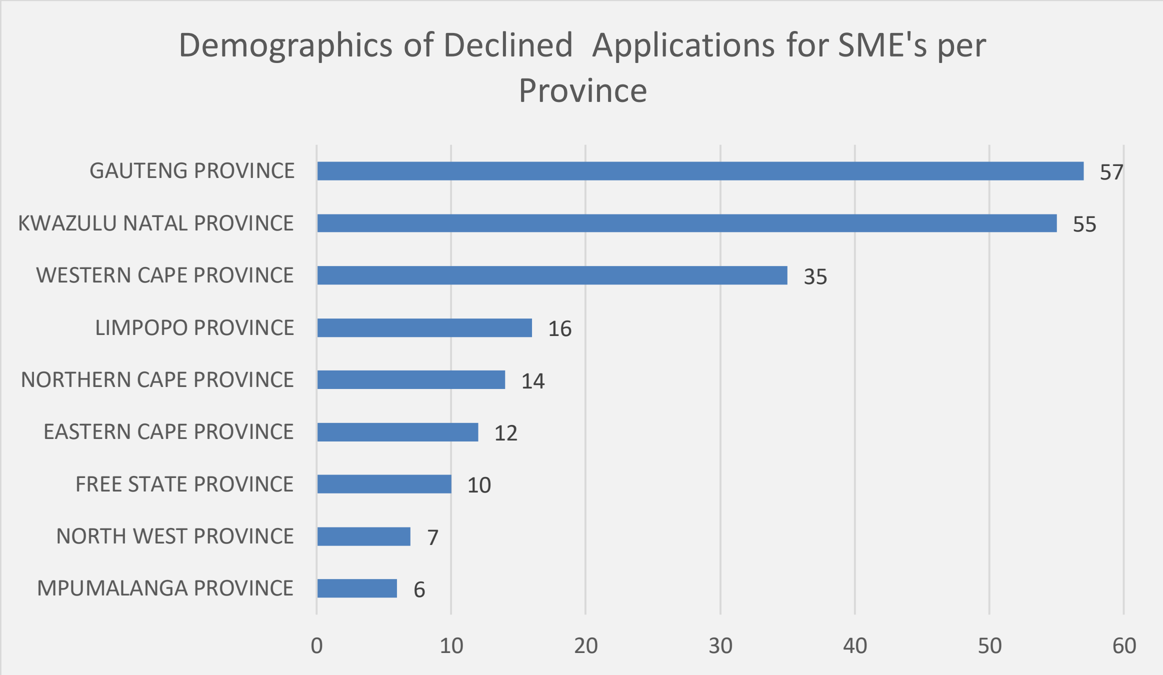

Figure 5: Secondary Data geographic spread – Count

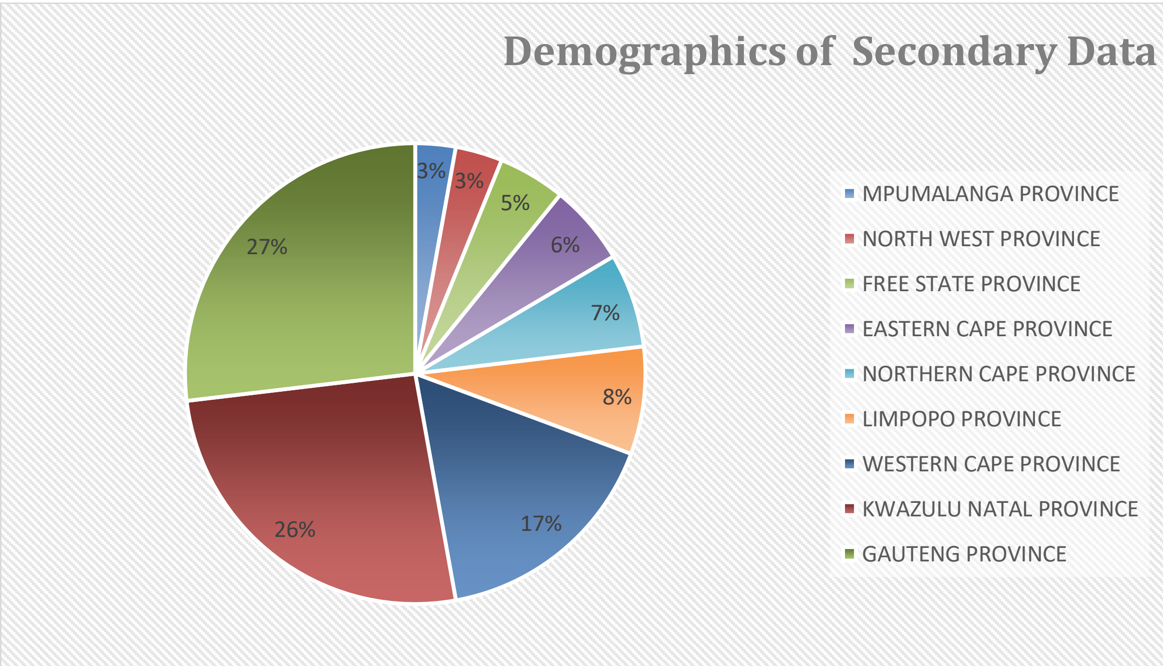

Figure 6: Secondary data geographic spread – percentages

4.4 Results Pertaining to Proposition 1 – From Questionnaire

The researcher articulated proposition 1 as follows:

"It is proposed that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively."

The respondents expressed a view on each of the twelve factors surveyed as follows:

4.4.1 *Factor 1: Start-up Capital*

In the context of this study, the researcher defines start-up capital, loosely, as:

"The extent to which the small enterprise demonstrated evidence of the availability of adequate start-up capital that was sufficient for their purposes."

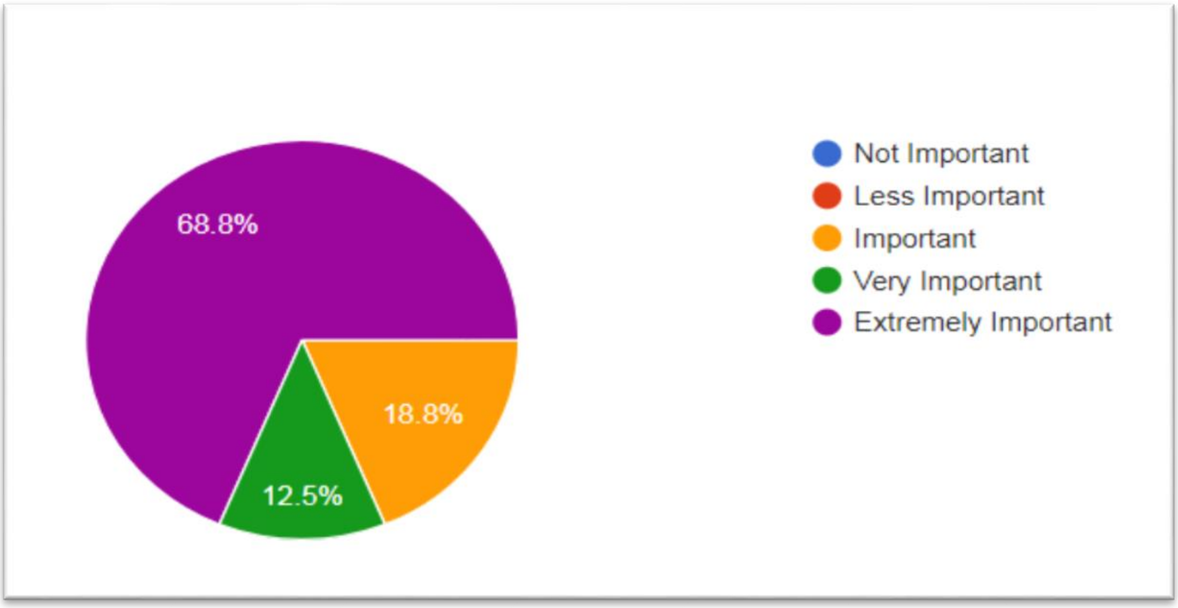

Figure 7: Responses to Factor 1: Start-up Capital

Start-up capital was considered to be extremely important by 68.8% of relationship managers. This can be considered one of the important critical factors in credit application process.

4.4.2 *Factor 2: Business Plan Viability*

In the context of this study, the researcher defines business plan viability, loosely, as:

"The extent to which the small enterprise business plan was perceived to be viable, believable, and executable."

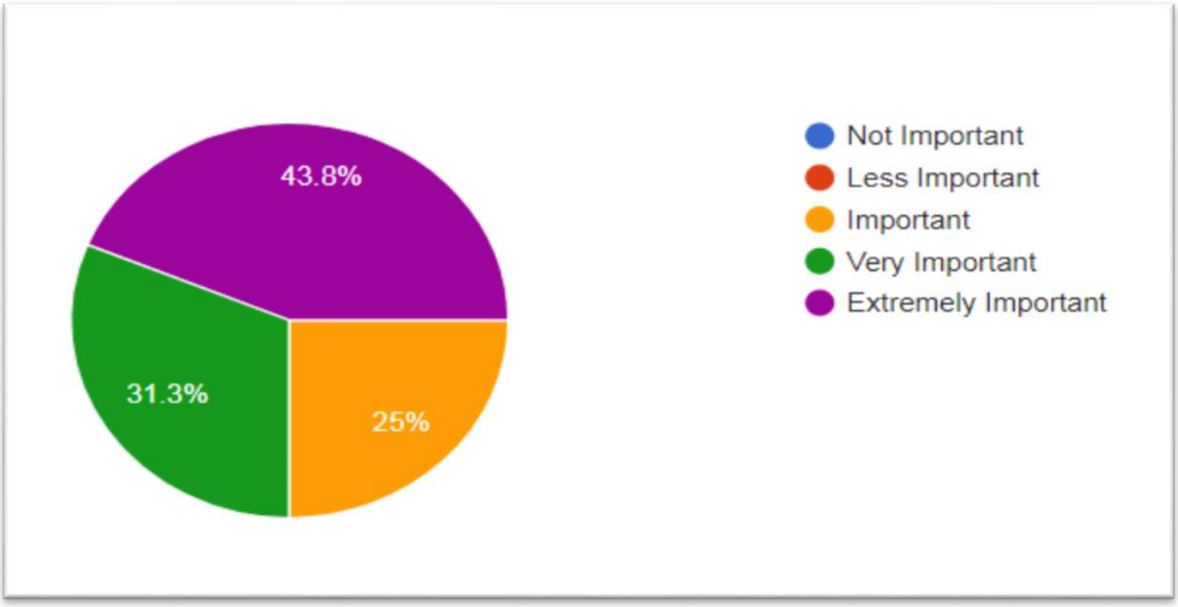

Figure 8: Responses to Factor 2: Business Plan Viability

Over 43.8% of respondents considered the business plan viability to be extremely important, 31% considered it important and 25% said it was important. None of the respondents indicated that it was not important. Due to the history of South African entrepreneurs it becomes important for the financial institution to understand their role in assisting the Small enterprises.

4.4.3 *Factor 3: Collateral*

In the context of this study, the researcher defines collateral, loosely, as:

"The extent to which the small enterprise balance sheet demonstrates that they can cover the finance risk through any of its assets."

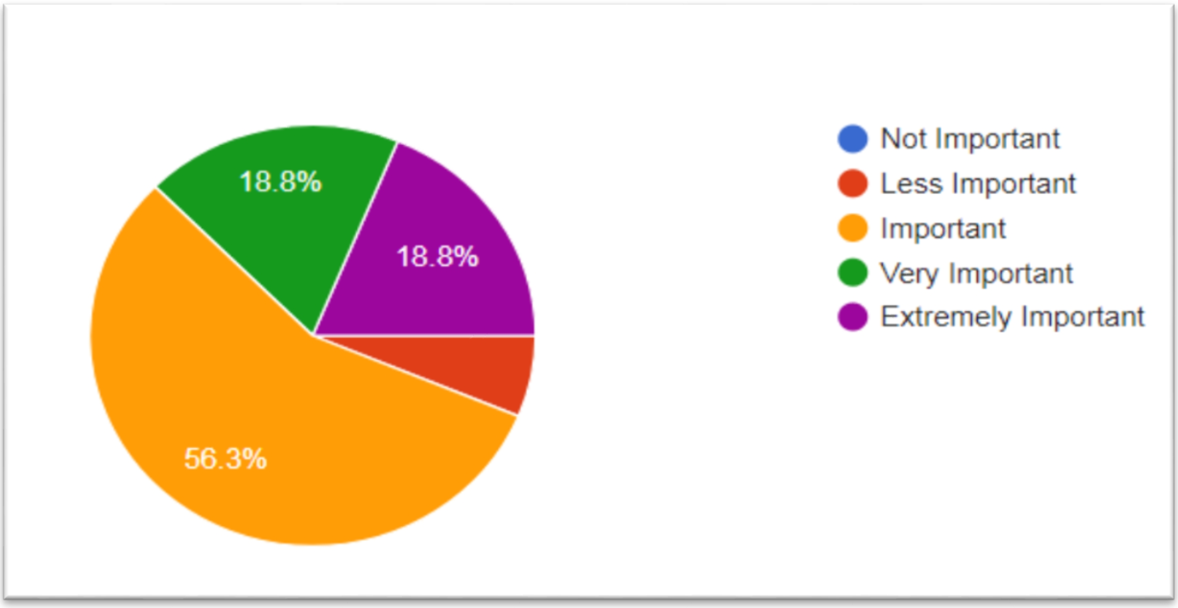

Figure 9: Responses to Factor 3: Collateral

The majority of respondents, 56.3% considered collateral to be important with and equal proportion, 18.8%, of respondents considering collateral to be important and very important respectively. Collateral is important but was not one of the factors that ranked highest in declining an application

4.4.4 *Factor 4: Management skills and experience*

In the context of this study, the researcher defines management skills and experience, loosely, as:

"The extent to which the management of the small enterprise was perceived to be sufficiently skilled and experience to be able to execute on their business plans."

