THE FINANCING OF SMALL BUSINESSES IN THE GREATER SOWETO AREA

BY

ALFRED SIPHIWE DHLAMINI

SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS FOR THE DEGREE OF

MAGISTER COMMERCII

IN THE DEPARTMENT OF BUSINESS MANAGEMENT

AT VISTA UNIVERSITY

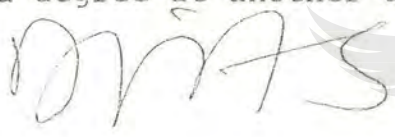
SUPERVISOR: Prof D E BOTHA

JANUARY 1994

SOWETO

DECLARATION

"I declare that: THE FINANCING OF SMALL BUSINESS IN THE GREATER SOWETO AREA is my own work, that all sources used or quoted have been indicated and acknowledged by means of complete references, and that this dissertation was not previously submitted by me for a degree at another university."



DECLARATION BY SUPERVISOR

I declare that permission is granted for the examination of this dissertation.

D. E. BOTHA

ACKNOWLEDGEMENTS

Sincere thanks are extended to all those persons and organisations who contributed towards the successful completion of this study. In particular, the assistance of the following is acknowledged:

- Professor D. E. Botha for his guidance, advice, constructive criticism and assistance with the statistical analyses.

- Professor A. P. du Plessis for reading the text and his valuable and constructive comments.

- Mrs M. M. Marnewick for typing the text.

- Mr B. I. Sanderson for editing the text.

THE FINANCING OF SMALL BUSINESSES IN THE GREATER SOWETO AREA

BY

ALFRED SIPHIWE DHLAMINI

DEGREE: Magister Commercii

DEPARTMENT: Business Management

SUPERVISOR: Prof D. E. Botha

SUMMARY

Small business plays an important role in the economies of all countries where the free enterprise system is the accepted economic system. Small business, firstly, accounts for a large proportion of the economic activity, and secondly plays a major role in job creation. According to Sunter (1993a:82), 95 per cent of the jobs being created worldwide are in the small business and informal sectors. However, small businesses mostly find it difficult to raise funds to operate due to a number of problems as indicated by Vosloo (1989d:1).

This study seeks to investigate the financing of small businesses in the Greater Soweto Area with particular reference to the different sources of finance available to small business, the factors that influence the capital requirements of small businesses, the actual sources of finance utilized by small businesses in the greater Soweto Area, the extent of the use of informal finance by small businesses and the financing problems experienced by small businesses in the Greater Soweto Area.

The study is divided into three main sections. Firstly, a literature study of the subject is undertaken. Secondly, an empirical study is conducted by means of data collected from 400 small businesses in the Greater Soweto Area. The data is analyzed and reported on. Thirdly, a number of conclusions are drawn from the analyses of the data (see Section 5.2) and a number of recommendations are made (see Section 5.4). In Section 5.5 areas for further research are proposed.

TABLE OF CONTENTS

CHAPTER 4

RESULTS OF EMPIRICAL INVESTIGATION

CHAPTER ONE

INTRODUCTION AND PURPOSE OF THE STUDY

1.1 INTRODUCTION

Urbanization in South Africa is occuring on an unprecedented scale today. However, as in many developing countries, virtually no data on urbanization exists for developing urban areas. Even a large city like that of Soweto cannot provide the most basic data for a number of consecutive years (Mears, 1991:5). Urbanization has, however, created the need for the provision of employment especially in densely populated areas like the Greater Soweto Area. The South African Chamber of Business (SACOB) states that the performance of the South African economy over the past decade has been disappointing, with growth in real domestic product significantly lower than the growth in population. As a result, the ability of the economy to provide employment and improve the standard of living has been limited and poverty and economic inequalities have become pronounced (Anon, 1991:2).

The importance of small businesses in providing employment is widely recognized internationally (see Section 2.5). According to Vosloo (1989a:2) the development of the small business sector in South Africa is encouraged by government, the private sector and a large section of the public.

In this chapter the reasons for the study, the objective of the study, the hypothesis, the delimitation and research methodology used is discussed.

1.2 REASONS FOR THE STUDY

The main reason for the study stems from the importance of small business both in the formal and informal sectors in creating employment. In South Africa the definition of unemployment needs to be adapted to include the large number of underemployed working in the informal sector. Approximately 3,5 million of the economically able manpower are active in the informal sector. The traditional western definition of unemployment, which does not consider those involved in the informal sector as being employed, will put the unemployment rate at 44 per cent. When those that are employed in the informal sector are regarded as part of the employed, the unemployment rate drops to 20 per cent of the economically active population (Anon, 1992:2). According to Vosloo (1990a:3) small business provides about 36 per cent of employment in the manufacturing industry and the figure in the retail industry is even higher. Furthermore, from 1980 to 1989 more than 75 per cent of job opportunities in the private sector were created by small business at a much lower cost than the average for the economy. According to Sunter (1993a:82), 95 per cent of the jobs being created worldwide are in the small business and informal sector. Radder (1988:4) lists the following data accumulated on a study tour:

- The small business sector provided nearly 80 per cent of all job opportunities in Japan. In West Germany the figure was 68 per cent, in the United States of America, 58 per cent, in Korea 46 per cent and in Canada 30 per cent.

- From 1971 to 1977, 56 per cent of all jobs created in Canada were created by the small business sector while from 1960 to 1976, 66 per cent of all jobs created in the United States of America were created by the small business sector.

The small business sector therefore plays just as important a role in the provision of employment in South Africa as it does in other countries. For this reason, small business should be given all the help possible in order to enable it to survive and continue to play an important role in the economy. This help includes financing and advice on financial management.

In view of the above, this study is aimed at providing insight into the methods and problems pertaining to the financing of small businesses in the Greater Soweto Area.

1.3 FINANCING PROBLEMS OF SMALL BUSINESS

De Coning (1986:753) investigated the external or environmental factors that influence the establishment and success or failure of black entrepreneurs in the Greater Soweto Area. The results of the study show that the major factor that impedes the establishment and success of business in this region is a lack of capital which is ascribed to a lack of own funds and a lack of assets, especially fixed assets, which could serve as security to obtain loans and bank overdrafts. Other factors are a lack of business tradition, experience and exposure, educational qualifications and the poor location of business and inadeqaute business premises.

Vosloo (1989d:1) indicated particular problems that need to be addressed in an effort to make black business flourish:

- The first problem pertains to the scarcity of capital. This problem has two related aspects. On the one hand there is the historical pattern of wealth distribution that has caused the major class of wealth producers in South African economy to be short of capital, while on the other hand the financial institutions are often risk-averse and reluctant to offer finance to a new class of entrepreneur operating in markets of which the institutions have little experience.

- The second problem involves skills and human resources. Amey (1989:4) points out that there is a critical shortage of black

businessmen with managerial expertise as a result of the limited involvement of blacks in business.

- The third problem is associated with the external environment in which black businesses have to be constructed and operated. According to Beavon (1990:6) there is a shortage of trading space and lack of infrastructure in black Townships as a result of restrictive legislation, the high rate of population growth and an increase in informal sector activities.

- The fourth problem concerns law and order or rather the lack of it.

Amey (1986:6) also identifies one of the problems of black business as access to start-up capital, loan capital and working capital. In spite of the efforts by the Government, the public, private development agencies and commercial banks, some formidable obstacles between the stated intention and the practical execution of financial policies still exists.

Black business as mentioned above also include small businesses in the Greater Soweto Area.

1.4 OBJECTIVES OF THE STUDY

The primary objective of the study is to investigate the factors that influence the financing of small business in the Greater Soweto Area. To achieve the primary objective, the following secondary objectives for the study are set:

- to discuss the different finance sources available to small business;

- to identify the factors that influence the capital requirements of small businesses before any financing can be obtained, and to determine the factors that small business in the Greater Soweto Area actually takes into account when determining capital requirements;

- to determine what sources of finance are actually used by small business in the Greater Soweto Area;

- to determine to what extent small businesses make use of informal sector financing (examples are money lenders and stokvels) and the reasons for doing so;

- to identify actual financing problems experienced by small businesses in this area;

- to suggest alternative financing schemes for small business in the Greater Soweto Area.

1.5 SCOPE OF THE STUDY

The study will concentrate on small business in the Greater Soweto Area. The small businesses studied will mainly be those in the formal sector since a list of all the businesses in the formal sector is readily obtainable from the Soweto Council. Few details are known about the size of the informal sector in urban areas or in South Africa as a whole (Beavon, 1989:13). According to Scott-Wilson and Mailoane (1990:52) the size of the informal sector varies significantly in different areas; for example the informal sector in Soweto is markedly different from that in Winterveld. Scott-Wilson and Mailoane (1990:52) also found that the estimates of the size of informal sector are influenced by the vested interest of the person making the estimate. From the above it is clear that it will be difficult to draw up a representative sample from the business population in the informal sector.

1.6 RESEARCH METHODOLOGY

Information for the study was obtained through both primary and secondary research.

1.6.1 Primary research

To obtain the required information for the study, it was necessary to gather information from small businesses in the formal sector of the Greater Soweto Area. The collection of information for the study was conducted by field workers who were specially selected and trained for the task. Random control checks were carried out by the author to verify information obtained.

1.6.2 Secondary research

A literature study was done to enable the author to define a small businesses, to describe problems encountered by small business, to explain the management of small businesses, to determine factors influencing the planning of the capital requirements and to determine what sources of finance are availableto small businesses. The libraries of the following institutions were visited to obtain information: The Small Business Development Corporation in Johannesburg, Vista University, the Rand Afrikaans University, Wits Business School, and the University of South Africa. For the theoretical basis of the study an extensive number of literature references were consulted. These include textbooks, dissertations, theses, research reports, journals and other financial publications on the subject of small business and financial management.

1.7 PROBLEMS ENCOUNTERED IN THE STUDY

1.7.1 Problems encountered in the literature study

No problems were encountered as far as the literature study is concerned. Textbooks ,theses, articles and reports on small business and research methodology provided valuable information. Struwig (1991:8) mentions the following aspects to look out for when assessing literature used:

- Whether the literature is outdated.
- Whether the literature is too elementary.
- Whether the literature is too advanced or too technical.
- whether the literature treats an aspect of the topic not to be covered.
- Whether the literature contains information already obtained from other sources.

These aspects were kept in mind during the search for relevant literature.

1.7.2 Problems encountered with the empirical research

The major problem experienced in the empirical research is that the owners of some businesses that were identified by sampling methods refused outright to be interviewed. In some cases the addresses of businesses could not be located and some premises indicated in the list of the Soweto Council were vacant. Further problems include interviewee bias and deviations from standard-type questions. The bias that could arise from having to explain some questions in an African language were taken cognizance of and care taken to effect an unbiased interview.

1.8 OUTLINE OF THE STUDY

The study is divided into five chapters.

Chapter 1 deals with the introduction to the study, the reasons for the study, the formulation of the problem, the research methodology used and the problems encountered in the research.

Chapter 2 comprises a discussion of the definition of a small business in the United States of America, the United Kingdom and South Africa. The chapter also discusses the role of small business in the economy, the management of small businesses, specific problems encountered by small businesses, the

capital requirements of small businesses, and a brief review of the financing of small businesses.

Chapter 3 discusses the various sources of finance available to small businesses. The discussion specifies each source of finance and explains the security requirements for, and the cost of finance to small businesses.

Chapter 4 reports on the empirical results of the study.

Chapter 5 comprises a summary of the most important aspects of the study, a summary of the conclusions reached, major conclusions that are evident from the study, recommendatiions, and suggestions for future research.

1.9 CONCLUSION

In this chapter the reasons for the study, financing problems of small business, the objectives of the study, the scope of the study, the research methodology followed and the outline of the study was discussed.

In the next chapter a small business is defined as will be applicable to this study and the managing and financing of a small business is also discussed.

CHAPTER TWO

THE SMALL BUSINESS SECTOR

2.1 INTRODUCTION

Before an attempt can be made to deal with the problem of financing small business in the Greater Soweto Area it is necessary to define a small business. On studying the different definitions of the concept 'small business', no universally acceptable description was found. This chapter will focus on the different definitions emanating from the United States of America (USA), the United Kingdom (UK) and South Africa. This chapter will also discuss the role of the small business in the economy, the managing of small businesses, specific problems encountered by small businesses, capital requirements and the financing of small businesses.

2.2 DESCRIPTION OF A SMALL BUSINESS

To find an acceptable definition of a small business for the purpose of this dissertation, a number of definitions of a small business are reviewed in the following sections. It is easier to describe than to define a small business (Burns & Dewhurst, 1989:2). Furthermore, according to van Niekerk (1988:274), the concept 'small' is relative. For this reason, the definition of what a small business is differs from country to country and even from organization to organization within the same country.

2.2.1 Definition in the United States

In the USA, a small business is defined according to economic standards and statistical guidelines. The economic standards are based on the following: independent ownership/management, the non-dominance of the business in its field of operation, and the fact that capital is owner-supplied. The statistical guidelines are based on the number of employees in the business and the annual turnover of the business. While the economic standards are static, the statistical guidelines can be adjusted as circumstances change (Radder 1988:20).

In the USA, the Small Business Administration, created in terms of the Small Business Act of 1953, specifies a small business, in terms of Section 3 of the Act, as follows (Tootelian & Goedeke 1985:5): For the purposes of this act, a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operations. In addition to the foregoing criteria the Administrator, in making a detailed definition, may use these criteria, among others: Number of employees and dollar volume of business. Where the number of employees is used as one of the criteria in making such definition for any of the purposes of this act, the

maximum number of employees which a small business concern may have under the definition shall vary form industry to industry to the extent necessary to reflect differing characteristics of such industries and to take proper account of other relevant factors.

Steinhoff & Burgess (1986:8) state that the measures used by the Small Business Administration in the USA to evaluate small firms for eligibility for financial assistance, managerial assistance, or assistance in procuring government contracts, are based on the total sales or total employment of a firm as follows:

- In the case of retailers, a firm is considered small if its annual sales do not exceed $3,5 million.

- In the case of service firms, a firmm is considered small if its annual sales do not exceed $3,5 million, however, in certain cases this figure may go up to $13,5 million.

- In the case of wholesalers, a firm is considered small if it does not employ more than 500 employees.

- In the case of manufacturers, a firm is considered small if it does not have more than 500 employees, however, in certain cases some industries may have up to 1 500 employees and still be considered small.

- In the case of transportation and warehousing companies, a firm is considered small if its annual receipts do not exceed $1 million.

- In the case of construction firms, a firm is considered small if its annual receipts do not exceed $17,5 million for the three years immediately prior to the evaluation.

- In the case of agricultural firms, a firm is considered small if its annual receipts do not exceed $100 000, however, in some cases, depending on the nature of the operation, this figure may be as high as $3,5 million.

2.2.2 Definition in the United Kingdom

According to Burns & Dewhurst (1989:2) in the UK, the Committee of Inquiry into Small Firms in 1971 defined a small business as follows:

- In economic terms, a small firm is one that has a relatively small share of its market.

- A small firm is managed by its owners or part owners in a personalized way, and not through the medium of a formalized management structure.

- A small firm is independent in the sense that it does not form part of a larger enterprise and that the owner(s)/manager(s) are free from outside control when making principal decisions.

Burns & Dewhurst (1989:2) further state that the Committee of Inquiry of Small Firms ,the Bolton Committee, recognizes that no single statistical definition of a small firm would cover industries as divergent as the manufacturing and service industries, and that a definition with a measure of size expressed in financial terms would suffer an inherent disadvantage in times of inflation.

Table 2.1: THE STATISTICAL DEFINITION OF SMALL BUSINESSES IN THE UNITED KINGDOM

Business sectors	Statistical measures
Manufacturing	200 employees or less
Construction	25 employees or less
Mining/Quarrying	25 employees or less
Retailing	Annual turnover of up to R 50 000
Wholesale trade	Annual turnover of up to R 200 000
Motor trade	Annual turnover of up to R 100 000
Miscellaneous services	Annual turnover of up to R 50 000
Road transport	Five vehicles
Catering	All excluding multiples and brewery-managed public houses

Source: Burns and Dewhurst (1989:3)

Radder (1988:21) states that while annual turnovers can be adjusted for inflation, the maximum number of employees allowed is fixed.

2.2.3 Definition in South Africa

According to van Niekerk (1988:274), in South Africa the Department of Manpower's economic definition of a small business is similar to the definition in the USA and is as follows:

- A small business enterprise can be regarded as an independent

economic unit that aims at using capital and risk related to it in a profitable manner, and which has particular characteristics, such as independent ownership, independent management, a simple organizational structure and a relatively small influence on the market; and where the owners are associated with the entrepreneurs, the providers of capital, the managers, the decision makers and those who share in the profit.

The definition proposed by the Small Business Development Corporation (SBDC) is similar to that of the Department of Manpower as given above (Anon 1988:2). The SBDC has laid down the following as the statistical criteria for small businesses in South Africa:

- Total assets of less than R1,5 million
- Annual turnover of less than R5 million
- Less than 100 employees

The quantitative measures acceptable in South Africa differ from sector to sector. The description offered by van Niekerk (1988:275) is set out in Table 2.2.

Table 2.2: STATISTICAL CRITERIA FOR SMALL BUSINESSES IN SOUTH AFRICA

Business sector	Quantitative guideline
Wholesalers	Annual turnover of less than R 5 million
Motor and general dealers	Annual turnover of less than R 1 million
Accommodation and catering	Annual turnover of less than R 500 000
Wholesalers and retailers	50 workers or less
Services	30 workers or less
All other types of business	20 workers or less

Source: Van Niekerk (1988:275)

It is evident that many definitions of a small business are applied and that there is no universally accepted definition of a small business. For the purpose of this research a small business will be defined as depicted by the economic and quantitative measures listed in Table 2.3.

Table 2.3: CRITERIA FOR A BUSINESS TO BE REGARDED AS SMALL

ITEM	CRITERIUM
Ownership	Business must be privately owned
Management	Business must be managed by the owner(s)
Source of capital	Owners must supply some capital
Percentage of capital supplied by owner(s)	Owners must supply more than 50 % of the required capital
Number of employees	Must not exceed 50
Amount of assets	Assets must not exceed R 1 500 000
Amount of annual turnover	Annual turnover must not exceed R 3 000 000

2.3 DESCRIPTION OF THE INFORMAL SECTOR

Small businesses are found in both the formal and informal sector of the national economy (Beavon 1989:1). According to Vosloo (1991:1), for many years the existence of the informal sector was regarded with disdain by the authorities. In recent years, however, the informal enterprise, which is the most ancient and common form of enterprise, has been 're-discovered' all over the world, including in South Africa.

According to Maasdorp (1983:19), the informal sector can be regarded as the unlisted, unorganized sector of the economy in which activities are unregistered or unlicensed. Beavon (1989:1) also regards the informal sector as that part of the country's economic activity that is not recorded in its official statistics and includes the officially unrecorded businesses of entrepreneurs and enterprises in the formal sector. For the purpose of this study the informal sector will regarded as the unorganized sector of the economy in which activities are not officially registered.

The importance, size and composition of the informal sector will be discussed in Section 2.5.

2.4 TYPES OF SMALL BUSINESS ENTERPRISES

Van Niekerk (1988:275) classifies small business enterprises in the formal sector according to four categories:

- Service businesses that sell services and not goods. There is a large variety of these enterprises, for example, firms of attorneys, advertising agencies, insurance agencies, consulting engineering

services, accounting services, architectural services, shoe repair services for shoes, watch repair shops, electrical appliances repair services, and motor cars repair services, plumbing services, hairdressers and undertakers .