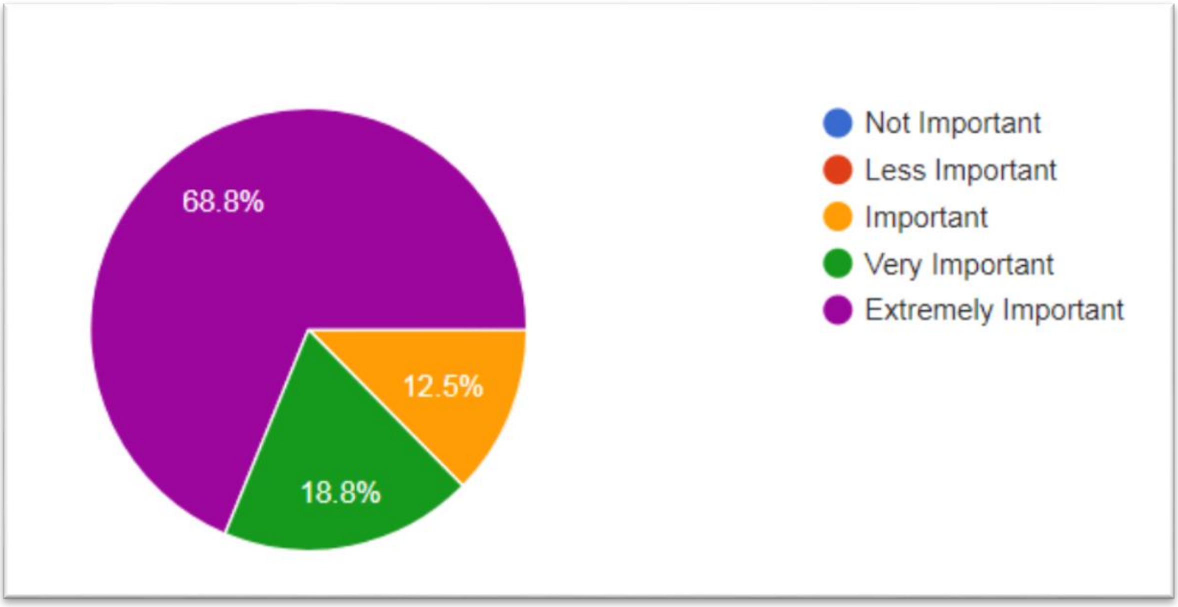

Figure 10: Responses to Factor 4: Managerial competence

More than two thirds of the respondents, 68.8% of the respondents were of the view that managerial competence is extremely important, with 18.8% saying it was very important, and 12.5% saying it was important. None of the respondents considered managerial competence less important or not important at all.

4.4.5 *Factor 5: Credit Record*

In the context of this study, the researcher defines credit record, loosely, as:

"The extent to which the historical financial conduct of the small business, its principals and its management was considered important in making the latest financing decision."

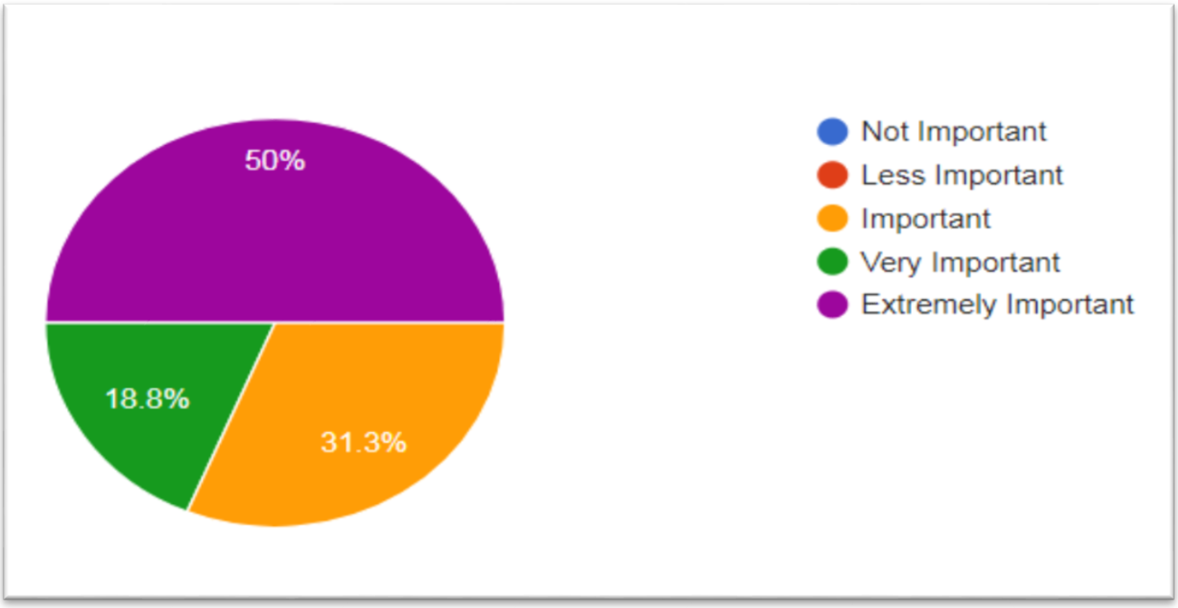

Figure 11: Responses to Factor 5: credit record

Credit record can be regarded as one of the factors that are in the borderline 50% of the relationship managers thought it was extremely important and 31% referring to it as just important.

4.4.6 *Factor 6: Market Assessment*

In the context of this study, the researcher defines market assessment, loosely, as:

"The extent to which the small enterprise was perceived to have accurately assessed their environment and found an appropriate niche in a large and rapidly growing market for which their products or services will continue to be demanded in the future."

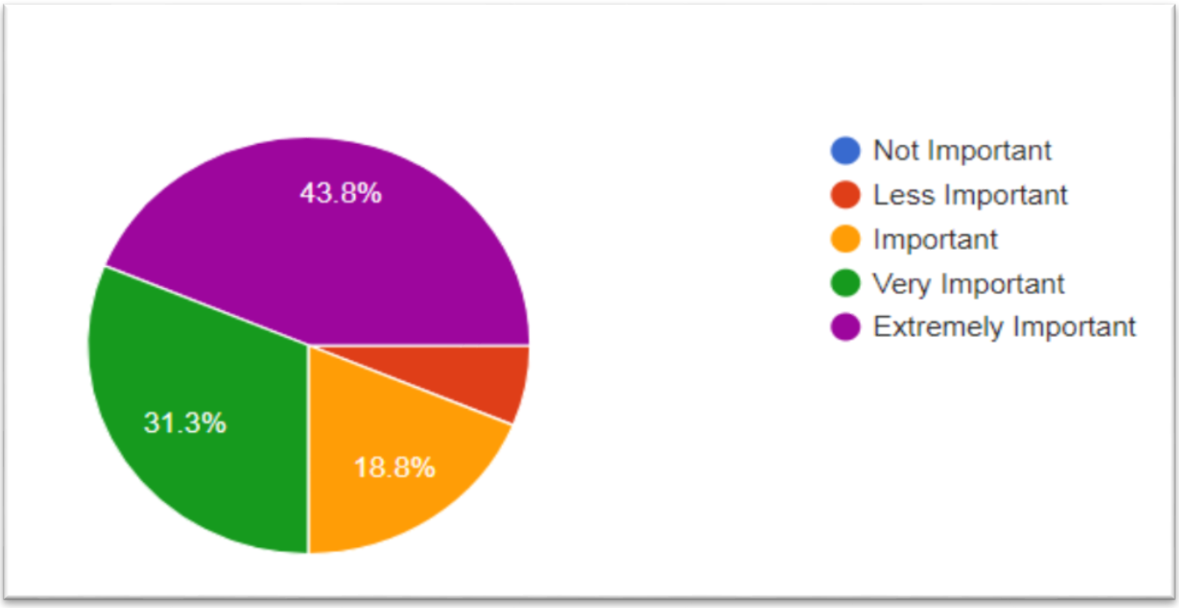

Figure 12: Responses to Factor 6: Market Assessment

Only 43.8% of respondents considered market assessment extremely important, with 31.3% and 18.8% of respondents considering it important, and very important respectively.

Market demand is an important factor due to the fact that if there is no demand for the product the entrepreneur is selling the company will fail. Market assessment assist the SME to objectively assess the market and viability of their proposal before they commit themselves.

4.4.7 *Factor 7: Credit Risk*

In the context of this study, the researcher defines credit risk, loosely, as:

"The extent to which the small business that is applying for finance is perceived to be undertaking a risky venture."

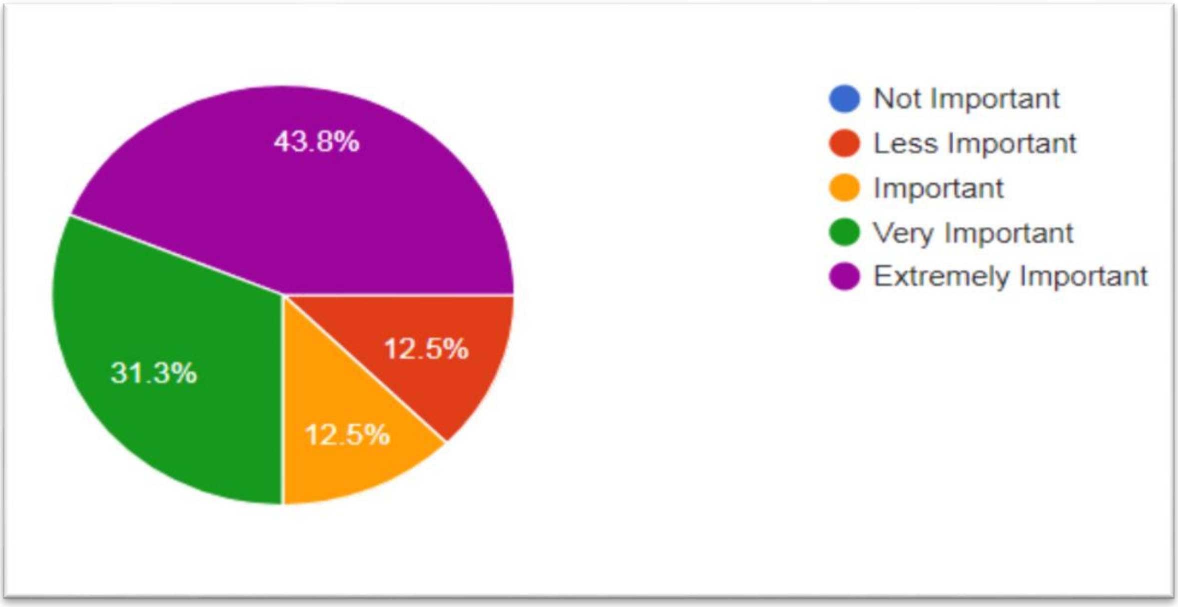

Figure 13: Responses to Factor 7: Credit Risk

Credit risk assesses the credit worthiness of the business and that of its members of directors.

4.4.8 *Factor 8: Working Capital Funding*

In the context of this study, the researcher defines working capital funding, loosely, as: "The extent to which the funding that the small business was applying for was going to be used to fund working capital."

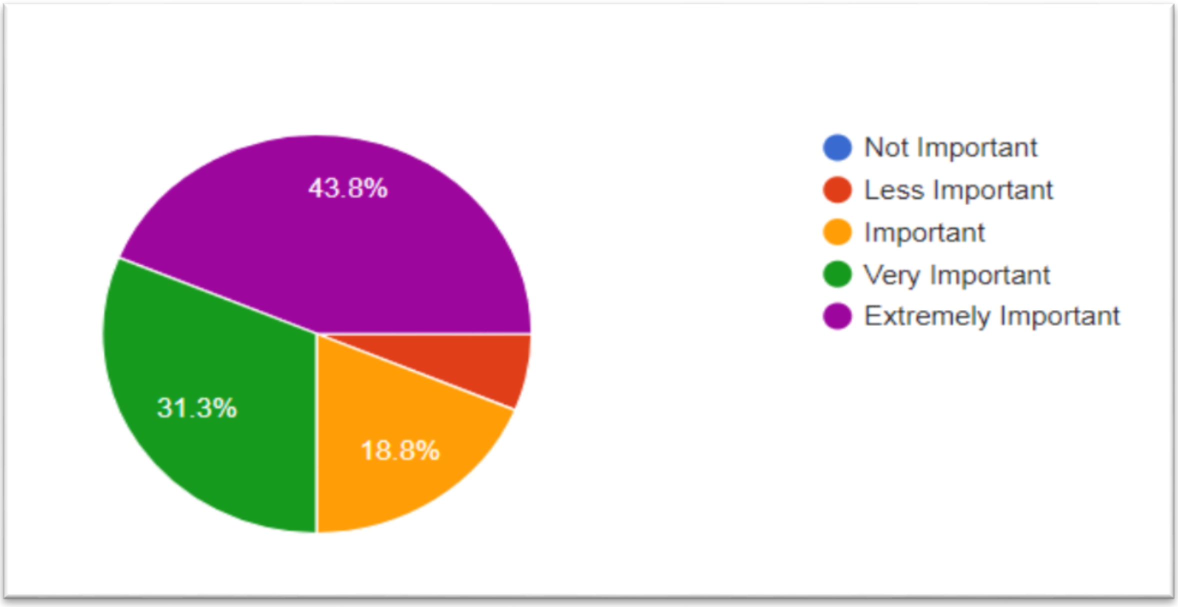

Figure 14: Responses to Factor 8: Working Capital Funding

43.8% of respondents considered working capital to be extremely important. 31.3% considered it very important, and 18.8% considered it important.

Working capital determines the survival of the entrepreneur in the first year in business. Important factor for keeping business operational.

4.4.9 *Factor 9: Financial Records Keeping*

In the context of this study, the researcher defines financial records keeping, loosely, as:

"The extent to which the small business demonstrated the ability to maintain accurate, auditable financial records."

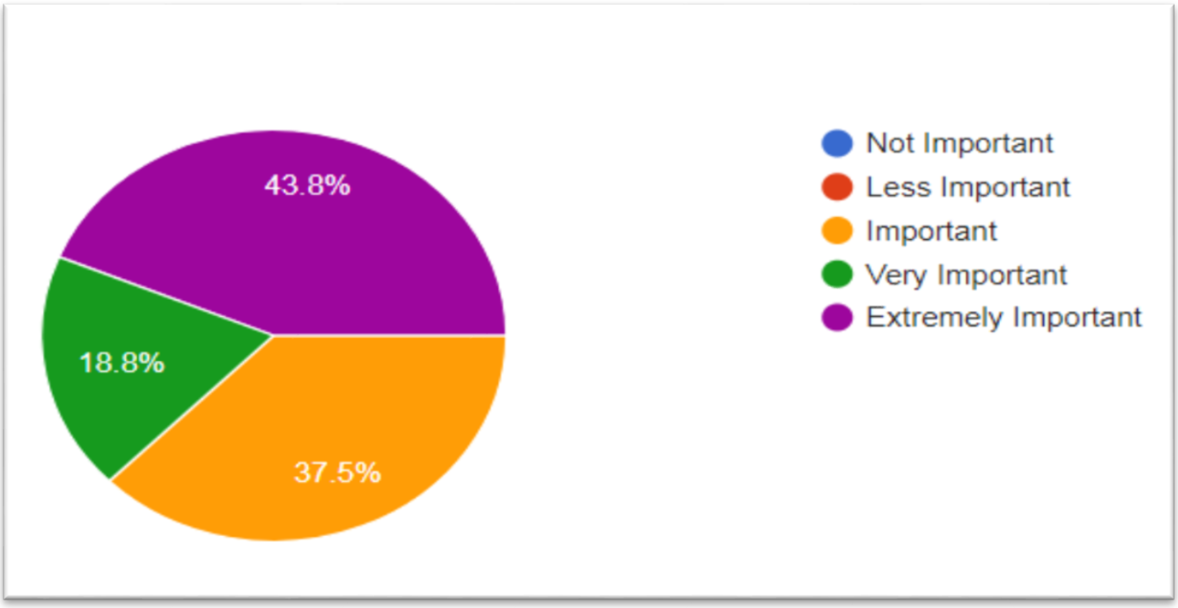

Figure 15: Responses to Factor 9: Financial Records Keeping

43.8% of respondents considered financial records extremely important. 18.8% considered it very important, and 43.8% considered it important. Financial records provide a clear indication of the businesses operation.

4.4.10 *Factor 10: Firm Size*

In the context of this study, the researcher defines firm size, loosely, as:

"The extent to which the relative size of the small business was perceived to be a factor in the financing decision."

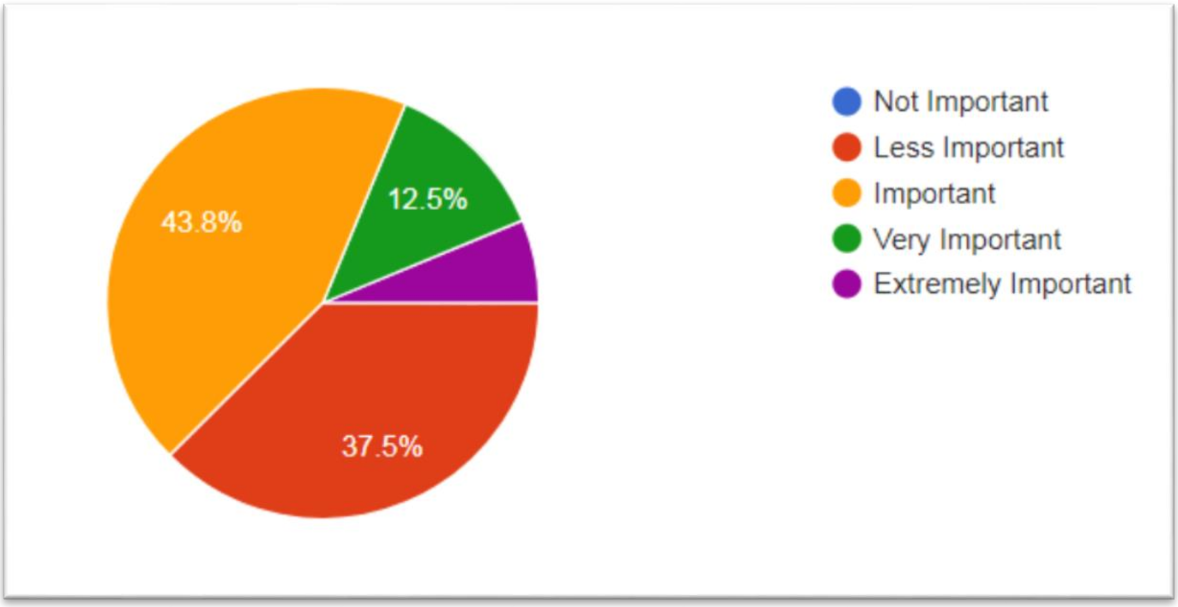

Figure 16: Responses to Factor 9: Firm Size

Only 12.5% of respondents considered firm size to be very important, with 43.8% saying that it is important, and 37.5% saying that it is less important. Firm size is not a factor that can impact the credit application according to findings of the primary survey.

4.4.11 *Factor 11: Firm Age*

In the context of this study, the researcher defines firm age, loosely, as:

"The extent to which the relative number of years the small enterprise has been in operation was perceived to be a factor in the financing decision."

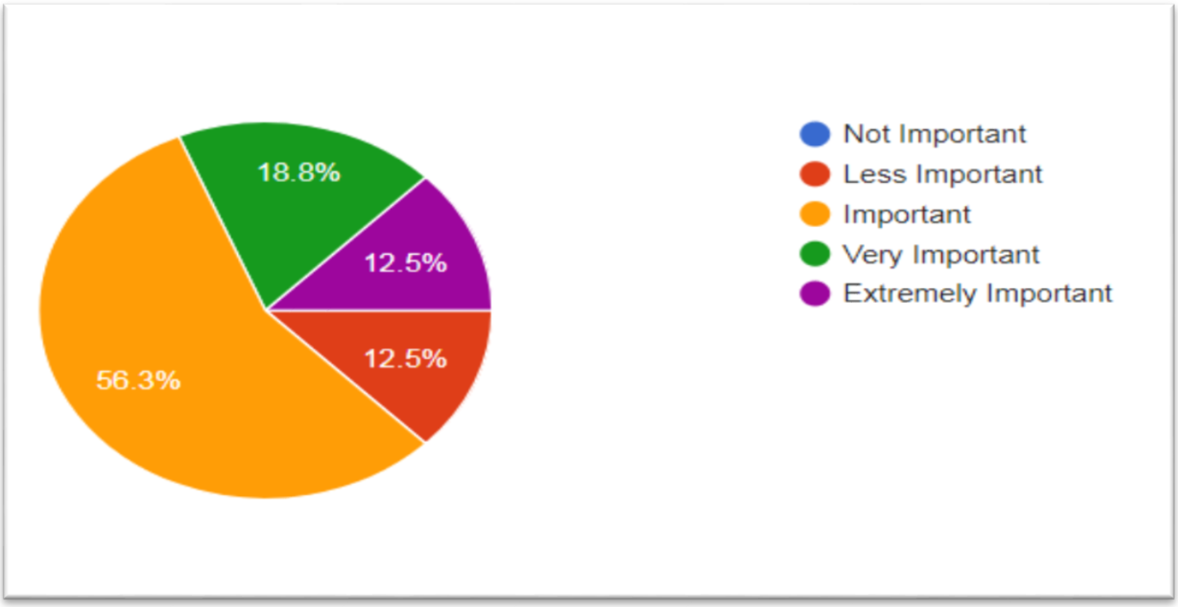

Figure 17: Responses to Factor 11: Firm Age

56.3% of respondents considered firm age to be important. 18.8% of respondents said it was very important, and 12.5% did not consider it important.

How old the firm is not a critical factor; however, it provides an indication for how long the SME has survived as most entrepreneurs fail in the first three years.

4.4.12 *Factor 12: Cost of Banking*

In the context of this study, the researcher defines cost of banking, loosely, as: "The extent to which the small enterprise was perceived to be able to afford the financial services."

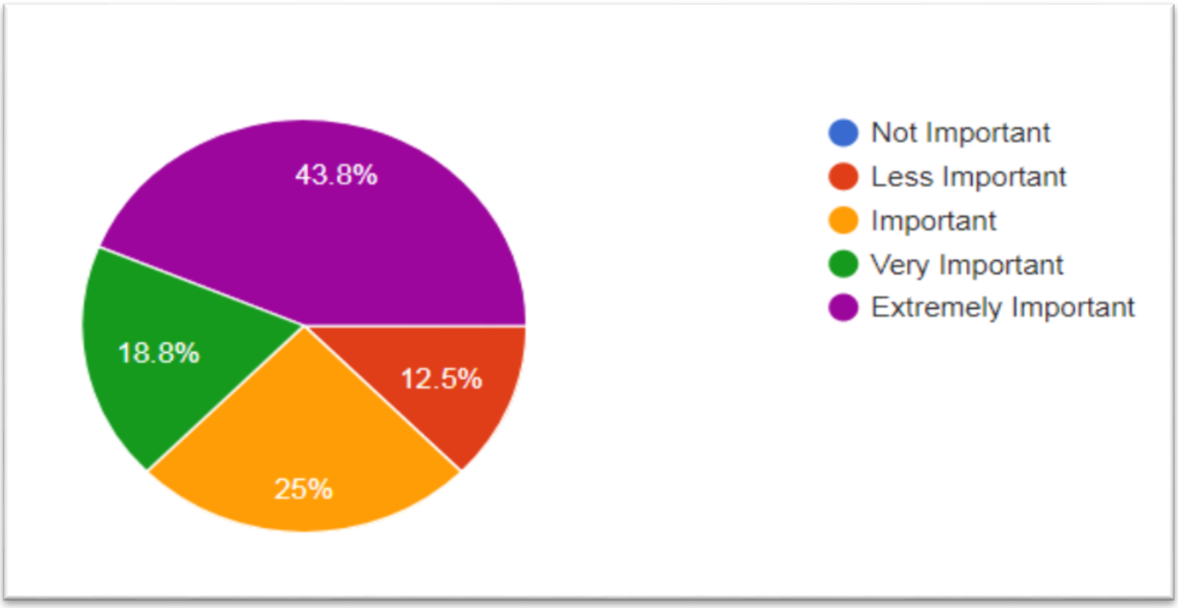

Figure 18: Responses to Factor 12: Cost of Banking

Bank charges and ease of banking is important for small enterprises. According to the relationship managers, many enterprises fail to understand the actual costs associated with doing business with financial institutions.

4.5 Results Pertaining to Proposition 1 – From archival secondary data

The secondary data that was collected from the financial institution did not fit perfectly with the categories and factors that were envisaged in the research design. For example, only four decline reasons matched to the 12 factors that the researcher was looking for based on the literature (Fatoki & Smit, 2011). The only four factors in the data that matched the 12 factors that were derived from the literature were collateral; repayment ability, credit risk (annotated as NCA requirement) and financial requirements.

4.5.1 *Declined Applications vs Approved Applications*

The researcher set out to find secondary archival data from the financial institution that supports the proposition that:

"It is proposed that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively."

This proposition supposes that the researcher should be able to find data from "approved" applications that would support the proposition. In other words, the researcher was expecting to find data detailing why the successful applications had been approved, and then ascertain and evaluate the positive enablers in order to develop recommendations for what small enterprises can do to improve their chances of obtaining debt financing from the financial institution. Unfortunately, that was not to be as the financial institution does not keep detailed records of the reasons they had approved applications. Instead, the financial institution under study keeps more records of the reasons they had declined applications. The impact of that is that the positive enablers were derived or inferred from the absence of the factors that hinder loan approvals.

4.5.2 *Differences between factors in the literature, and factors in use at financial institution*

Table 6: Differences between factors in the literature, and factors in use at financial institution

Factors in the literature	Factors in the Financial Institution's data	Matched
Start-up Capital	No Match	NO
Business Plan Viability	Clarify purpose/repay ability	YES
Collateral	Collateral incorrect/incomplete	YES
Management skills and experience	No Match	NO
Credit Record	NCA requirement not adhered to	YES
Market Assessment	No Match	NO
Credit Risk	Application 'crunched'	YES
Working Capital	No Match	NO
Financial Records	More recent financials requirements	YES
Firm Size	No Match	NO
Firm Age	No Match	NO
Cost of Banking	No Match	NO
Collateral 2	Collateral/Conditions incomplete	YES
No Match	Additional Info required	NO
No Match	Application incomplete	NO
No Match	Product Expert recommendation	NO
No Match	Customer in Debt Review	NO
No Match	Higher authority recommendation required	NO

4.5.3 *Reasons for declined applications*

Table 7: Reasons for declined applications

Reasons for SME Declined Applications	Number of Declined Applications
Product Expert recommendation	3
Customer in Debt Review	3
Higher authority recommendation required	7
Application 'crunched'	10
Collateral incorrect/incomplete	12
Clarify purpose/repay ability	13
Collateral/Conditions incomplete	16
Additional Info required	19
Application incomplete	30
NCA requirement not adhered to	45
More recent financials requirements	54

Total	212

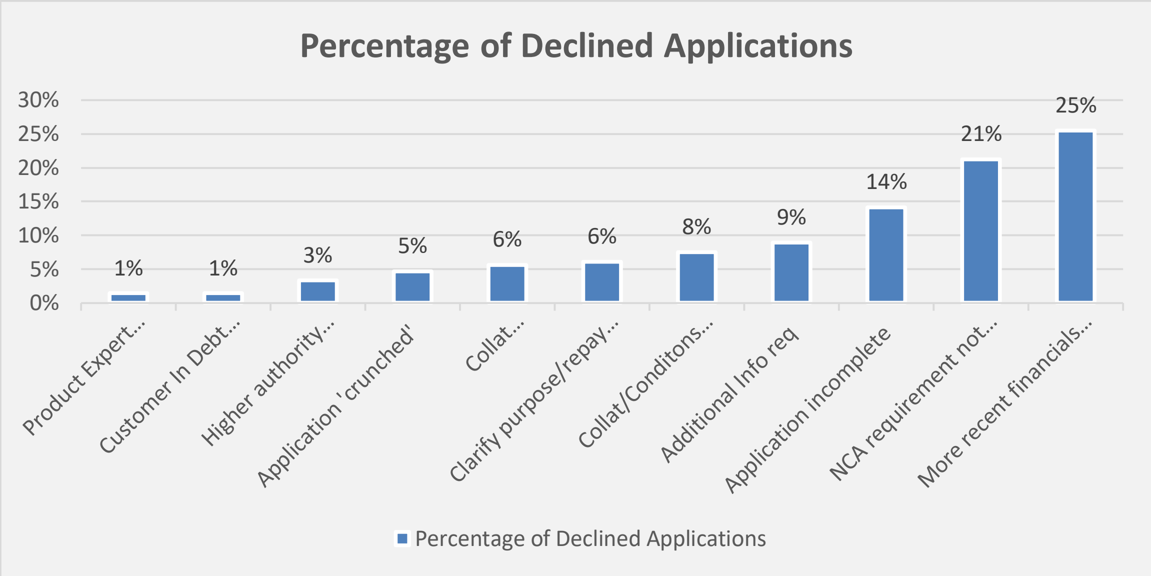

Figure 19: Chart of Reasons for declined applications

4.6 Summary of the results

The results of this study can be summarised into two separate sections, namely the results from the primary data questionnaire, and the findings from the archival secondary data as follows:

4.6.1 *Summary of relationship manager responses*

The small business relationship managers at the financial institution expressed an opinion on the 12 factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa. The relationship managers confirmed that all of those 12 factors were considered important or significant. However, the Likert-scale responses singled out two specific factors as extremely important. Start-up capital and management skills and experience ranked as extremely important factors. Working Capital, Credit Risk, Market Assessment, Business Plan Viability, Credit Record and Cost of Banking as important factors. The other factors like firm size and age ranked low, therefore have minimal impact in the credit application process of Small enterprises.