- Wholesalers purchase merchandise and resell it to retailers, other wholesalers and distributors, to other businesses for use, to government institutions and to non-profit organizations.

- Retailers are traders who sell their total sales directly to the consumer for personal and domestic use. Examples of retailers are grocery stores, bookshops, bakeries and pharmacies.

- Construction firms are those engaged in the building of houses, office blocks, roads and oil rigs.

- Manufacturing concerns use labour and machinery to transform raw materials into products for the community. The large investments required by manufacturing concerns make them less attractive to the small business entrepreneur.

According to Beavon (1989:1), most informal businesses are small, one man operations and include subsistence farmers, hawkers, street vendors, home businesses, backyard manufacturers, taxi-owners, handicraftsmen or curio makers, 'moonlighters' and even black marketeers.

2.5 ROLE OF SMALL BUSINESS IN THE ECONOMY

The SBDC considers the following to be the most important role of small businesses in the South African economy (Anon, 1988:1):

- Small businesses are by far the most cost effective and efficient job creator in a free enterprise economy. The number of jobs created per unit of capital invested is generally far higher than in larger firms, which tend to achieve output growth without necessarily producing more employment. Small businesses are therefore considered to be especially suitable in an economy such as the South African economy where unemployment is widespread.

- In a developing country there is a strong demand for basic consumer goods and the small business sector is a natural supplier of such goods. Small businesses ensure continuity of products and services in areas, such as rural areas, that are often out of reach of larger enterprises or in markets that they do not care to enter. Small businesses also add flexibility to the market-place, satisfying specialized or micro-needs in certain markets. They often increase

the range of products and service choices available to consumers.

- Small businesses are an important source of competition and challenge to larger companies and may spur them on to more innovative marketing and/or supply. Small businesses promote healthier competition and contribute to the dispersal of economic activity. In this way the alleged evils of concentration of business size, of industry and of population is countered.

- Small businesses are important in the promotion of free enterprise and self-sufficiency by generating additional wealth and income in the economy and spreading prosperity more widely, especially in lesser developed areas. Small businesses contribute to the achievement of self-sufficiency and human dignity.

- Small businesses are valuable sources of innovation and creativity. Small businesses often do not compete with price but do so on service and technology. They are important partners to larger enterprises and often reinforce and supplement the initiatives of such enterprises rather than replace them.

- Small business is regarded as an effective means by which one can integrate the informal or semi-formal sector of the economy into the more formal or modern economy. Small business encourages grassroots development in that it is a logical starting point for the black entrepreneur who has been denied free and equal access to participation in the South African economy.

- Once people are given the opportunity to generate their own wealth and success, and to become self-sufficient and gain a stake in the future of the country, this promotes stability. Increased market share and buying power enables individuals to have more influence on their socio-economic environment. In addition, the small businesses support industry has played a role in promoting economic and legal reform, such as deregulation.

The importance of the informal sector, as part of the small business community, can best be described in terms of the following reasons given by Krige (1988:170) as advantages of developing the informal sector in South Africa:

- Research has indicated that structural unemployment in the unskilled or deskilled sector may reach 75 per cent in South Africa by the end of the century. The political repercussions of rising unemployment are clearly appreciated by the South African government and the private sector. The informal sector has played an important role in

reducing unemployment.

- There is also financial benefit in promoting the informal sector as job creation in the informal sector costs far less than in the formal sector. Furthermore, such cost is borne largely by the entrepreneur personally.

  Similarly, training costs in the informal sector are low as apprentices in well-established apprenticeship systems pay for themselves or skills are simply acquired on the job. In addition, the informal sector, reduces the social security demands on the state by providing income-earning opportunities for those who would otherwise be unemployed, or who are too old to work in the formal sector. One reason for substancial government interest in the informal sector is that it appears to offer the possibility to help the poor without any major threat to the rich. Promoting the informal sector in the building industry, for example, is advantageous to the state is that providing housing (informal housing) is moved from the state to the individual. Owing to the fact that level of income in townships is low, thereby precluding the inhabitants from having houses built by the large building companies of the formal sector, there is a clear advantage to the state in permitting building by builders in the informal sector.

- Encouraging business in the informal sector also results in an increase in the distribution of formal sector goods. Since the informal sector is highly competitive, margins are forced down and traders sell at a wide range of locations for long hours thus increasing the availability of goods and widening the market for manufacturers. Traders in the informal sector are often prepared to extend credit, partly because of the intense competition but also because many of their customers are known to them personally. Many small traders are prepared to break bulk and sell in very small quantities which also increases the distribution network.

The importance of small business in the formal and informal sector in creating employment, as discussed above, can also be illustrated by the following figures compiled by the SBDC (Anon 1989:1):

- More than 90 per cent of business enterprises in South Africa can be considered as small.

- Approximately 40 per cent of overall economic activity in South Africa can be accredited to small scale enterprises in the formal and informal sectors.

- The number of small businesses in South Africa, both formal and informal, exceeds 800 000.

- Approximately 75 per cent of new jobs in South Africa are generated by the small business sector.

- Approximately 35 per cent of all formal sector employment in South Africa is directly attributed to the small business sector.

- Approximately 70 per cent of the South African labour force is involved in some form of small business or informal sector activity.

Vosloo (1990b:3) points out that about 36 per cent of employment in the manufacturing industry is provided by small business, and in the retail industry this figure is even higher.

The importance of small business is recognized by the fact that approximately 98 per cent of all businesses in the USA are classified as small business by the Small Business Administration (Pickle & Abrahamson 1986:11). Pickle and Abrahamson (1986:12) give the following facts as evidence of the dramatic influence of small business on the US economy:

- Nearly one-third of all small businesses are in service industries, and nearly a quarter are in retailing.

- As a source of employment, small business provides jobs for about 50 per cent of the US work-force.

- In terms of output, small business accounts for approximately 40 per cent of the gross national product.

- In the construction industry, small firms account for nearly 8 dollars out of every 10 dollars made by construction firms.

- In the retail and wholesale industry, small firms account for nearly 7 dollars out of every 10 dollars made by retailers and wholesalers.

- More than 100 million Americans make a living either directly or indirectly from small business.

The role of small business in fostering the spirit of entrepreneurship is discussed in Section 2.6 where the nature of entrepreneurship, personality characteristics of entrepreneurs, and reasons for the shortage of successful entrepreneurs in South Africa are considered.

2.6 ENTREPRENEURSHIP AND SMALL BUSINESS

Over the years contributors to economic literature have viewed the concept of entrepreneurship in different ways (du Toit 1990:53). Vosloo (1990a:1) defines an entrepreneur as a person who undertakes the task of bringing together various economic resources (e g capital, people and materials), managing them to achieve desired results and taking some share of the profits.

Further, Vosloo (1990a:1) points out that entrepreneurship normally involves an element of risk and the rewards sought usually include making a profit. Pickle and Abrahamson (1986:5) agree with Vosloo in their definition of what an entrepreneur is, namely: one who organizes a business undertaking, assuming risks, for the sake of profit. According to du Toit (1990:55), an entrepreneur is often defined as the owner of a small firm who personally takes care of most of the business functions.

Although copious research has been conducted about the personal qualities and behaviour of entrepreneurs, there is still no agreement on entrepreneurial characteristics (Tootolian & Goedeke 1980:13). Scarborough and Zimmer (1984:5) consider the following to be characteristic of the entrepreneurial personality:

- Entrepreneurs feel a personal desire for responsibility for the outcome of ventures with which they are associated. They prefer to be in control of their resources and will use these resources to achieve goals of their own choosing.

- Entrepreneurs are not wild risk-takers. They are, to the contrary, calculating risk-takers. The entrepreneur looks at the project or venture in terms of some personalized level of risk and has a preference for moderate risk.

- Entrepreneurs believe in themselves and support this belief by obtaining the necessary facts before making decisions. They believe they possess the abilities necessary for success and hence are confident in themselves.

- Entrepreneurs desire feedback. They like to know how they are doing and are constantly looking for reinforcement.

- Entrepreneurs are more energetic than the average person.

- Entrepreneurs have a well-defined sense of searching for opportunities.

In South Africa only a limited number of people, especially in the coloured

and black population groups, practice entrepreneurship as successful new entrants into business. The shortages of successful entrepreneurs can be attributed to the following causes (Vosloo 1990a:2):

- Restrictive regulations, e g licensing, zoning, tax structures, and inappropriate health regulations, safety standards and labour legislation, hamper opportunities.

- A shortage of available loan funds, e g venture capital with favourable loan terms. Also, the business infrastructure and services, such as electricity, water, sewage and telephone services, are undeveloped in certain areas.

- Lack of business management knowledge and experience. Many existing and aspirant entrepreneurs do not have the necessary business management knowledge and experience and the present systems of education and training are unsuited to provide what is required in the market-place.

- A shortage of support services, e g information services, practical management training, management help and marketing advice.

- The entrepreneurial culture, which is built on a belief in individualism, innovation, self-confidence, risk-taking and private property, is poorly developed.

- Structural bottlenecks coupled to unsuitable tax policies discourage voluntary savings and result in most savings being contractual and merely placed in the hands of institutional investors, such as insurance companies and pension funds, which only operate within the considerations and duties of the fiduciary framework.

- Lack of business confidence as a result of mismanagement of the economy, sanctions and political uncertainty and instability.

The factors that have contributed to the shortage of entrepreneurs can also be taken as the restrictive factors confronting small business in general. The SBDC (Anon:1988) reiterates some these factors as follows:

- Lack of managerial knowledge and skills

- Low level of formal business training

- Lack of a well-established and organized distribution system

- Restricted access to credit facilities

- Shortage of suitable and reasonably priced business premises

- The plethora of restrictive and unnecessary rules, regulations and policing that undermine the establishment and development of new and existing small businesses. Small businesses are subject to an excessive amount of regulation, red-tape and bureaucratic overheads in relation to their size.