4.6.2 *Summary of Archival Secondary Data findings*

The financial institution under study institution used a total of eleven reasons that contribute to applications being declined. Seven of them can be considered to have minor impact as they collectively account for 34% of the declined applications in the sample. Collateral, repayment ability, credit risk, and financial record requirements collectively account for 66% of the declined applications (collateral 14%; repayment ability 6%, credit risk 21% and financial requirements 25%). These four factors are the same factors in the secondary data that are aligned to the factors that were identified in the literature (Fatoki & Smit, 2011)

4.7 Conclusion

The results of this study confirm everything that was gleaned in the literature review. That is there are several critical factors that if absent, hinder the granting of finance to small enterprises seeking debt finance from financial institutions. Through this study, the researcher was able to confirm that credit risk, repayment ability, collateral and financial records cannot be absent in successful small business credit applications.

In addition to that, the researcher was able to ascertain that incomplete applications 14%, missing information 9%, crunched applications 5%, and applications that are referred for higher authority 3%, also contribute to a lesser extent to the rejection of credit applications.

CHAPTER 5. DISCUSSION OF THE RESULTS

5.1 Introduction

This results discussion chapter attempts to explain, and elaborate the findings, and inferences the researcher found after conducting the study. It includes descriptive patterns of the data from both the sample data and the entire population from which the sample was derived. This is then followed by an explanation of the regression analysis that was conducted on the data. This entails demonstrating how the regression model was constructed through gradual elimination of independent variables according to their significance levels.

Non-statistical observations that arose out of the study include the fact that the study found that the four largest financial institutions in South Africa assess credit applications from small enterprises in a similar way, a view that was also found the in preceding literature review from the work of Fatoki and Odeyemi (2010), among others. According to Asah and Fatoki (2011) the application processes at South African financial institutions were initially designed to process credit or debt applications of large corporations, rather than small enterprises. As such, the study also confirmed that the credit application processes used for small enterprise applications in these financial institutions have not evolved to be able to cater for or consider the specific nuances of credit requirements in small enterprises (Pretorius & Shaw, 2004).

The researcher observed that the credit application process for the financial institution, under study, involves the following actions:

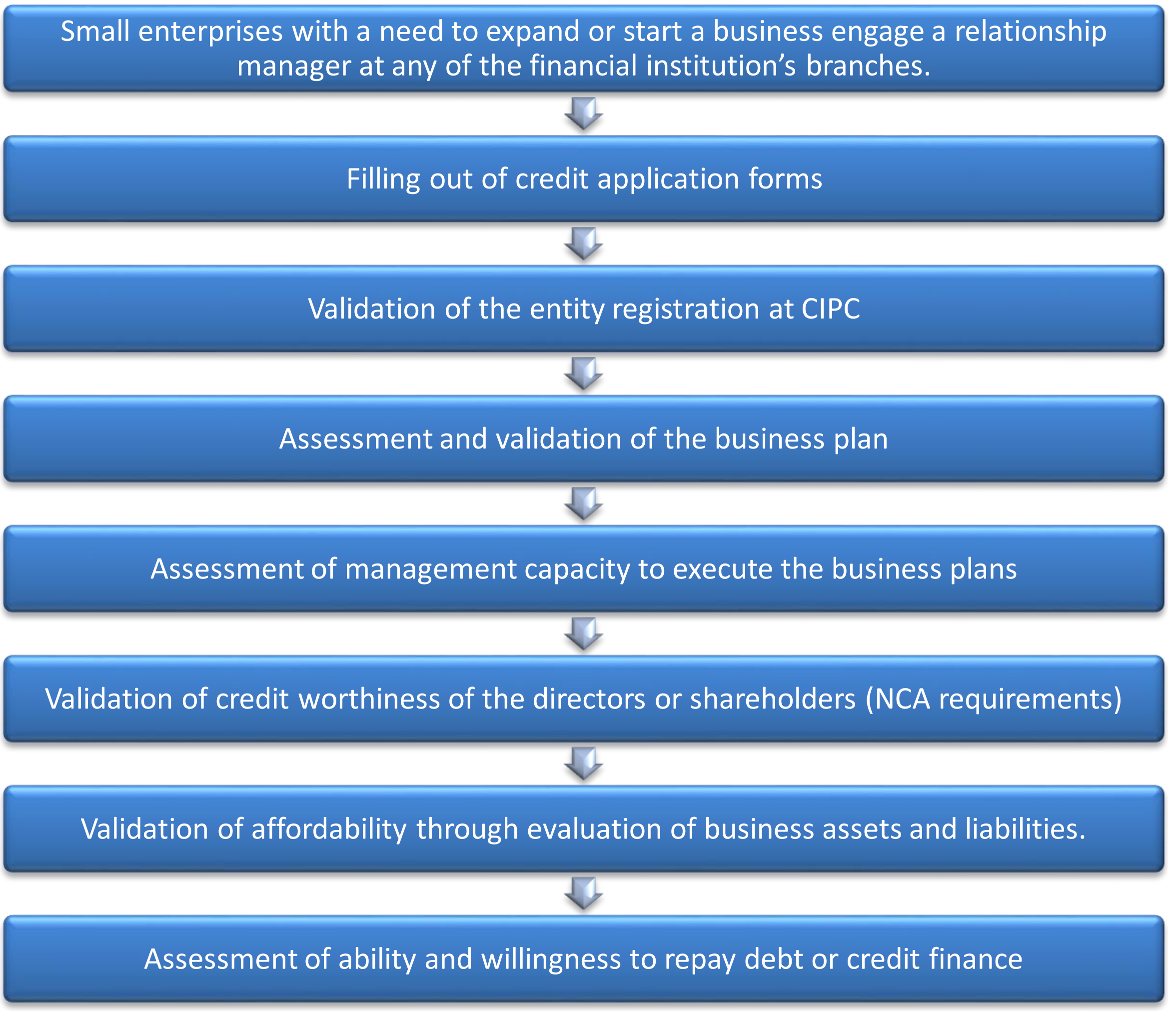

Figure 20: Small enterprise credit application and assessment process

Some of the validation and assessment steps in the credit application process occur at branch level, well before the credit application even reaches the credit department. Invariably, this validation at branch level is bound to cause some application declines before the application even reaches an assessor at the credit department for further processing.

The applications that make it to the credit department for the second round of processing go through the following validation actions:

- Validation of the application forms and business plan
- Evaluation of the financials and projections of the business for the next few years

- Affordability and credit worthiness test

At the end of the process, a credit manager makes the final decision to either approve or decline the application. Since small enterprises being considered “high risk,” most small business credit applications are rejected (Irwin & Scott, 2010).

5.2 Demographic profile of respondents

The data used in this study was obtained using both questionnaire and secondary data from the financial institution as planned by the researcher. The questionnaire was sent to 15 small business relationship managers as planned by the researcher. The results in discussion here are based on both the responses from the questionnaire and secondary application data from the businesses that applied for debt finance during the 2017 calendar year.

5.3 Discussion pertaining to Proposition 1

Proposition 1 states that:

“It is proposed that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively.”

In this study, the researcher tested this proposition in a quest to ascertain and evaluate the positive enablers of debt finance application approvals from a financial institution. The researcher used a Likert-scale survey tool to obtain categorical data that was then analysed using a normal distribution fitting algorithm within the SPSS statistical package. Because the sample was relatively small (i.e. $n<30$) with an unknown standard deviation, the best course of action was to conduct a t-test (Zikmund, 2003)

Below, the researcher discusses the results from the 12 factors related proposition 1 individually as they were deemed to be critical by the relationship managers for a successful debt application in the financial institution.

5.3.1 *Factor 1: Start-up Capital*

In the context of this study, the researcher defines start-up capital, loosely, as:

"The extent to which the small enterprise demonstrated evidence of the availability of adequate start-up capital that was sufficient for their purposes."

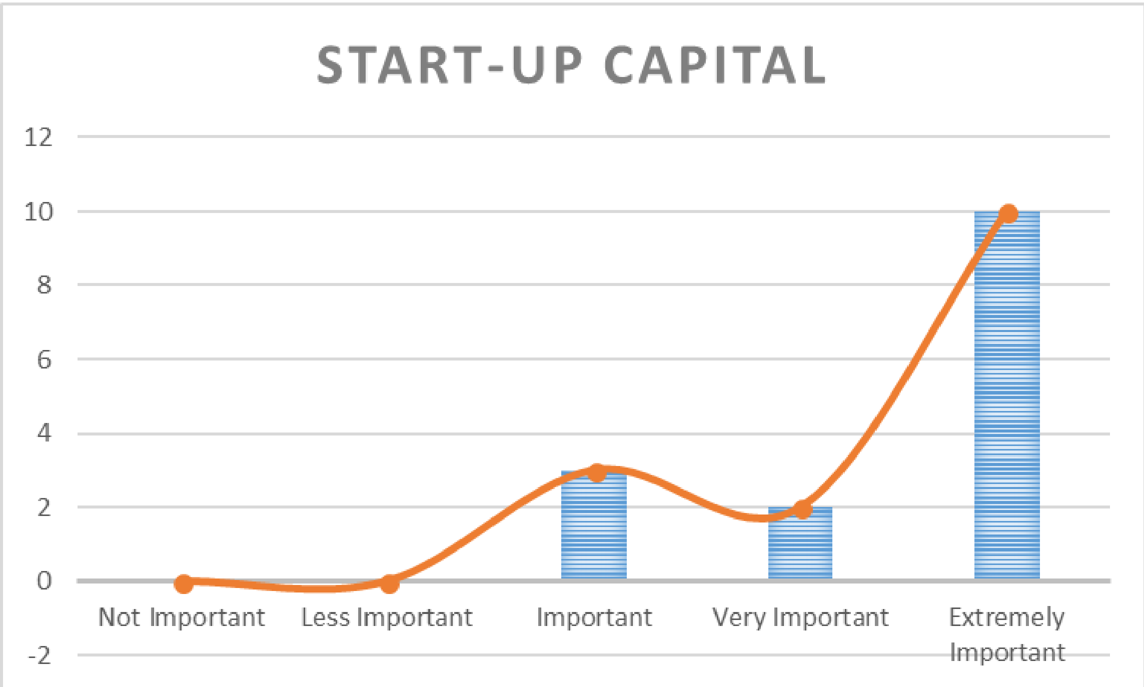

Figure 21: Results of Factor 1 – Start-up Capital

Regarding start-up capital, the respondents were unanimous in the view that start-up capital is a key success factor in small business. Even though some of them noted that start-up capital itself does not have a direct bearing on the granting of further debt finance for small enterprises, they concurred that a business without adequate start-up capital will not even reach the stage where it is able to present a sufficient track record of finances to qualify for debt funding. An unencumbered contribution to the business by the entrepreneur for at least two years displays the necessary commitment by the entrepreneur to the continued success of his business. This also enables the business to meet the necessary expenses before its starts generating cash flows from operations. The respondents noted that business owners who show a willingness to share the risk with the financial institution by bringing their business to the point where it has sufficient cash flows to display "repayment ability" for the credit they receive from the financial institution. Start-up capital helps to validate and refine the business model before inviting third parties, like financial institutions, to participate in the funding of that business, Start-up capital indicates that the entrepreneur is committed to what they ask the financial institution to finance.

5.3.2 *Factor 2: Business Plan Viability*

In the context of this study, the researcher defines business plan viability, loosely, as:

"The extent to which the small enterprise business plan was perceived to be viable, believable, and executable."

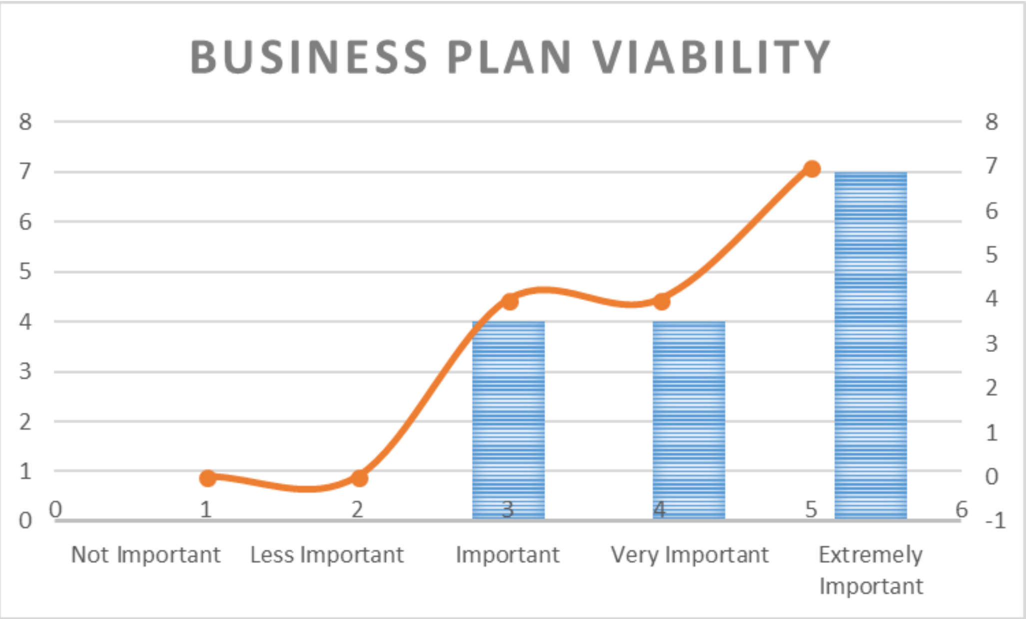

Figure 22: Results of Factor 2 – Business Plan Viability

The respondents noted that business success is tied to the financier's reliance on the entrepreneurs' execution of the business plan. From that perspective, they noted that the business plan is a very important aspect of getting and repaying the finance. They also noted that the business plan is extremely important as it is an indicator of the entrepreneurs' ability to understand and run their business. One respondent noted that a business plan can be a simple explanation of what the entrepreneur is venturing into that incorporates details of the cashflow projections of that venture that is presented in a way that helps the financial institution to understand repayment ability as well as the nature of the business and its risk. Another respondent noted that small enterprises tended to inflate or crunch the numbers in their business plans in such a manner that it becomes difficult to believe that the plan can be implemented successfully. The respondents were all in agreement that a well-structured business plan serves as the blue print of the business that helps stakeholders to understand what it to be achieved by the business in the short, medium and long terms, as well as provides a clear indication of the objectives of the business, while providing an insight to the skills and experience of the management team. Overall, a good business plan should be able to give comfort to investors and financial institutions that that are invested in the business that their interest will be looked after.

5.3.3 *Factor 3: Collateral*

In the context of this study, the researcher defines collateral, loosely, as:

"The extent to which the small enterprise balance sheet demonstrates that they can cover the finance risk through any of its assets."

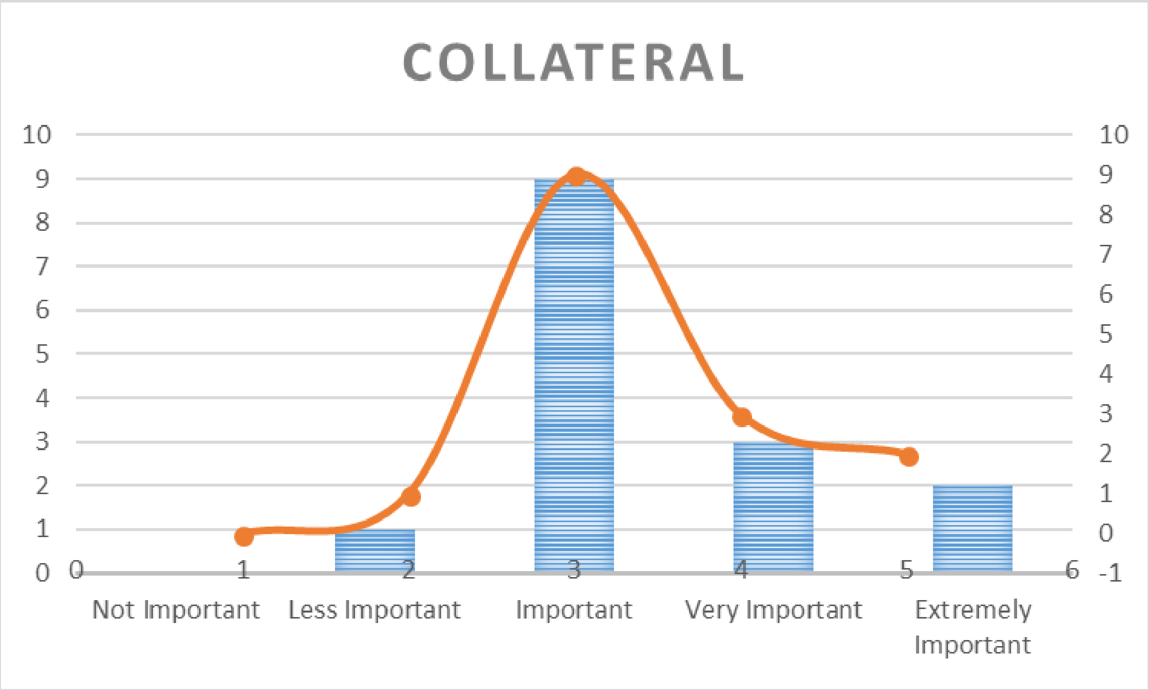

Figure 23: Results of Factor 3 – Collateral

The respondents indicated that collateral provides a secondary source of repayment should the business not able to honour their debt obligations to the financial institution. As much as the financial institution considers affordability first, collateral still forms an important part of the decision-making process as it helps to mitigate the risk and shows the owners commitment to the business by their willingness to share the risk with the bank.

5.3.4 *Factor 4: Management skills and experience*

In the context of this study, the researcher defines management skills and experience, loosely, as:

"The extent to which the management of the small enterprise was perceived to be sufficiently skilled and experience to be able to execute on their business plans."

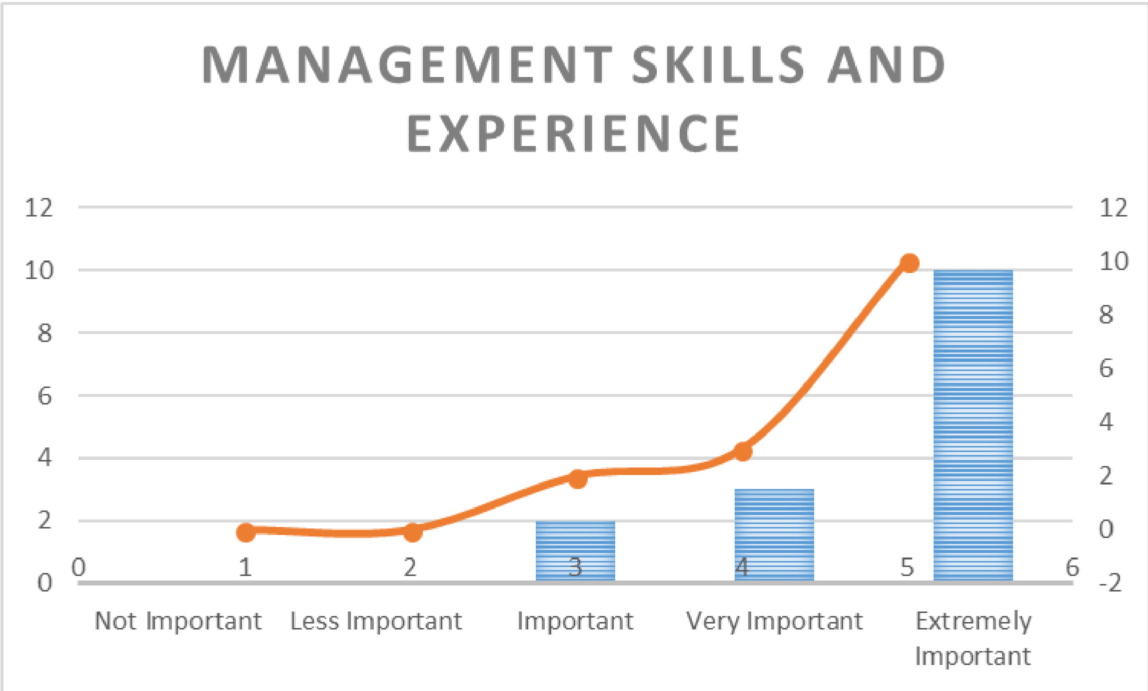

Figure 24: Results of Factor 4 – Management Skills and Experience

The respondents indicated that, for the most part, business success depends on the management team's skills and ability to execute the business plans effectively. A management team that knows what they are doing increases the level of confidence in the business from lenders and investors. The respondents also noted that it helps if the people running the business are subject matter experts in the industry in which the business is operating.

5.3.5 *Factor 5: Credit Record*

In the context of this study, the researcher defines credit record, loosely, as:

"The extent to which the historical financial conduct of the small business, its principals and its management was considered important in making the latest financing decision."

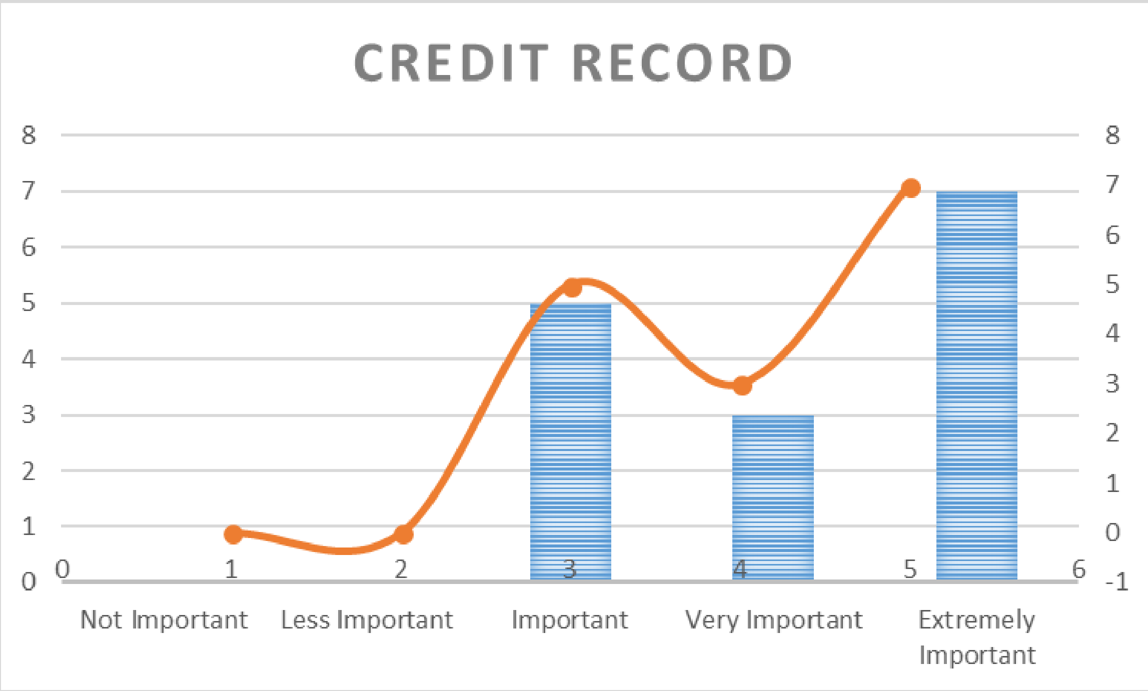

Figure 25: Results of Factor 5 – Credit record

The respondents noted that the credit conduct of the management team in their personal accounts are often consistent with the conduct of the business account as well. Therefore, it becomes very important to assess how the management team conducts their own personal accounts in the process of assessing the financial conduct of the business entity. A clear personal credit record of the jockey gives an indication that the business loans will be paid.

5.3.6 *Factor 6: Market Assessment*

In the context of this study, the researcher defines market assessment, loosely, as:

"The extent to which the small enterprise was perceived to have accurately assessed their environment and found an appropriate niche in a large and rapidly growing market for which their products or services will continue to be demanded in the future."

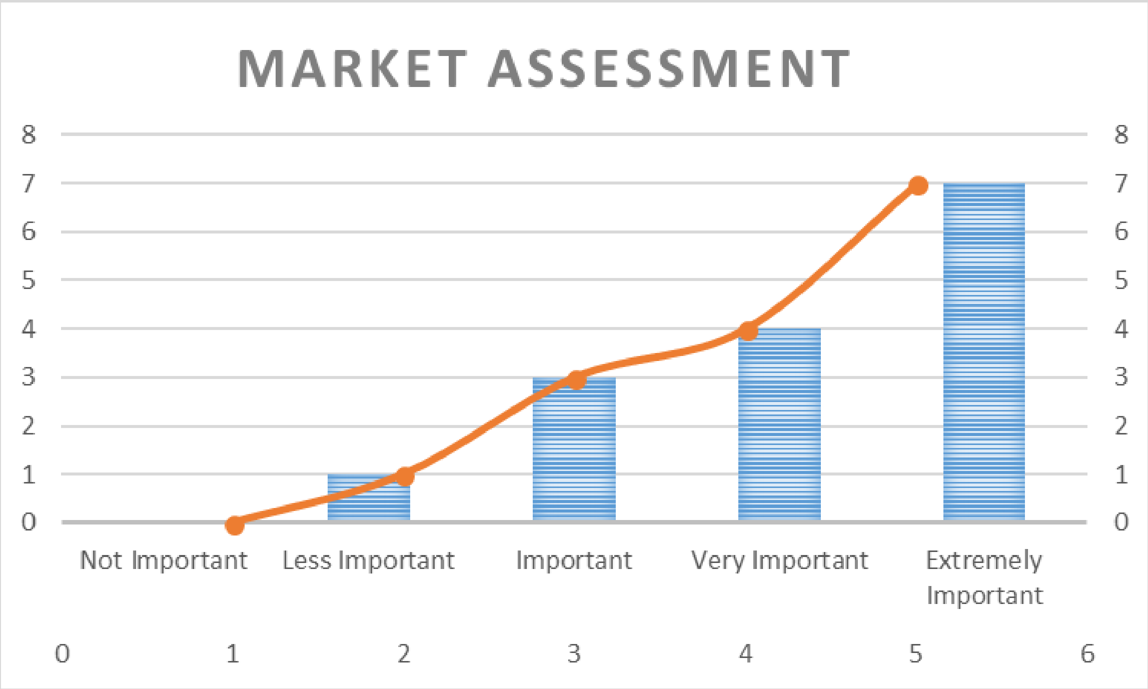

Figure 26: Results of Factor 6 – Market assessment

The respondents noted that businesses who have conducted a correct market assessment are more likely to be able to repay their loans, than businesses who were poor at market assessment. This they say is because if a business is able to market their product in a market they have targeted, assessed, and understand the consumer appetite and behaviour pertaining to their products and services, as well as the competitive landscape, then that business is more likely to succeed that businesses who are relying on trial and error or government contracts in areas for which they have no skill or expertise. The respondents also noted that a correct market assessment helps to validate the company's business model in the market as well as ensuring that the business becomes profitable from day one as opposed to 6-12 months later. One relationship manager concluded that a correct market assessment shows the seriousness on the side of the principals of the business.

5.3.7 *Factor 7: Credit Risk*

In the context of this study, the researcher defines credit risk, loosely, as:

"The extent to which the small business that is applying for finance is perceived to be undertaking a risky venture."