2.7 MANAGING SMALL BUSINESSES

2.7.1 INTRODUCTION

In large companies the managerial activities are distinct from the 'doing' activities of employees, whereas, in small firms the distinction is less clear because the owner/manager works side-by-side with employees (Pickle & Abrahamson 1986:210). The responsibilities of the owner/manager in a small firm involve co-ordinating the firm's total resources. The owner/manager completes these responsibilities by performing the functions of management, namely, planning, organizing, directing and controlling (Pickle & Abrahamson 1986:211). Van Niekerk (1988:280) points out that initially, when the business is still small, the owner controls all aspects of the organisation personally, but as the firm grows the decisions regarding routine activities ought to be delegated to responsible persons. This frees the owner to concentrate on all-embracing activities such as planning, organizing, directing and control. A brief discussion of the four managerial activities follows:

2.7.2 Planning

Planning comprises, according to van Niekerk (1988:30), the group of management activities that must be performed to prepare the organization for future development and to ensure that decisions affecting the use of the available human and material resources will lead to the accomplishment of the organization's planned objectives. Szilagyi (1981:171) points out that planning is a process that begins with the analysis of the external environment and internal resources, concerns the development of goals and strategies to achieve goals, formulates detailed plans to make sure that strategies are carried out, and deals with the future impact of current decisions.

In a small business, planning is probably the most difficult management function to perform because managers are too involved in day-to-day operations and do not see the immediate results of their efforts (Megginson, Scott, Trueblood & Megginson 1988:225). Most managers in small businesses spend the greater portion of their time and energy on short-range, day-to-day planning (Pickle & Abrahamson 1986:211). Planning, particularly long-range planning, tends to be neglected owing to the following factors that discourage

owners/managers and act as barriers to planning (Megginson et al 1988:226):

- Fear, or believing that careful thought about their firm's future will reveal new troubles or problems.

- Unpredictability, or believing that planning is not worth it because things do no work out according to plan.

- Uncertainty, or feeling that plans and circumstances change too rapidly to make planning worthwhile.

- Lack of planning knowledge and finding it difficult to state objectives and courses of action on paper.

- Lack of proper time and place, concentrating on favourite jobs, delaying disagreeable ones, and/or not delegating.

Megginson et al (1988:234) discuss long-term and short-term planning as follows:

- Long-term planning is needed for activities such as market development, machine purchase and product and personnel development. Trends in income levels, industrial development, growth of population, mobility of people, market size, and business movements and a few of the factors that should be studied when striving to form valid long-range forecasts. The manager of a small business, for example, should forecast whether the volume of sales seems adequate to justify the high initial cost of a product.

- Short-term planning at the other extreme is more immediate in nature. It covers a period of a day, a week, a month, six months or at most a year. This type of planning gives the manager and employees some direction in day-to-day operations. Short-range plans should contribute to and be consistent with long-range plans. Also, small firms should strive to excel in short-term planning because their strength lies in flexibility.

2.7.3 Organizing

Organizing is one function that owners/managers of small business must perform. Scarborough and Zimmer (1984:459) state that managers of small businesses will normally find that growth of the business brings with it the need to reorganize and that the basic concepts of organizing apply to all enterprises. Pickle and Abrahamson (1986:214) define organizing as the management function of co-ordinating the human, financial, and physical resources of the firm so that they follow the course needed to reach the

objectives of the firm as specified in the planning phase. Such a co-ordinated effort is achieved, according to Szilagyi (1981:253), through the design of a structure of tasks, authority, people, and communication. Szilagyi (1981:253) further draws attention to the following three points with regard to organizing:

- Firstly, the meaning of the word 'design' implies that this is a rational and conscious process on the part of the manager to develop the most effective interactions and interrelationships within the organization.

- Secondly, the result of the design effort is a structure or framework within the organization.

- Thirdly, this structure includes grouping similar jobs, establishing authority, relationships across and among different jobs, placing the most capable people in these jobs, and developing the most effective means of communication between jobs and job-holders.

One of the most common difficulties found among owners of small business with respect to organizing is their uncertainty about how to group jobs and tasks. There is no one right answer to the question: On what basis should job activities be joined? This will depend on the type of business or industry and the personal preferences of the entrepreneur (Tootelian & Goedeke 1985:364). Many sole proprietors view organizing as a wasted exercise. A typical comment among them is: "Why should I develop an organizational chart? There are only a few people here! We know what we are supposed to do and I am the boss". Such a perspective simplifies or ignores the value of sound management. A proper organizational structure will help a firm survive by ensuring that tasks are completed and that a foundation is laid for future growth (Tootelian & Goedeke 1985:352).

2.7.4 Directing

Directing is the leadership function of the manager because, through daily interaction with employees, the owner of small business provides leadership that is needed to guide the firm. The quality of leadership is a major influence in determining the success of the firm (Pickle & Abrahamson 1986:216). Marx and Churr (1985:225) define directing as that task of the business leader by means of which the performance of work is initiated and sustained by effective leadership, in order to ensure that the work is performed as efficiently as possible. Further, Marx and Churr (1985:177) define leadership as the process by means of which one person can influence others in such a way that they will willingly strive to achieve the objectives he or she sets for them.

Marx and Churr (1985:227) summarize the most important reasons for directing as follows:

- Directing is responsible for the actual execution of the activities of the enterprise.

- Without directing, the planning and organizing done earlier would be of no use, since no activities would be taking place.

- Proper directing can ensure that the execution of the work will take place as effectively and efficiently as possible. In order to survive in today's demanding and difficult circumstances, an enterprise must necessarily function as efficiently as possible.

- Directing has a most important influence on the relationship between a manager and his/her subordinates and on the willingness of subordinates to work efficiently.

Pickle and Abrahamson (1986:219) refers to the relationship between manager and subordinates, mentioned by Marx and Churr above, as 'employee relations'. Of the many issues that confront the small business owner/manager, employee relations is the most challenging.

2.7.5 Control

The last major area of managerial concern is the controlling function. The plans of the business become the standards against which the actual behaviour of the business is compared (Scarborough & Zimmer 1984:64). Control of activities is found in all types of organizations (Szilagyi 1981:553). Du Toit (1990:85) points out that, just as planning determines the course of future events, control is likewise aimed at determining whether the planned course had become a reality and whether any adaptations are needed.

Marx and Churr (1985:231) differentiate between directing and controlling. With directing, the emphasis falls on the initiation and continuation of work and correctly leading subordinates. With controlling, the work is already in progress and the emphasis falls on controlling the quality of the work and the corrections that need to be made if the work is not satisfactory.

The steps involved in the controlling process are the setting of standards, measuring actual performance, comparing actual performance with planned performance, and taking corrective steps if there are deviations (Du Toit 1990:89; Megginson et al 1988:577; Szilagyi 1981:554; Pickles & Abrahamson 1986:217).

Scarborough and Zimmer (1984:64) briefly elaborate on the control steps as

follows:

- Firstly, the standards for performance must be set. These standards must be realistic, measurable, attainable and fully communicated to each person involved.

- Secondly, a way must be developed to collect data from operations that can be evaluated against the set standards.

- Thirdly, the actual data must be matched with the standards. If deviations exist, steps must be taken to correct those deviations.

Megginson et al (1986:578) highlights similar characteristics in the control systems, namely:

- Control should be timely in that feedback from the control system must reach the decision-maker in time to modify the plan of action or take corrective action.

- Control should be cost-effective. It should not cost more to operate than the savings produced. The manager should try to reduce the time and paperwork needed to collect information.

- Control should be accurate. The basic trend of any control system is to use accurate data and the system must be reliable.

- Control should be quantifiable and measurable, although at times quality must be judged subjectively. It is much easier to measure and control things that can be expressed in quantitative terms.

- Control should show cause rather than indicate actual situations.

Control should be assigned to one individual because owners of small business do not have the time to control all activities themselves. They should delegate authority for some actions to subordinates.

2.8 PLANNING THE CAPITAL REQUIREMENTS OF SMALL BUSINESS

2.8.1 Introduction

Before identifying the different financing sources, priority must be given to those factors that influence the capital requirements of a small business. According to Radder (1988:44), a small business can plan its capital requirements by using the following procedure:

- Firstly, quantify the factors that influence the determination of the capital requirements.

- Secondly, draft budgets to determine the capital requirements.

- Thirdly, formulate a business plan that summarizes the capital requirements.

The economic factors identified by Radder (1989:47) in determining the capital requirements of small firms are: maximizing of profit investment and on owner's equity, financial leverage, liquidity, solvency, management ability, and retention of independence. Radder (1988:85) contends that maximizing of profit is not a good yardstick to measure performance of a small business and it does not facilitate the determination of the capital requirements, as profits must be maximized irrespective of capital requirements. The discussion below will concentrated on return on investment and on owners equity, financial leverage, liquidity, solvency, management ability, and retention of independence as factors influencing capital requirements. A brief discussion of budgets and a business plan will then follow.

2.8.2 Return on investment and return on owner's equity

The return on investment, which is often called the firm's return on total assets, measures the overall effectiveness of management in generating profits with its available assets (Gitman 1982:206). The primary objective of the enterprise is not to strive to maximize profits but rather profitability, in which case the cost and the investment made in assets are taken into account (Cronje, Neuland, Hugo & van Reenen 1990:134). The return on investment is calculated by dividing earnings (income) by total assets (Correia, Flynn, Uliana & Wormald 1989:155).

According to Radder (1988:49), there is a difference of opinion as to what constitutes earnings or income or realized profits. Correia et al (1989:155) state three possible definitions of earnings or income, namely, earnings before interest and tax, earnings before interest but after tax, and earnings after interest and tax, that is, net profit. Which definition to use will depend on the objective of the analysis as shown below:

- Using earnings before interest and tax is useful for comparing firms in different tax situations and with different degrees of financial leverage.

- Using earnings before interest but after tax is conceptually the most correct approach. The reason being that it excludes interest which is a cost of financing but includes taxation which is an operating cost.