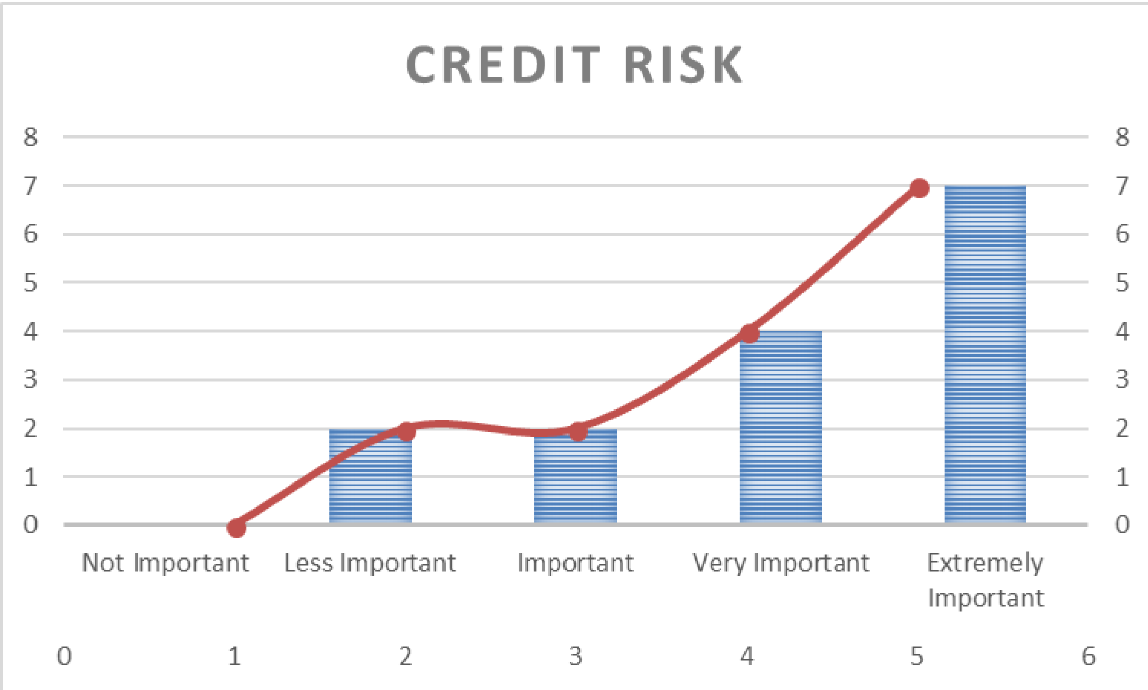

Figure 27: Results of Factor 7 – Credit Risk

The respondents were unanimous in their assertion that small enterprise loan applicants need to understand credit risk so that they can proactively find ways to mitigate those risks. This, they say, is because lenders are always looking for repayment ability, the higher the risk then the more lender would require tangible collateral or they may chose not to lend at all.

On credit risk, the respondents also indicated that credit risk can sometimes be assessed by looking into the industry trends of the sectors in which the small business operates. Cyclical industries have different risk ratings at different points in the business or industry cycles. For example, Construction has a different risk to Transport, which has different risk to Accommodation etc. Some industries are considered inherently risky industries and the financial institution considers that when granting facility. e.g. Transport industries.

5.3.8 *Factor 8: Working Capital Funding*

In the context of this study, the researcher defines working capital funding, loosely, as:

"The extent to which the funding that the small business was applying for was going to be used to fund working capital."

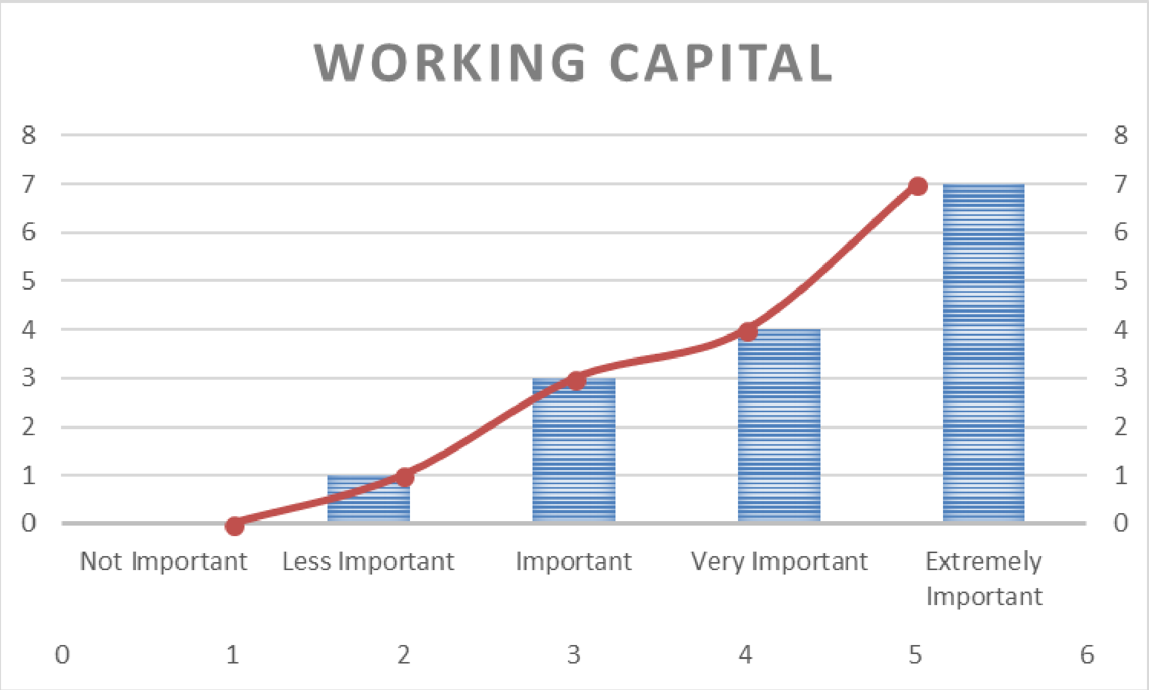

Figure 28: Results of Factor 8 – Working Capital Funding

According to Beck and Demirguc-Kunt (2006) a small enterprise that applies for working capital finance creates a red-flag that indicates that it may not be able to manage its cash flows adequately. Therefore, financial institutions often view small enterprises that apply for working capital with extreme suspicion. The respondents concur with the views expressed in the Beck and Demirguc-Kunt (2006) literature, by confirming that it is very important for small enterprises to understand their working capital needs so that they may better be able to understand what type of finance and when its required, and when to access it. The respondents also indicated that poor working capital planning also leads to higher interest and penalties arising from unplanned working capital. (e.g. having overdrawn accounts and dishonoured debits). Poor planning also causes small businesses to use inappropriate product offerings for different funding purposes e.g. short-term overdrafts for long-term asset financing. This, they say, is because small enterprises fail to understand the difference between operational expenditure and capital expenditure funding. That is, the company applies for working capital funding which is availed in a form of short term finance, but then uses those funds to purchase fixed assets, which are supposed to be financed over longer-term periods. This becomes a problem which often creates severe cash flow problems for the faltering small business. So, it's important to align the type of finance to the need of the business.

5.3.9 *Factor 9: Financial Records Keeping*

In the context of this study, the researcher defines financial records keeping, loosely, as: "The extent to which the small business demonstrated the ability to maintain accurate, auditable financial records."

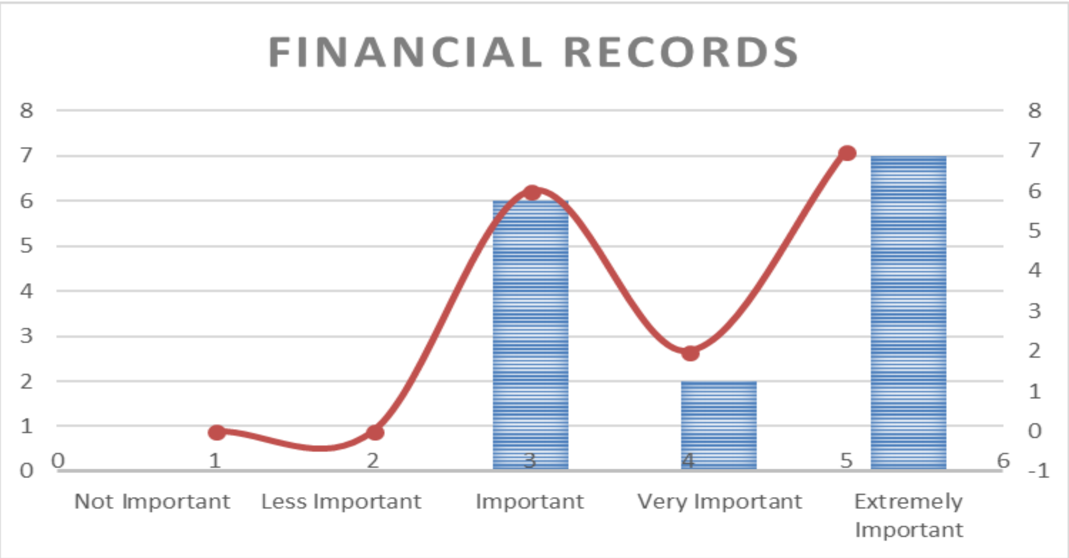

Figure 29: Results of Factor 9 – Financial Records

According to Gichuki, Njeru, and Tirimba (2014) finacial record keeping is at the heart of credibility establishment by small businesses. This is confirmed in the literature by Naude, Gries, Wood, and Meintjies (2008). The relationship managers also confirmed that most funders need to understand where the business is and where it is going, and they rely on the business records to do the assessment of business health as they are not involved in the day to day running of the business. Financial institutions also use the small business financial records to assess the affordability, profitability, solvency, and performance of the business year on year. Since, in most cases, banks use finacial records to make decisions. The respondents also stressed the importance of maintaining the integrity of the business financial records stating that Financial record keeping starts from the basic book keeping and the jockey must understand this to measure his day to day, or month to month sales and targets, adding that accurate and auditable financial records is definite plus for small business funding.

5.3.10 *Factor 10: Firm-Size*

In the context of this study, the researcher defines firm size, loosely, as: "The extent to which the relative size of the small business was perceived to be a factor in the financing decision."

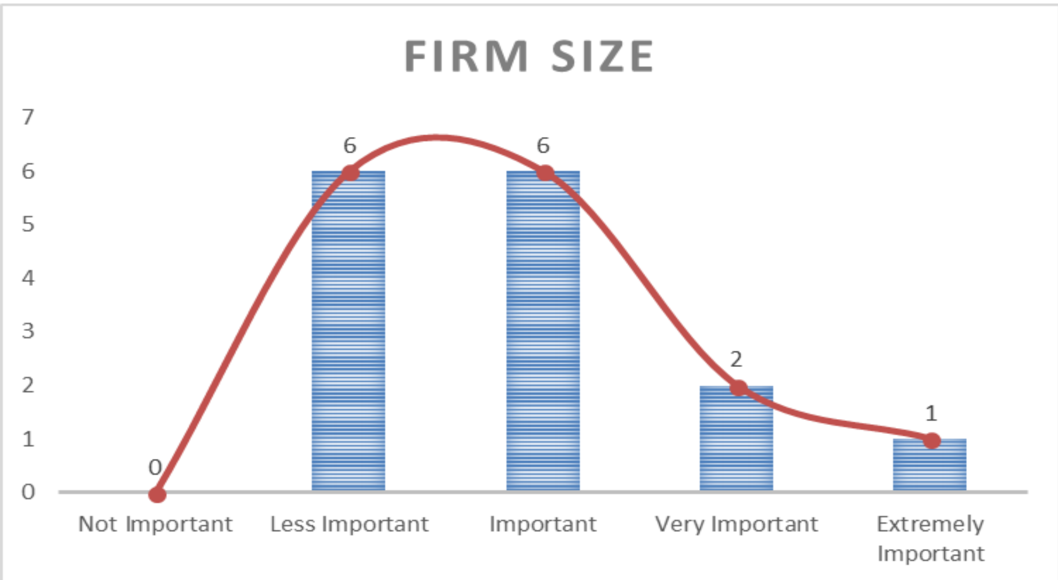

Figure 30: Results of Factor 10 – Firm Size

The respondents indicated that firm-size is not an important factor in the decision to grant small business finance. Adding that, it is not about the size of the firm but the ability to generate sales and remain profitable that banks will look at when making the decision to grant finance. Some of the respondents even brought the counterargument that, in the initial stages of the concern it is key for the entrepreneur to keep the firm as small as possible (Bootstrap) so as to keep the expenses and costs as low as possible. This goes a long way to towards breaking even which is the first step to being profitable. Only one respondent disagreed, stating that the size of the business gives an indication on the company's resilience in the market. The bigger the firm, the more resilient the company will be considered. Also, the number of year the business has been in existence shows the ability the company is in moving with times. It's ability to adopt change as and when it is needed.

5.3.11 ***Factor 11: Firm Age***

In the context of this study, the researcher defines firm age, loosely, as:

"The extent to which the relative number of years the small enterprise has been in operation was perceived to be a factor in the financing decision."

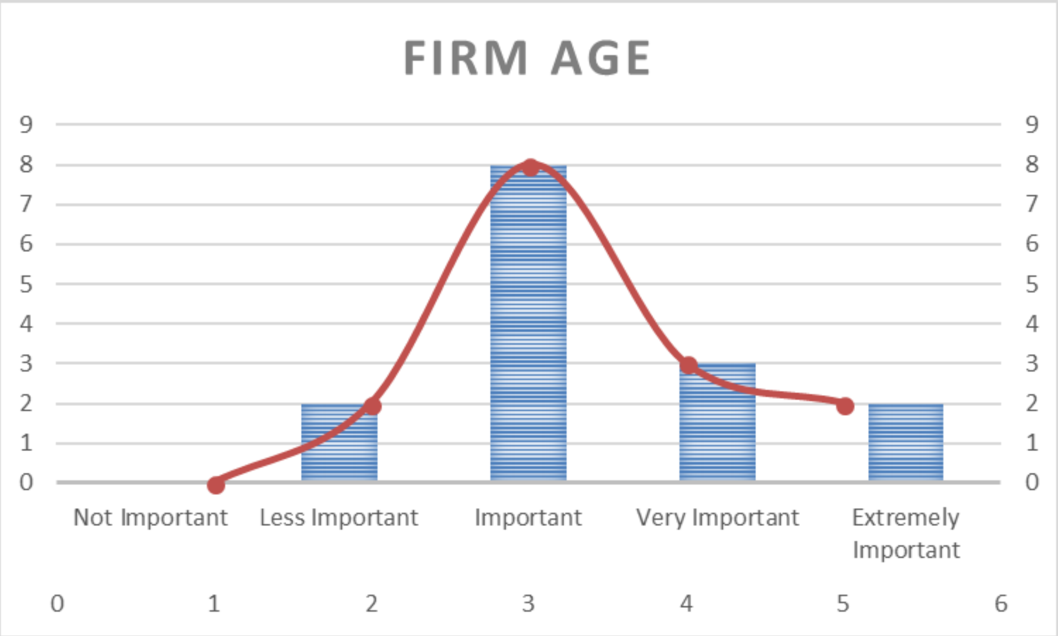

Figure 31: Results of Factor 11 – Firm Age

The respondents indicated that firm-age helps insofar as helping the financial institution decide on the financial track record of the business over time. So, it does to some extent as talk to the experience of the business and its management, however financial conduct, and credit record of the banking account is more important that firm age when considering accessing credit. If a small business has been operational for more than a year and in that period, has shown sustainability, it will most likely be able to attract lending.

5.3.12 *Factor 12: Cost of Banking*

In the context of this study, the researcher defines cost of banking, loosely, as:

“The extent to which the small enterprise was perceived to be able to afford the financial services.”

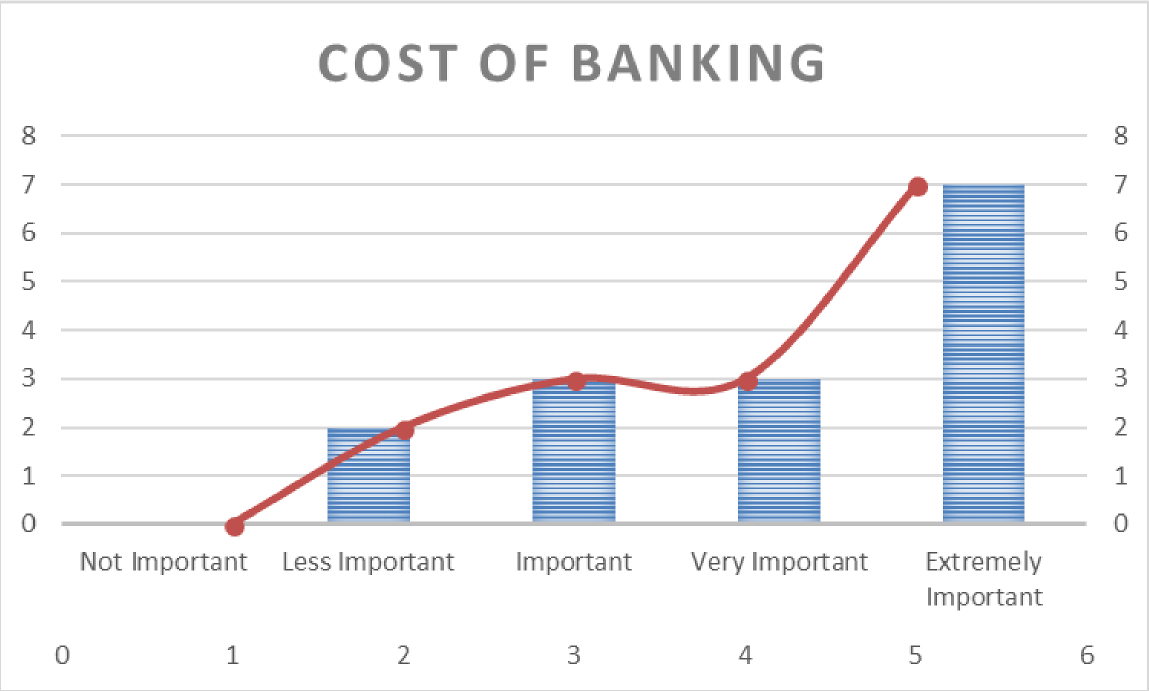

Figure 32: Results of Factor 12 – Cost of Banking

The respondents indicated that small businesses seeking finance need to understand that it comes at a cost. Affordability assessment is done on any facility to determine whether or not the business will be in a position to be able to service the facility should they be granted with one. The respondents further advised that at the start of business for a small business, there needs to be an assessment to ensure that costs are kept as low as possible including the costs of banking, hence the right product offerings and choices are important, depending on the nature of the business. For example, cash intensive businesses need to be cognisant of cash deposit and cash withdrawal fees and try to mitigate that by using cheaper transaction channels, such as electronic banking.

5.4 Regression Models

In conducting the analysis, the researcher followed the SPSS steps, in particular regressions

In doing so, the researcher followed the following steps:

- T-Test on sample population
- Both sample frequency, from same population (normal)
- No impact factor on outcome
- Composition of mean will tell type of impact, if $\mu 0 > \mu e$, then the factor is significant/important, and if $\mu 0 < \mu e$, then then the factor is considered less important
- If the T-test > 0.9, then the factor can be ignored i.e.
- If the T-test < 0.9, then the factor can be considered significant

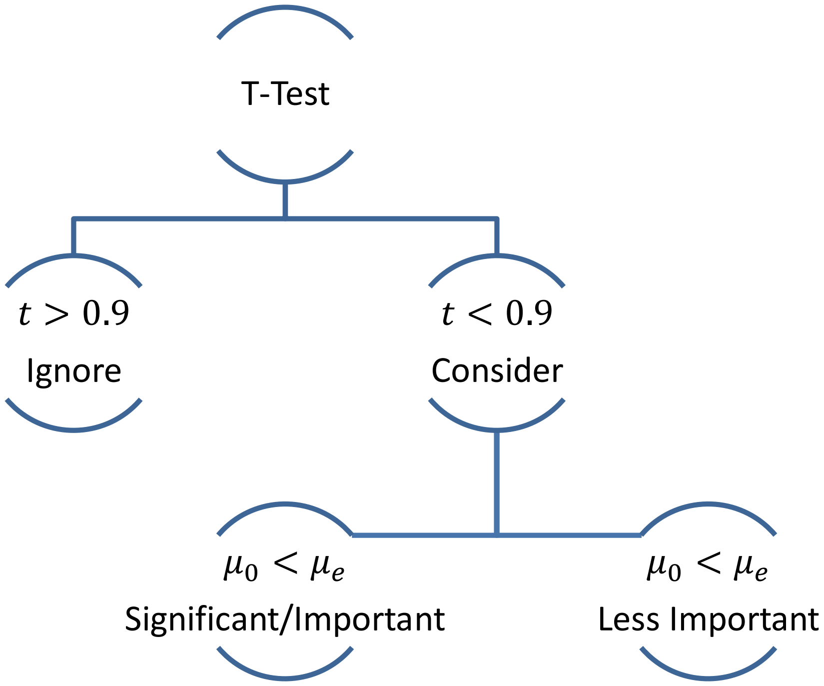

Figure 33: The T-Test process used

- T-Test 2 tail, 2 Sample
- Normal – 2 tails because it can go in either direction
- Used SPSS too, and exported results into excel for charting

Table 8: Expected Values

Expected Value	Normality		
	Z Value From	**Z Value To**	P
Not Important	-3.8906	-2.3344	0.01
Less Important	-2.3344	-0.7781	0.21
Important	-0.7781	0.7781	0.56
Very Important	0.7781	2.3344	0.21
Extremely Important	2.3344	3.8906	0.01

Table 9: Adjusted to avoid zero in denominator

To Avoid Zero in Denominator	
Z range	3.890591886
Range	7.781183773
Value	1.556236755
Coverage	99.99%

Table 10: Mean, t-test, probability results and outcome

Question	Description	Mean	T- Test	Probability	Outcome
1	Start-up Capital	4.47	0.69	67.00	Extremely Important
2	Business Plan Viability	4.20	0.66	63.00	Extremely Important
3	Collateral	3.40	0.86	51.00	Not Important
4	Management skills and experience	4.53	0.68	68.00	Extremely Important
5	Credit Record	4.13	0.68	62.00	Very Important
6	Market Assessment	4.13	0.68	62.00	Very Important
7	Credit Risk	4.07	0.69	61.00	Very Important
8	Working Capital	4.13	0.68	62.00	Very Important
9	Financial Records	4.07	0.70	61.00	Very Important
10	Firm Size	2.87	0.94	43.00	Not Important
11	Firm Age	3.33	0.88	50.00	Not Important
12	Cost of Banking	4.00	0.71	60.00	Important
13	Additional Factor One	4.00	0.75	16.00	Not Applicable
14	Additional Factor Two	3.67	0.81	11.00	Not Applicable

Table 11: Factor Outcome

5.5 Primary Data Results

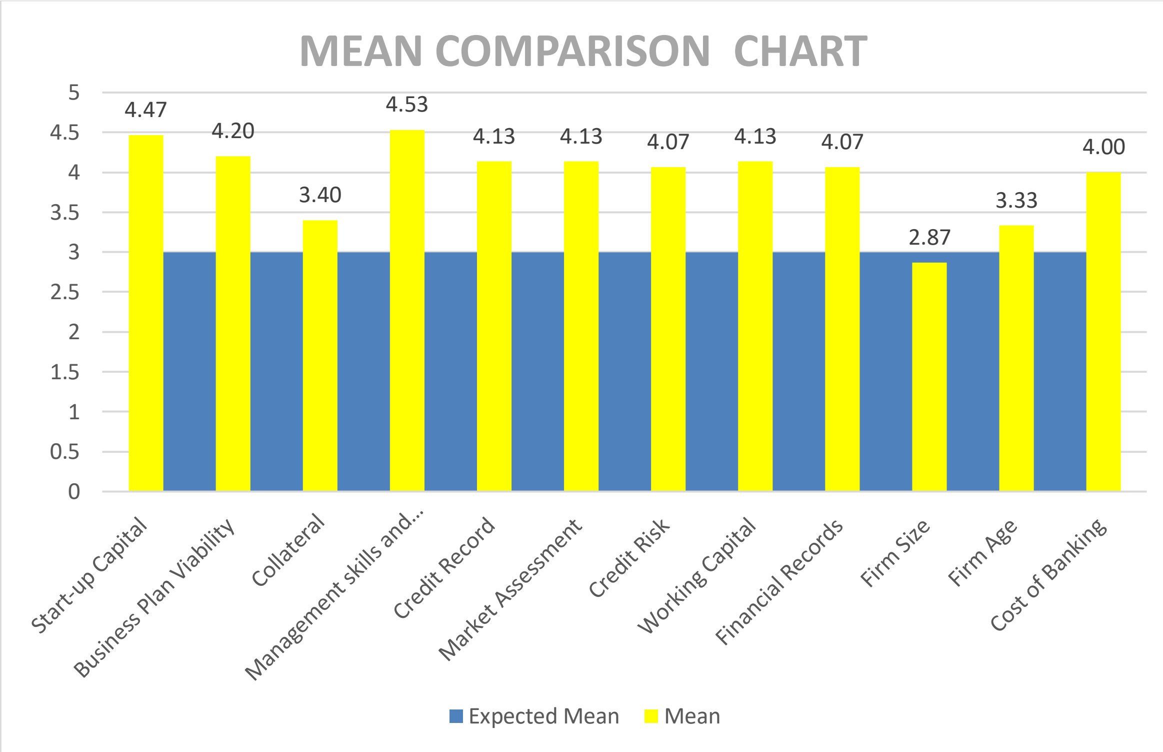

Figure 34: Mean comparison chart

The hypothesis was tested using the Z – Value and the T- test; mean values and the standard deviation as summarized in table 2 of appendix. The mean values for start-up capital and collateral were close to 4.5 which means that those are two factors that can highly impact granting of finance to an SME. The factors that were considered to have minimum impact were firm age and size their mean values were very low 2.87 and 3.33. The t-value for firm size was calculated to be 0.94 which is an indication that this factor will have the least impact the granting of finance for the SME. Business plan viability results tested positive both on the mean value of 4.2 and the t-test of 0.66

The other results were not exclusively conclusive due to the mean values and t - values but combined with the feedback or comments provided by the relation managers other factors are deemed to be more important than others e.g. credit record, market assessment and credit risk.

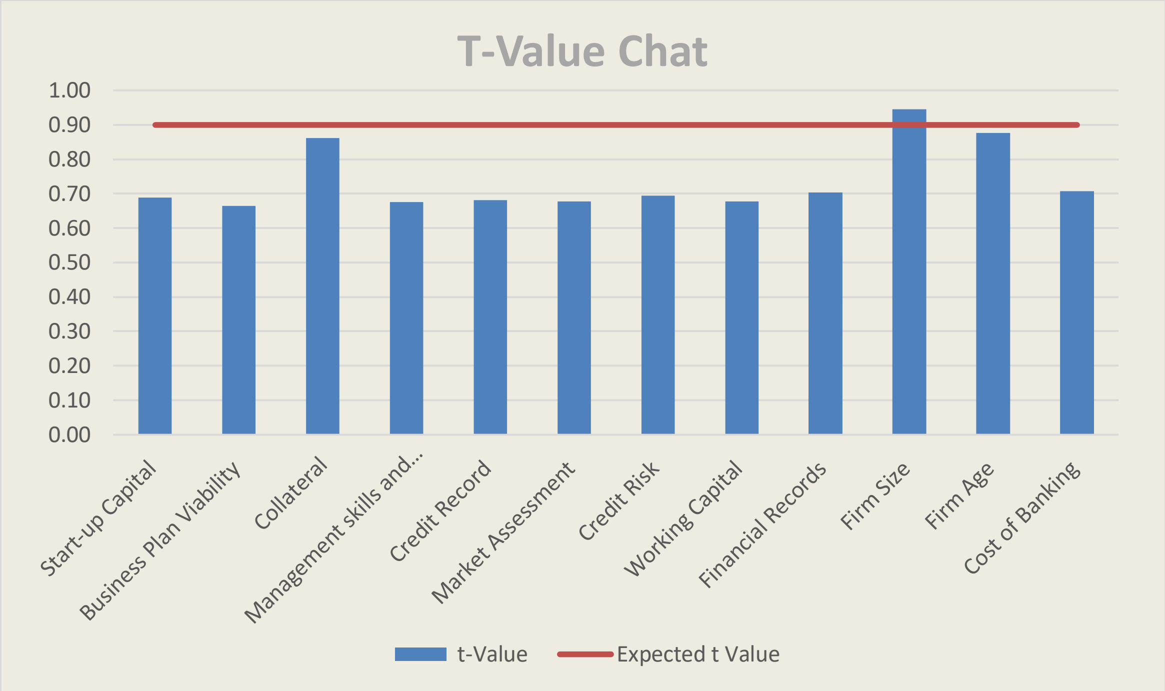

Figure 35: T-Values Chart

Secondary Data

From the secondary data the more recent financials requirements; NCA requirement not adhered to; application incomplete and additional impact causes 69% percent of applications to be rejected by the financial organisation. The financial keeping is the highest cause at 25% of application rejection. The understanding of the Small enterprises differs on the requirements and they only realise some of the requirements by the time they approach the financial institution.