- Using earnings after tax and interest tends to understate the return

as the after-tax cost of debt finance has not been removed. In this case the degree of financial leverage will have an impact on the return on total assets.

Another difficulty associated with return on total assets is that since a large part of many firm's total assets are fixed assets, and since book and market values of fixed assets may be widely divergent, the return on total assets may differ simply because of the degree to which the assets are depreciated (Joy 1983:32).

Correira et al (1989:156) define return on owner's equity as the rate of net profit after interest and tax to owner's equity. Radder (1988:50) points out that profit after taxation is used in the calculation of return on owners's equity, as this is the profit retained by the entrepreneur and can be used to expand the business or can be withdrawn for personal use. Further, the ratio is influenced by the effective utilization of borrowed capital and can, together with the ratio of return on total assets, highlight incorrect financing methods.

2.8.3 Financial leverage

Lambrechts (1990:110) states that financial leverage provides a measure to indicate to what extent management has succeeded in successfully utilizing debt capital to increase return on owner's equity. Further, the basis of financial leverage is the usage of debt with the expectation that the return earned on it will be higher than the cost of debts. According to Gitman (1982:164), financial leverage results from the presence of fixed financial charges (interest on debt) in the firm's income stream and these fixed charges must be paid regardless of the amount of earnings before interest and tax.

A positive or favourable leverage exists as long as the return on assets exceeds the interest on debt and a negative leverage will result if the interest rate on debt exceeds the return on assets (Lambrechts 1990:110). A positive leverage means that the entrepreneur is increasing his/her own wealth by utilizing borrowed capital, and if a negative leverage prevails over an extended period of time, the future existence of the business could be jeopardized (Radder 1988:53). Radder (1988:54) further contends that for an entrepreneur to achieve a positive financial leverage, liquidity and solvency must also be considered in the setting of objectives.

2.8.4 Liquidity

The liquidity of a business is measured by its ability to satisfy its short-term obligations as they come due (Gitman 1982:195). Lambrechts (1990:113) describes liquidity as the continuous ability of a firm to make the necessary payments in the short-term in order to continue its operation and solvency as liquidity in the long term. Liquidity influences the return on

investment if a business makes use of debt capital and liquidity will improve if a positive leverage factor is maintained (Radder 1988:54).

Lambrechts (1990:113) gives the following reasons why liquidity should be adequate:

- It can result in cost saving, since illiquidity may force a business to pay higher interest and the business may lose the advantage of discounts for payments made on time.

- It provides an enterprise with greater freedom in its operations.

- It creates an impression of solidness to outsiders and may improve the creditworthiness of a business.

- Without liquidity problems, management can work with greater peace of mind and carry out more creative tasks.

- Finally, if illiquidity occurs frequently, it begins to affect solvency and may result in bankruptcy.

According to Gitman (1982:195), the following three basic measures of liquidity are used:

- Net working capital is calculated by subtracting current liabilities from current assets. A firm's creditors may require that a minimum level of net working capital be maintained in cases where long-term debt has been given.

- Current ratio is one of the most commonly cited financial ratios. It is the ratio of current assets to current liabilities. A ratio of 2:1 is occasionally cited as acceptable, but this will depend on the industry in which the business operates.

- Acid-test ratio is similar to the current ratio except for the fact that it excludes inventory form current assets. The basic assumption is that the inventory is generally the least liquid current asset and should therefore be ignored. It is calculated as the ratio of current assets, less inventory, to current liability. A ratio of 1.0 or greater is occasionally cited although again this will depend on the industry.

Entrepreneurs can increase liquidity by ensuring that a positive leverage factor is maintained when borrowed capital is used. In a small business, liquidity is important because only one liquidity setback may lead to insolvency (Radder 1988:56).

2.8.5 Solvency

As mentioned in Section 2.8.4, solvency refers to liquidity in the long-term, that is, a firm's ability to pay its long-term debt. Lambrechts (1990:119) describes solvency as the ability of an enterprise, even when ceasing its activities and selling all its assets, to settle all its debts.

Radder (1988:57) highlights the relationship between solvency and liquidity by pointing out the following different situations:

- A business is solvent and liquid if it will be able to meet its short-term and long-term commitments.

- A business is not solvent, but liquid, and could, with the right product and management, survive and become solvent.

- A business is solvent, but not liquid in that total assets exceed total liabilities. The business has difficulty in meeting its short-term obligations, and in certain instances its long-term obligations. This situation is referred to as technical insolvency or cash insolvency. It could lead to the forced disposal of assets with the effect that a lower return on total assets will be realized and this could lead to bankruptcy.

The following solvency ratios (Radder 1988:58) or leverage ratios (Joy 1983:29) or debt management ratios (Correia et al 1989:152) should be calculated:

- Debt ratio is the ratio of total debt to total assets and measures the percentage of total funds provided by creditors. Total debt includes current liabilities (Correia et al 1989:153). The higher the ratio, the greater the amount of other people's money that is being used to generate profits (Gitman 1987:201).

- Debt to equity ratio indicates the relationship between the long-term funds provided by creditors and those that are provided by the firm's owner(s). It is defined as the ration of long-term debt to owner's equity and is commonly used to measure the degree of financial leverage (Gitman 1982:201).

- Interest-earned ratio, which is also called a firm's total interest coverage ratio, measures the firm's ability to meet its interest obligations (Lambrechts 1990:123). The higher the value of this ratio, the better able will a firm be to meet its interest obligations. It is the ratio of earning before interest and tax on interest (Gitman 1982:202).

Lambrechts (1990:120) makes the following remarks about the problems encountered in calculating solvency ratios:

- The value of fixed assets shown in the balance sheet is often unrealistic. The basis of depreciation of durable means of production is determined at the discretion of management and a correct amount cannot be easily arrived at.

- The amounts attributed to goodwill, patents and trademark should preferably be ignored, since they do not realize any value on liquidation.

- The valuation of current assets, particularly stock, presents many problems.

2.8.6 Management abilities and the retention of independence

As mentioned in Section 2.6, many existing and aspirant entrepreneurs do not have the necessary management knowledge and experience to be successful entrepreneurs. Ignoring sound financial management principles reduces the chances of attaining the economic objectives of maximizing the return on investment, a positive financial leverage, solvency and liquidity.

One reason that entrepreneurs give for starting a business is that of being one's own boss and controlling matters oneself (van Niekerk 1988:276). Independence can be maintained by using own capital, but it is often restricted and the entrepreneur has to rely on external finance. This could result in a loss of independence. According to Radder (1988:61), by not utilizing borrowed capital, the entrepreneur can lose the opportunity to increase the return on owner's equity, because the benefit of a positive financial leverage cannot be utilized.

2.8.7 Drafting budgets and formulating a business plan

In Section 2.8.1, the following were stated regarding the planning of the capital requirements of a small business: Firstly, the factors that influence the determination of capital requirements must be quantified, and secondly, budgets must be drafted to determine capital requirements, and finally, a business plan must be formulated to summarize the capital requirements.

To determine the extent of the capital requirements, the following budgets are drafted (Radder 1988:72):

- The sales budget, which is the most important as it has an effect on all other budgets. Like all other budgets, the sales budget

should be drawn up for the ensuing year, the medium-term and the long-term. It is drafted first because of the long-term relation between turnover and fixed assets and the short-term relation between turnover and working capital needs. This budget must distinguish between cash and credit sales.

- The cost of sales budget, which reflects the direct cost incurred in respect of sales. The cost per product or range of products must be calculated from the sales volume obtained from the sales budget. Gross profit percentages help in the calculation of this budget provided a constant mark-up is used.

- The expense budget, which is not always directly influenced by the sales budget as other expenses such as salaries, electricity consumed and other administration expenses, are not directly influenced by the level of sales. Historical data and the present objectives of business should be used as guidelines in drafting the expense budget.

- The current asset budget, which uses the current asset ratios in its drafting. Current assets, such as stock and debtors are directly influenced by sales. Stock on hand should be taken into account when determining stock requirements. The debtors are determined by credit sales and the collection period.

- The fixed assets budget, which is used to determine fixed asset requirement so as to prevent over-capitalization which can cause fixed assets to be under-utilized and much needed capital being tied up in unproductive assets.

The cash budget reflects all receipts from cash sales, debtors receipts, finance introduced, proceeds from sale of fixed assets.

Once all the budgets discussed above have been drafted, a projected income statement, balance sheet and a business plan summarizing the capital requirements of a business are drafted. Every business, new or established, must have a written document setting out its capital requirements, and the manner in which these are to be financed. The business plan assists the small business in obtaining finance (Pickle & Abrahamson 1986:16) and is also a powerful tool to attract venture capital (Megginson et al 1988:155).

2.9 FINANCING THE SMALL BUSINESS

After a small business has determined its total capital requirements, it should determine how to finance these requirements. In order to achieve the objectives of maximum return on investment, financial leverage, liquidity and

solvency, it is necessary for a business to be able to determine when capital is needed and for what period (Radder 1988:64). Before finance can be obtained, the nature of capital requirements of the business must be determined.

Radder (1988:65) stipulates that the total capital requirements of a business consists of:

- Permanent capital requirement. For a small business, this consists of all the fixed assets and the minimum working capital (including stock, debtors, cash and other current assets) necessary for the desired activity or production level.

- Varying capital requirement. This is the additional working capital required when the activity or production level of the permanent capital requirement is exceeded.

A number of sources of finance for the total capital requirement (i e permanent and varying) have been determined. Radder (1988:89) categorizes finance sources that should be available for small business into the following:

- Short-term finance is finance obtained for a period not exceeding 12 months. It consists of trade credit, bank overdrafts, short-term loans, revolving credit and factoring.

- Medium-term finance is finance obtained for a period of one to five years. It consists of medium-term loans, instalment sales and leasing.

- Long-term finance is finance obtained for a period in excess of five years. It consists of own capital, long-term loans and sale-and-leaseback.