5.6 Conclusion

Based on the primary data it was concluded that start-up capital; management skills and experience; collateral; and credit record causes application form to be rejected. The banks use a more formal and standardized method of assessing both Small enterprises and matured businesses including Commercial Banking. This doesn’t take into account the variances and challenges that exist for small enterprises.

Based on the secondary data the more recent financials requirements; NCA requirement not adhered to; application incomplete and additional impact causes 69% percent of applications to be rejected by the financial institution. Financial record keeping is the highest cause at 25% of application rejection.

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS

6.1 Introduction

This chapter concludes and make recommendations based on the findings of the study into the factors that impact small enterprises from obtaining finance from financial institutions. This chapter will also make suggestions for future studies.

6.2 Conclusions of the study

The conclusion of the study from the secondary data the more recent financials requirements; NCA requirement not adhered to; application incomplete and additional impact causes 69% percent of applications to be rejected by the financial organisation. The financial keeping is the highest cause at 25% of application rejection.

Feedback from the primary data start-up capital; management skills and experience; collateral; and credit record causes application form to be rejected. The banks uses standardized method of assessing both Small enterprises and matured businesses including Commercial Banking. This doesn’t take into account the variances and challenges that exist for Small enterprises.

Financial institutions need to spend more time education Small enterprises about the banking requirements. Create models that are not standard; virtual and will cater for Small enterprises assessments also the ones that are not educated but have good business models e.g. assist them with application forms, value of a relationship manager and keeping financial records etc.

6.3 Recommendations

Recommendations to the financial institutions

- Due to the different types of entrepreneurs that exist in South Africa, which consist sometimes of illiterate individuals the financial institutions must make sure that the process and the terminology used when applying for credit is simple to understand.

- Proactively run conferences for Small enterprises in order to train them on various important aspects of running their businesses and the future requirements of borrowing finance for growth purposes.

- Create an awareness to Small enterprises understand the importance of creating or having a relationship with your bank through a relationship manager. This is not a clearly understood concept. A relationship manager is the only person who becomes the voice of their customers when application is declined.

- To ensure that there is a win- win situation at the end on most of the credit applications; financial institutions must partner with the Small enterprises when they apply for a business transactional account in order to make sure that the coach and mentor on the basics and full requirements of financing an SME before they actually need it.

- Currently Small enterprises are viewed as high risk in order to minimise that problem the financial institutions through the relationship managers can contribute on the entrepreneur can manage the risk because they have similar business in their books.
- The systems that the financial institutions were built for large co-operations which causes them to assess the Small enterprises using the same criteria. They need to develop more industry based and SME focused models that will enable them to truly evaluate the risk or potential of the business

- Ensure that they create target percentage on lending to Small enterprises and measure the success afterwards. Focus on job creating industries this will force financial institutions to really focus on Small enterprises rather large cooperation’s.

- Create a clear feedback look directly to Small enterprises on the reasons why their application was declined, this will enable them to rectify it before they apply in future.

- Ensure that the minimum requirements for a successful application are readily available through all electronic application and manual processes.

- Share the banking charges that are associated with each banking transactions, through providing different service offering products that are available in the financial institution after understanding the business needs of the SME. This is important to small enterprises specially on the initial stages of the business when income is low.

6.4 Recommendations to Small Enterprises

- Small enterprises must have at least documented their business idea through a business plan before approaching financial institutions.

- Ensure that they have registered their business and have done all the legislative and administrative requirements for business to operate in South Africa.
    - Register with Companies Intellectual Properties Cooperation (CIPC)
    - Register with South African Revenue Service (SARS) – The importance of doing SARS returns annually
    - Register for Value Added Tax (VAT) if you qualify
    - Industry specific registrations e.g. in construction CIBD and NHBRC registration

- Small enterprises must understand the importance of keeping a clean credit record as a company director or a shareholder. The credit worthiness of a company director or shareholder can impact the business e.g. if the director is listed on credit bureau.

- Small enterprises must form partnerships with credit lending institutions and request for assistance its free. There are banks available, government, private individuals or venture capitalist that also provide funding

- Small enterprises must invest in long term appreciating assets rather than depreciating assets on their personal capacity; which can later be used as collateral when they apply for business finance.

- Small enterprises needs to attend various training on how to run a business. They must focus on financial management, and other basic things like of how to complete the financial institutions application forms and ensuring that they capture every detail that will enable their application not to be rejected initial stages.

- Ensure that they collaborate and network with people in the similar industries they will be operating in.

- Small enterprises must ensure that they research and understand other sources of financing a business in South Africa in the event that their application is rejected by the financial institution.

- Have a detailed understanding of customer needs or demand and do proper market research before designing a product or creating a business to provide a service. This will minimise the failure rate of startup businesses in South Africa.

- Ensure that they have a clear view of the financial requirements of the business, startup capital, working capital and other expenditures that they will incur at least for the first year of the business being operational.

6.5 Suggestions for further research

- One of the key finding in this report is the lack of understanding of the bank requirements and documentation required by the financial institutions from Small enterprises for any source of funding. Strategic understanding and projections of where the business strategy for the next five years

- How does the competencies and financial conduct of the company directors and shareholders of the organisation impact the businesses future growth or access to finance?

- South African Government could focus on measurement of the success of financing SME's in their various institutions. Future research what impact of government in the success of SME's in South Africa has been Department of Trade and Industry(DTI); IDF Managers Fund, The National Empowerment Fund (NEF)

- The competencies of small enterprises in South Africa is very low due to the legacy poor education in previously disadvantaged communities in South Africa. Future research on how education and thorough market research impact the success of small enterprises in South Africa.

- How does government policy changes impact small enterprises profitability and survival in the South African market. e.g. change in tax or VAT from 14% to 15%.

- Contributing factors to the success of Small enterprises that have been financed by financial institutions.

6.6 Time-table

Table 12: Time-plan for completion of research report by July 2017

Research report timetable								
	2016	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Preparation								
Literature review								
Design Questinaire								
Finalise and Submit Proposal								
Panel Approval								
Data Collection								
Survey credit managers								
Survey relationship managers								
Data Documentation								
Quality Assurance								
Reporting								
Data Analysis and Interpretation								
Research report writing								
Editing								
Supervisor Review Final Report								
Finalise and Submit report								

Table 13: Consistency matrix

Research problem stated here					
Sub-problem	**Literature Review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
To ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.	Bureau of Economic Research (2016); Falkena, et al.(2001); Fatoki and Odeyemi (2010); Gichuki, Njeru, and Tirimba (2014); Irwin and Scott (2010) Pretorius and Shaw (2004) Mutezo (2005) Asah and Fatoki (2011); Falkena, et al. (2001); (De la Torre, Peria, and Schmukler (2010); Fatoki and Smit (2011); De la Torre, Peria, & Schmukler, (2010); Fatoki and David, (2010); Fatoki and Odeyemi (2010); (Gichuki, Njeru, and Tirimba (2014); and Le, Vekatesh, and Nguyen (2006)	It is hypothesised that some of the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa impact access to debt finance positively, while others impact access to debt finance negatively.	200 historic small enterprise credit applications were sourced from Archival Data from the financial institution's small enterprise credit applications system. Questionnaire responses of 15 small enterprise relationship managers	Ordinal data sources	The relationships between the variables in the data were examined with a statistical software package using chi-square tests for categorical data, spearman's correlation for ranked categorical data, and regression analysis for numerical data

Table 14: SPSS Analysis Results

					Questions	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14
	Observation					15	15	15	15	15	15	15	15	15	15	15	15	4	3
	Expected Value	Normality																	
		Z Value From	Z Value To	p															
	Not Important	-3.8906	-2.3344	0.01	1	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.04	0.03
	Less Important	-2.3344	-0.7781	0.21	2	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	0.83	0.63
	Important	-0.7781	0.7781	0.56	3	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45	8.45	2.25	1.69
	Very Important	0.7781	2.3344	0.21	4	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	3.13	0.83	0.63
	Extremely Important	2.3344	3.8906	0.01	5	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.04	0.03
	Mean	0.0000	0.0000	0.0000	0.0000	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	0.80	0.60
	Standard Deviation	1.0000	1.0000	1.0000	1.0000	3.03	3.03	3.03	3.03	3.03	3.03	3.03	3.03	3.03	3.03	3.03	3.03	0.81	0.61
To Avoid Zero in Denominator																			
Z range	3.890591886	Tau																	
Range	7.781183773			Weighted Outcome	1	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.04	0.03
Value	1.556236755				2	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	1.67	1.25
Coverage	99.99%	(2 Tailed)			3	25.36	25.36	25.36	25.36	25.36	25.36	25.36	25.36	25.36	25.36	25.36	25.36	6.76	5.07
					4	12.51	12.51	12.51	12.51	12.51	12.51	12.51	12.51	12.51	12.51	12.51	12.51	3.34	2.50
					5	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.19	0.15
				Mean		3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	Observed Value																		
	Cumulative				1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
					2	0	0	1	0	0	1	2	1	0	6	2	2	0	0
					3	3	4	9	2	5	3	2	3	6	6	8	3	2	2
					4	2	4	3	3	3	4	4	4	2	2	3	3	0	0
					5	10	7	2	10	7	7	7	7	7	1	2	7	2	1
				Mean		3	3	3	3	3	3	3	3	3	3	3	3	0.8	0.6
				Standard Dev		3.69	2.68	3.16	3.69	2.76	2.45	2.37	2.45	2.97	2.53	2.68	2.28	0.98	0.80
	Probabilities			Weighted Outcome	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
					2	0.00	0.00	2.00	0.00	0.00	2.00	4.00	2.00	0.00	12.00	4.00	4.00	0.00	0.00
					3	9.00	12.00	27.00	6.00	15.00	9.00	6.00	9.00	18.00	18.00	24.00	9.00	6.00	6.00
					4	8.00	16.00	12.00	12.00	12.00	16.00	16.00	16.00	8.00	8.00	12.00	12.00	0.00	0.00
					5	50.00	35.00	10.00	50.00	35.00	35.00	35.00	35.00	35.00	5.00	10.00	35.00	10.00	5.00
				Mean		4.47	4.20	3.40	4.53	4.13	4.13	4.07	4.13	4.07	2.87	3.33	4.00	4.00	3.67
				t- value		0.69	0.66	0.86	0.68	0.68	0.68	0.69	0.68	0.70	0.94	0.88	0.71	0.75	0.81
				Test results		Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected	Hypothesis Rejected

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APPENDIX A

Questionnaire

Personal Details

1.1. Name of respondent……………..………………….…. Click or tap here to enter text.

1.2. Position held by respondent

1.2.1. Small Enterprise Relationship manager ☐

1.2.2. Small Enterprise Credit manager ☐

1.3. Contact Details (work e-mail) ………………………. Click or tap here to enter text.

2. Which geographic area are you responsible for?

2.1. Gauteng ☐

2.2. Mpumalanga ☐

2.3. KwaZulu Natal ☐

2.4. Limpopo ☐

2.5. Western Cape ☐

2.6. Eastern Cape ☐

2.7. North West ☐

2.8. Northern Cape ☐

2.9. Orange Free State ☐

3. Factors influencing the granting of debt finance to small enterprises

The questionnaire aims to investigate, ascertain and evaluate the factors that enable small enterprises to obtain debt financing from Standard Bank of South Africa.

Please rate the following factors in terms of importance granting debt financing to small enterprises, with 1 being *Not Important* and *5* being *Extremely Important.* Please make your selection by ticking on the applicable block. If necessary, you may elaborate on your response, and add additional factors that you feel the researcher may have missed. Space is provided for that in the end.

Questioner

Factor 1: Start-up Capital – E.g. the small enterprise demonstrated evidence of the availability of adequate start-up capital that was sufficient for their purposes.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response…………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………

Factor 2: Business Plan Viability – i.e. the extent to which the small enterprise business plan was perceived to be viable, believable, and executable.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response…………………………………………………………
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Factor 3: Collateral – i.e. The extent to which the small enterprise balance sheet demonstrates that they can cover the finance risk through any of its assets

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response………………………………………………………
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Factor 4: Management skills and experience – i.e. the extent to which the management of the small enterprise was perceived to be sufficiently skilled and experience to be able to execute on their business plans.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response………………………………………………………….
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Factor 5: Credit Record – i.e. The extent to which the historical financial conduct of the small business, its principals and its management was considered important in making the latest financing decision

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response……………………………………………………….
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Factor 6: Market Assessment – The extent to which the small enterprise was perceived to have accurately assessed their environment, and found an appropriate niche in a large and rapidly growing market for which their products or services will continue to be demanded in the future

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response……………………………………………………….
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Factor 7: Credit Risk – i.e. The extent to which the small business that is applying for finance is perceived to be undertaking a risky venture.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response…………………………………………………………
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Factor 8: Working Capital – i.e. The extent to which the funding that the small business was applying for was going to be used to fund working capital.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response…………………………………………………………
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Factor 9: Financial Records – The extent to which the small business demonstrated the ability to maintain accurate, auditable financial records.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response………………………………………………………….
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Factor 10: Firm Size – The extent to which the relative size of the small business was perceived to be a factor in the financing decision.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response………………………………………………………….
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Factor 11: Firm Age – The extent to which the relative number of years the small enterprise has been in operation was perceived to be a factor in the financing decision.

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response……………………………………………………………
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Factor 12: Cost of Banking – i.e. The extent to which the small enterprise was perceived to be able to afford the financial services

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response……………………………………………………………
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Please feel free to add any additional factors that you feel should be considered when evaluating the finance applications of small businesses:

Factor 13: Additional Factor One:…………………………………………………..

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please elaborate on your response……………………………………………………
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Factor 14: Additional Factor Two:…………………………………………………..

Not Important	Less Important	Important	Very Important	Extremely Important
1	2	3	4	5

Please explain your above selection ……………………………….....................

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Thank you for your responses