The various sources of finance mentioned above, financing available from the SBDC, venture capital and informal sector finance, will be discussed in detail in Chapter 3. The nature of the source, the security requirements and the cost of the finance will also be considered.

2.10 CONCLUSION

The definitions of small business studied describe a small business according to economic standards and statistical guidelines that differ from one country to the next. The definition used by the Department of Manpower in this country is similar to that used in the USA. The SBDC has also adopted a similar economic definition. The SBDC has laid down different statistical guidelines

for small business in both the formal and informal sectors. For the purpose of this study, a small business is defined as a business that complies with the economic and quantitative criteria as shown in Table 2.3. The informal sector has been described as the unlisted, unorganized sector in which activities are unregistered or unlicensed.

The types of formal small business found in South Africa are classified as service organizations, wholesalers, retailers, construction firms and manufacturing concerns. The informal sector include hawkers, street vendors, home businesses, back-yard manufacturers, taxi owners, handicraftsmen and curio makers.

The role of the small business in the economy is considered to be job creation, satisfaction of the demand for basic or specialized goods, promotion of healthy competition, promotion of free enterprise and self-sufficiency, innovation and creativity, encouragement of grass-root development and enhancing of stability. The role of informal sector businesses is also that of alleviating unemployment and increasing the distribution of formal sector goods. Small business is also important in fostering the entrepreneurial spirit.

Managing a small business, as is the case with large enterprises, consists of planning, organizing, directing or leading and control. Small businesses encounter certain problems with regard to these managerial activities.

Factors that influence the determination of capital requirements of small business should be considered before the financing needs of the business can be determined. The factors discussed are maximization of profits, return on investment and owner's equity, financial leverage, liquidity and solvency. Budgets and business plans are used to determine or plan the extent of capital requirements.

In the next chapter, the various sources of finance available to small businesses is discussed in detail.

CHAPTER THREE

SOURCES OF FINANCE AVAILABLE TO SMALL BUSINESSES

3.1 INTRODUCTION

Chapter 2 discussed the role of small business in the economy, the management of small businesses, specific problems encountered by small businesses and the capital requirements of small business. It was also pointed out that the total capital requirements of a business consists of the following:

- Permanent capital requirements which, for a small business, consist of fixed assets and the minimum working capital for a desired level of activity or production.

- Varying capital requirements, which is the additional working capital required when the activity or production level of the permanent capital requirement is exceeded.

Once the total capital requirements of the business has been determined, by means of budgets and business plans, the entrepreneur must determine how these requirements are to be financed to achieve the objective of maximum return on investment, a positive financial leverage, liquidity and solvency. Lambrechts (1990:524) points out that it is best from a liquidity point of view to finance permanent capital requirements with long-term funds, except in circumstances where there is a reasonable certainty that short-term credit can continually be replaced. Lambrechts (1990:526) further mentions that variable capital requirements may, from a liquidity point of view, be financed by short-term and long-term funds. The reason why short-term funds are usually used to finance varying capital is that long-term capital can become idle with loss of income as a possible result. According to Collier, Cooke & Glynn (1988:237), entrepreneurs consider their own aspirations, how much control they are willing to sacrifice, the rate of interest the business is willing to pay and the risk element involved when deciding upon the nature of finance.

Bates and Hally (1982:21) are of the opinion that there is no single ideal way of financing a small business because the circumstances that determine the capital requirements of each individual business are unique. There are a number of occasions in the life of a small business when the need for finance may arise.

- The first is the need for start-up capital to help in the establishment of a new business.

- The second is the need for funds to finance an expansion of the business.

- The third is the need for capital to finance an innovation.

- The fourth is for the need to adjust the financial structure of the business.

In this chapter the various sources of short-term, medium-term and long-term finance available to small businesses will be discussed. The chapter will also focus on the SBDC, venture capital and the informal money market as sources of finance. The nature of the source of finance and the cost of finance will also be considered.

3.2 SHORT-TERM SOURCES OF FINANCE

3.2.1 Introduction

In Section 2.9, the short-term sources of finance available to small businesses are given as trade credit, bank overdrafts, revolving credit and factoring. The suppliers of short-term finance will evaluate the liquidity of a business to determine the ability to service the debt. Correia et al (1989:505) raise the point that if the business chooses to use short-term finance, it exposes itself to higher risk because short-term finance needs to be met sooner, or alternatively it needs to be renegotiated more frequently.

3.2.2 Trade credit

Brigham and Gapenski (1990:636) regard trade credit as the largest category of spontaneous short-term debt representing about 40 per cent of the current liabilities of the average non-financial firms. Trade credit is spontaneous in that it arises almost automatically and does not require much formal arrangement by the business (Joy 1983:438). Trade credit is a form of financing that arises when a firm obtains goods and services in exchange for its promise of future payment (Cole 1984:279). Trade credit is regarded as the most important source of short-term financing for small businesses in that they are less able to obtain funds from the capital and money markets (Brigham & Gapenski 1990:636; Joy 1983:439; Moyer, McGuigan & Kretlow 1988:697). The most common type of trade credit is the open account credit which derives its name from the fact that the business does not sign a formal debt instrument evidencing the amount owed to the supplier of goods (van Horne 1986:487).

Trade credit has no visible (explicit) cost if the business pays its supplier exactly on time, taking all discount on the discount date. The supplier may pass the cost of credit associated with credit granting to the business in the form of higher prices. How much of these costs will be passed on by the supplier to the business is determined by the degree of competitiveness of the

industry in which the firm operates (Joy 1983:442; van Horne 1986:492).

3.2.3 Bank Overdrafts

According to Lambrechts (1990:479), bank overdrafts are the most important sources of short-term funds in South Africa and are provided by commercial banks. Technically, an overdraft is not the provision of funds but rather the provision of a facility by a bank for a potential borrower to obtain funds (Reekie & Lingard 1986:41). An overdraft facility is an arrangement whereby the bank permits the business to borrow funds up to a specified maximum amount on its current account (De J Cronje et al 1991:230). Lambrechts (1990:479) states that bank overdrafts are generally unsecured loans but the recent trend is for banks to demand security in various forms. Bank overdrafts also display the following characteristics:

- A bank overdraft is a flexible form of financing as funds are drawn only when needed, usually to provide for fluctuating capital requirements in the business (De J Cronje et al 1991:230; Lambrechts 1990:480).

- The facility is reviewed periodically on presentation of annual financial statements to the bank (De J Cronje et al 1991:230; Radder 1988:97).

According to Correia et al (1989:426), the cost of bank overdrafts is based on the size of the loan. The interest rate for more risky borrowers (smaller businesses) is higher. The lowest interest rate is the prime rate, which is the rate that commercial banks charge to their big clients. The interest can fluctuate on the basis of the security and credit-worthiness of the borrower (Lambrechts 1990:479).

3.2.4 Revolving credit

A revolving credit agreement is defined by both Neveu (1989:241) and van Horne (1986:498) as a legal commitment on the part of a commercial bank to extend credit to a business up to a maximum amount over a specified period of time. The most important distinguishing feature is that a bank is legally obliged to honour a revolving credit agreement (for which commitment it charges a fee), whereas no such legal obligation exists in the case of a bank overdraft (Joy 1983:455; Kolb & De Mong 1988:670; Weston & Brigham 1990:524). In view of this obligation, Neveu (1989:241) contends that even during periods of tight money, commercial banks may be forced to borrow funds in order to satisfy revolving credit lending obligations. The revolving credit arrangement is particularly useful at times when a business is uncertain about its funding requirements. In this way a business has flexible access to funds during a

period of uncertainty (van Horne 1986:518).

The calculation of the cost of funds borrowed according to a revolving credit agreement is more complex than for a bank overdraft, in that, in addition to interest rate and commitment fee, the cost is also influenced by the amount borrowed and the credit limit of the agreement (Moyer, McGuigan & Krestlow 1988:704). The interest rate on the agreement may be tied to the prime rate on a floating basis and thus the cost of the loan varies over time as interest rates change (Kolb & De Mong 1988:671; Brigham & Gapenski 1990:643).

3.2.5 Factoring

According to Mills (1986:320), credit factoring has only recently become known in South Africa although it was initially introduced in 1961. Correia et al (1989:424) point out that because accounts receivable constitute a major part of working capital and their settlement terms frequently strain the liquidity requirements of a business, factoring is a means of using accounts receivable to generate cash flow. Lambrechts (1990:482) describes factoring as 'the sale of an enterprise's debtors to a factor or factoring enterprise which usually accepts the credit risk and the responsibility for collecting the debts'. According to Cole (1984:309), it is the only known arrangement whereby the factor completely assumes the entire credit and collection function for its clients. The use of factoring facility provides additional working capital and hence enables a business to undertake sales expansion and to negotiate more favourable purchasing terms from suppliers and to take advantage of discounts (Mills 1986:321). Although there are different ways in which factoring can be effected, Cole (1984:309) lists the following stepsin the factoring procedure:

- Before the business delivers goods to customers it must submit the list of customers, amounts of the orders, terms of sale and any other information to the factor for approval.

- After the delivery of goods on approved orders, the business sells the accounts to the factor by signing and sending to the factor an assignment schedule together with a copy of each invoice.

- The factor credits the business' account for accounts receivable purchased. The method of payment to the business is normally geared to the business' working capital needs.

- A statement is sent to the business each month stating the exact financial standing of the business with the factor. This statement consists of a record of the accounts receivable purchased, charges for returns and allowances, commission, interest charges, and other items that may affect the account.

Kolb and De Mong (1988:681) state that the cost of factoring consists of the factor's fees for servicing and collecting the receivables and bearing the risk of bad debt losses, and the interest charged on advances. Mills (1986:322) mentions that the factor's fees vary according to the number of invoices handled, the number of debtors' accounts, the average invoice value, and the turnover of the business. Advancing payment is, according to van Horne (1986:511), a lending function of the factor in addition to risk bearing and servicing receivables and the business must therefore pay interest. Mills (1986:324) also contends that a factor's interest on advances may be more than the cost of a bank overdraft, but less than comparable rates charged by many finance houses for alternative forms of finance.

3.3 MEDIUM-TERM SOURCES OF FINANCE

3.3.1 Introduction

As mentioned in Section 2.9, the medium-term sources of finance that should be available to small businesses are medium-term loans, leasing and instalment sales agreements. Medium-term financing agreements last longer than one year but less than five years. According to van Horne (1986:516), medium-term financing can also be used to meet the permanent funding requirements of a business and are a temporary measure until such time that long-term financing can be obtained on favourable terms. It also helps when a business is uncertain about the size and nature of its future funding requirements.

3.3.2 Term loans

Neveu (1989:572) defines a term loan as 'a debt instrument that has an original maturity longer than one year, provides a specified amount of financing, and contains a repayment schedule that requires the borrower to make regular principal and interest payment'. Van Horne (1986:516) mentions that the payment schedule of term loans is usually geared to the borrower's ability to service the loan. Term loans are, as stated by Lambrechts (1990:484), usually granted for the financing of current assets, the purchase of new machinery and the refunding of existing debt. The limitations of term loans are that the assets pledged as collateral cannot be used to secure other financing and the period payments may represent a large cash drain because both principal and interest must be paid (Neveu 1989:577). Another limitation of the term loan is the restrictions placed on the borrower by the lender that are intended to maintain the borrower's financial standing and decrease the likelihood of loss on the loan (Keown, Scott, Martin & Petty 1986:601).

The cost of a term loan is generally slightly higher than that of long-term finance and is paid over the period of the loan (Lambrechts 1990:485). In addition to interest cost, the borrower is also expected to pay legal expenses

incurred in drawing up the loan agreement and may also be charged a commitment fee for the period during the commitment period that the loan is not taken (van Horne 1986:517).

3.3.3 Leasing

Van Horne (1986:533) describes a lease as 'a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset, usually for an agreed period of time, in return for the payment of rent'. Most leases do not involve maturities of more than ten years and as a result lease financing is regarded as a source of medium-term financing (Keown et al, 1985:603). The basic characteristic of a lease is that ownership is vested in the lessor while the lessee has full and unlimited use of the article with the option, at the end of the lease period, to either purchase the property or to negotiate a secondary rental contract (Lambrechts, 1990:474). Two basic types of lease agreement are available to businesses, namely operating leases and financial leases (Gitman 1987:592).

- An operating lease agreement is a lease agreement in which property is leased for a much shorter period than the life of the property and the agreement often makes provision for cancellation by either the lessee or the lessor (Lambrechts 1990;475). By their very nature, operating leases are sources of short-term financing (Keown, 1985:604; van Horne, 1986:533). Correia (1989:560) give the avoidance of indirect taxation such as VAT and GST as the reason why, in recent years, the operating lease has become attractive as an alternative to buying. Correia et al (1989:561) further point out that if an article is bought or financed through financial lease, taxation is paid on the full purchase price, whereas in an operating lease tax is payable on the rental (which is less than the purchase price) and hence a lower tax is paid.

- Unlike operating leases, financial leases cannot be cancelled and are fully amortized over the life of the leased article, that is, the lessor receives rental payments equal to the full price of the leased article plus interest (Brigham & Gapenski 1990:548; Joy 1983:336). When the lease expires the lessee is given the option to renew the lease (Brigham & Gapenski 1990:549). A further distinguishing characteristic of the financial lease is that the lessee is usually responsible for maintaining and insuring the leased item (Lambrechts 1990:475). The lease payments, that is the rental, becomes a tax deductible expenditure which the lessee must pay at predetermined dates over a definite period (Gitman 1987:593). According to Correia et al (1989:562), the interest rate on financial leases can be either fixed or variable but if it is

fixed, the instalment will also be fixed, whereas if the interest rates is variable, the instalment will change to incorporate the movement in the interest rate.

3.3.4 Instalment Sales Agreement

Radder (1988:108) defines an instalment sale agreement as 'a contract whereby a business obtains an asset and a financial institution finances the cost of the asset either partially or in full'. In terms of the Credit Agreement Act, Act No 75 of 1980 (as amended), the Minister of Commerce and Consumer Affairs is empowered to prescribe by Government Notice the maximum period within which the full price of a purchase under a sales agreement is to be made, the portion of the cash price required as down-payment or deposit, and the classes of goods to be purchased under a sale agreement (Falkena, Fourie & Kok 1987:497). The Credit Agreement Act describes an instalment sales transaction as follows:

- instalment sales transaction which means a transaction in terms of which:

  (a) goods are sold by the seller to the purchaser against payment of a stated or determinable sum of money at a stated or determinable future date or in whole in part in instalments over a period in the future; and

  (b) the purchaser does not become the owner of those goods merely by virtue of the delivery to or the use, possession or enjoyment by him thereof: or

  (c) the seller is entitled to the return of those goods if the purchaser fails to comply with any term of that transaction.

Cole (1984:44) sets the following principles for an instalment sale agreement which will best serve the purchaser and the seller:

- The instalment sale should be confined to durable goods that are consumed over a relatively long period. Long-standing obligations on goods that are immediately consumed will place the seller in a more difficult position from the collection standpoint.

- The down payment or deposit should be sufficient to create a sense of ownership on the part of the purchaser so that he/she can take good care of the goods purchased. The asset obtained serves as security for the finance advanced.

- The amount and instalment payments must be relative to the income and other outstanding obligations of the purchaser.

- The finance charges should be sufficient to cover the cost of the instalment transaction and should be clearly communicated to the purchaser to avoid misunderstanding.

3.4 LONG-TERM SOURCES OF FINANCE

3.4.1 Introduction

In Section 2.9 it states that the long-term sources of finance available to small businesses are own capital, long-term loans and sale-and-leaseback. Suppliers of long-term finance not only take into account the long-term liquidity, the return on investment and owner's equity and the financial leverage of a business, but will also incorporate certain provisions into the loan agreement that are intended to protect the money advanced. These are:

In this regard, the provisions of a positive nature that outline the actions that the borrower agrees to take during the term of the loan (Moyer et al 1988:487) are the following:

- The borrower agrees to furnish the provider of finance with periodic financial statements.

- The borrower agrees to take out insurance to cover insurable business risk.

- The borrower agrees to maintain a minimum amount of net working capital.

- The borrower agrees to retain management personnel who are acceptable to the supplier of the funds.

The provisions that outline actions that the borrower agrees not to take without the consent of the lender (Moyer et al 1988:488; Ross & Westerfield 1988:485) are the following:

- The borrower may not pledge any of its assets as security for other loans nor to sell its account receivables.

- The borrower is prohibited from selling or leasing a major portion of its assets.

- The borrower is prohibited from giving loans to others that would

impair the lender's security.

Default provisions permit the lender to insist on immediate repayment of the entire loan under the following conditions (Moyer et al, 1988:488):

- The borrower fails to pay interest or principal or both in terms of the agreement.

- The borrower materially misrepresents any information required by the lender.

- The borrower fails to observe any of the provisions mentioned above.

3.4.2 Owner's Capital

Owner's capital is the finance that may come from the personal savings of the entrepreneur and from contributions by partners, shareholders, members or other participants. The general rule, as stated by Pickle and Abrahamson (1986:133), is that a small business should provide at least 50 per cent of the starting funds. Steinhoff and Burgess (1986:120) mention that potential creditors and other outsiders who are invited to provide financial assistance to a business will first consider the amount contributed by the owners so that risk should also be borne by the owners. According to Megginson et al (1988:179), the economic function of owner's capital is to serve as a buffer that protects creditors from loss in the event of a financial difficulty because the creditors have a legally enforceable claim on the assets of a business in the event of default. Ames and Wellsfry (1983:172) state that profit is a source of internal funding that may be the easiest and cheapest to find and that retained profits increase the capital of a business. Owner's capital varies depending on the form of ownership that a business has assumed. Owner's capital may be in the form of capital contributions for sole proprietorship and partnership, loans advanced by the owners of the business, shares in a private company, or as member's interest in a close corporation (Radder 1988:113).

3.4.3 Long-term loans

Long-term loans are loans that are given for periods of ten years and longer and can be classified according to whether they have a fixed or variable interest rate and whether they are secured or unsecured debt (Correia et al, 1989:502). As pointed out in Section 3.4.1, suppliers of long-term loans are not only interested in long-term liquidity, return on investment and financial leverage but also incorporate certain provisions into the loan agreement to protect the money advanced. The providers of long-term loans generally do not exercise control over the business and do not participate in the residual

income of the business, but instead receive a fixed return (van Horne 1986:609). General characteristics of long-term loans that contrast with the characteristics ofowner's capital are the following:

- There is an interest liability which is repayable at certain periods and in a certain manner.

- The provider of a long-term loan is legally a creditor and not an owner of a business.

- Long-term loans are secured by the assets that are financed.

3.4.3 Sale-and-leaseback

Neveu (1989:579) describes a sale-and-leaseback 'as an arrangement made when a company sells an asset it currently owns to a purchaser and simultaneously executes a lease agreement with the same firm, which now becomes a purchase-lessor. The selling company receives cash for the asset sold, retains the use of the asset for the duration of the lease, and make periodic lease payment to the purchaser-lessor'. In South Africa firms that own certain assets and wish to raise funds, commonly use sale-and-leaseback arrangements (Correia et al, 1989:563). The sale-and-leaseback increases the firm's liquidity by transforming its assets into cash in exchange for an obligation to make a series of fixed future payments to the purchase-lessor (Moyer et al, 1988:501). The providers of capital in a lease agreement could be an insurance company, a commercial bank, a specialized leasing company, the finance arm of an industrial firm, or an individual investor (Brigham & Garpenski 1990:547). According to Reekie and Lingard (1986:38), a number of companies that have stores in the central business districts (CBDs) have engaged in sale-and-leaseback arrangements, and there are usually ready buyers among financial institutions who are keen to add to their property portfolios.

3.5 SMALL BUSINESS DEVELOPMENT CORPORATION FUNDING OF SMALL BUSINESSES

3.5.1 Introduction

The idea of establishing the Small Business Development Corporation (SBDC) emerged during the Carlton deliberation between the government and the private sector on 22 November 1979. The SBDC is a public company of which shares are held equally by the state and the private sector (van Niekerk 1988:281). The SBDC makes use of flexible guidelines that are based on sound business practice to determine whether a small business qualifies for assistance under the different SBDC financing packages. These guidelines are listed below

(Falkena et al, 1987:190):

- A business should be independent and be unable to obtain finance on the open market.

- A business should be economically viable, taking into account the experience, knowledge, management ability of the entrepreneur, and the profit objective of the business.

- A business should be located within the rand monetary area and be involved in the manufacturing, commercial or service sectors.

Falkena et al (1987:190) further points out that the SBDC does not attempt to compete with existing financial institutions but sees its role as supporting small businesses that are unable to obtain finance on the open financial markets. The SBDC has a number of financial assistance schemes with different characteristics. These financial assistance schemes are discussed in the following paragraphs.

3.5.2 Mini-loan Programme

The Mini-loan Programme is for the very small business that needs money urgently in the short-term. The amount needed must not exceed R5 000 (Anon 1989:3). The applicant's ability to repay the loan and proof of active involvement in the business are taken into account when granting the loan. The maximum repayment period is 24 months and formalities with regard to this scheme have been reduced to a minimum and simplified as far as possible (Falkena et al, 1987:190).

3.5.3 Comprehensive Assistance Programme

The Comprehensive Assistance Programme is designed for the special requirements of informal and semi-formal small business operating from a fixed address. The maximum amount granted is R50 000 (Anon 1989:3). The programme plays an important role in establishing new enterprises and upgrading existing ones, especially in lesser developed urban and rural areas (Falkena et al ,1989:191).

3.5.4 Suppliers Guarantee Scheme

The purpose of the Suppliers Guarantee Scheme is to enable a small business to establish credit-worthiness with its suppliers. The SBDC guarantees payment for the goods supplied in the event of bankruptcy of the business and a credit limit is set for the buyer (Falkena et al, 1989:191).

3.5.5 General Finance Programme

The General Finance Programme provides direct financing to existing or new businesses in the industrial, commercial or service sectors by means of share capital, loans and instalment sale agreements. The loan may not exceed R1 million and the interest rates applicable fluctuate according to governing market rates and cash flow projections (Anon 1989:3). Security for the loan can be provided through mortgage bonds on fixed property, notarial bonds on movable assets, instalment sale or lease agreements, cession of book debts, insurance policies, building contracts, rental or occupational rights, pledges of fixed deposits or shares, and sureties from third parties (Fakena et al ,1989:192).

3.5.6 Small Business Support Fund

The Small Business Support Fund provides support to small businesses in the commercial, industrial or service sectors if the existence of a business is threatened by external circumstances outside its control. In exceptional cases the loan can be used to prevent the liquidation of a business provided that the creditors agree to this (Anon 1987:3). According to Falkena et al (1987:192), a business must satisfy the following conditions in order to qualify for the fund:

- The business must be economically viable in the long-term.
- Financing problems should be of a short-term nature and be caused by unusual economic circumstances.
- The business should contribute to the development of the local community by providing employment opportunities.
- The business should have exhausted all channels of obtaining finance on the open financial markets.

Members of close corporations and directors of companies are required to stand surety and the interest rate applicable to the fund is determine by circumstances, potential for recovery and the risk attached to the loan (Anon 1989:3).

3.5.7 Small Builders' Bridging Fund

This fund provides bridging finance to small builders in the form of short-term loans that make cash available to builders until they are paid for their work. Builders must be able to prove that their work is of a high standard. The interest applicable fluctuates according to ruling market rates (Anon

1989:3).

3.5.8 Bank Indemnity Scheme

The Bank Indemnity Scheme is a means whereby indirect financial assistance is provided through banks as the SBDC guarantees up to 80 per cent of the facilities granted to the entrepreneur by the bank. The Bank Indemnity Scheme also makes provision for the erection of business premises by the entrepreneur. The interest rate of the scheme is determined by the relevant bank (Falkena et al, 1989:193).

3.5.9 Small Business Start-up Fund

The Small Business Start-up Fund is a special financial arrangement for entrepreneurs who want to start a small business for the first time and also for established entrepreneurs with new ideas. The requirements are that the enterprise must be new or, in the case of an existing business, be a separate project to handle a new product. There are favourable security preconditions, interest rates and a deferred capital 'repayment help' during the infancy period (Anon 1989:3).

3.6 VENTURE CAPITAL FINANCING

According to Weston and Brigham (1981:993), the development of specialized venture capital financing sources is as a result of small business. The growth potential and the risk factor of small business (small business faces greater risks than any other type of business) requires a special type of financing. Keown et al (1985:751) point out that venture capital has increasingly become a major source of financing for small businesses. It is not easy to define venture capital financing as venture capitalists have a broad range of interests and activities. Ames and Wellsfry (1983:175) describe venture capitalists as banks, insurance companies, other financial institutions, large corporates and private groups of individuals who invest in new or expanding businesses in the hope of getting a return on their money as the business grows and prospers. A key attribute of venture capital investment, as stated by Schwenke (1992:1), is that venture capital is a long-term investment that often requires a period of five to ten years before any significant returns are realized.

Collier, Cooke and Glynn (1988:263) and Keown et al (1985:751) categorize venture capitalists according to the following spectrum of investment interest:

- They provide finance for any high risk financial venture.

- They provide seed or start-up capital. Such financye is provided at the earliest stage of the venture with the objective of turning ideas into marketable products or services.

- They provide finance to a business that is unable to raise capital from conventional sources.

Collier et al (1988:264) indicate that the venture capital market in the United States is estimated to be the biggest in the world and that the use of venture capital in the United Kingdom and in Europe is increasing rapidly. Morkeff (1985:12) quotes *The Economist* in reporting that the use of venture capital in Japan is mushrooming.

According to Steinhoff and Burgess (1986:125), for a small business to apply for venture capital finance the entrepreneur must develop a business plan, financing budgets, and proforma statements for the future. The firm providing venture capital will scrutinize the current and past financial records of the business and closely assess management capabilities, uniqueness of product or service, potential market share, and potential business growth (Redingbough & Neu, 1980:360; Steinhoff & Burgess, 1986:125). Venture capitalists may, as Keown et al (1985:751) points out, insist on an agreement similar to the protective restrictions of bank loans in order to protect themselves should the financial estimates of the business not materialize as expected.

Schwenke (1992:4) categorizes venture capitalists in South Africa in three ways:

"- The brokers (excludes stockbrokers operating on the JSE)

There are presently many financial broking firms that offer a service to entrepreneurs who need money, where for a fee they will prepare a prospectus for that entrepreneur. The broker undertakes to registerthe prospectus with the Registrar of Companies and to then, for a substantial commission, hawk the shares around to the general public. Often these brokers, professional share sellers, are motivated by the commission they will earn, and they are often not experts in the field of business evaluation nor do they always have the exact facts with regard to the business. However, they are usually well trained and have the necessary hype with which to entice the investor to purchase shares. It does happen that the general public buy shares in businesses that have little potential and very often the general public pay too much for these shares.

- The occasional investor

Within this category are found some of South Africa's most reputable entrepreneurial firms. Names such as Columbia and certain of the merchant banks immediately spring to mind. These companies usually think of themselves more as investment bankers than as venture capital funds, but they are certainly responsible for much of the venture capital that has been done in South Africa in the last decade.

- The true venture capital funds

These are investment funds whose mission it is to invest into new and emerging businesses. In South Africa there are a few such funds. An example was the New Company Investment Group which is a Venture Capital Fund structured much like the American funds. This fund obtained its finance from private investors. The fund was professionally managed and the functions of the fund managers were to source, evaluate and structure projects and once approved by the board of directors of the fund, such projects were implemented and monitored on an ongoing, hands-on basis. Technifin (an IDC and CSIR joint venture) is an active fund providing equity financing to technology based businesses".

Morfett (1985:76) identifies and examines the potential of the informal venture capital sector as a source of funding for entrepreneurs in South Africa. Morfett (1985:1) defines informal venture capitalists as those individuals or organizations that invest in entrepreneurial ventures as a sideline, as these investments do not comprise their major business activity. In the USA informal risk capital represents the largest pool of available risk capital and informal risk capital investors play a vital role in filling the gaps left by professional venture capitalists.

3.7 INFORMAL MONEY MARKET FINANCING

3.7.1 Introduction

Struwig (1992:1) describes the informal money market as 'a communication system between individuals and informal institutions interested in the short-term movement of money'. According to Struwig (1992:1), a number of informal lending mechanisms, such as professional money lenders, informal credit arrangements, voluntary credit societies and informal savings associations. Informal financial institutions differ from formal financial institutions both in size and in that they avoid taxes and official regulations. Informal financial lending is found not only in South Africa but also in other developing countries. In Niger, informal credit accounts for 84 per cent of total loans (Anon, 1989:113) and in Cameroon about 70 per cent of the adult

population participates in informal financial associations (Struwig 1992:1). In Thailand the informal credit sector continues to thrive despite the fact that the interest rates charged are many times higher than in the formal sector and despite increased access to government credit (Siamwalla, Pinthong, Pvapongsakorn, Satsanguan, Nettayarak, Mingmaneenakin & Tubpun, 1990:271). Informal money lenders and stokvels as institutions operating in the informal money market are discussed below.

3.7.2 The Stokvel

A stokvel is a type of credit union in which people enter into an agreement to contribute a fixed amount of money to a common pool weekly, fortnightly or monthly (Lukhele 1990:1). In the United Kingdom a credit union is defined as a co-operative society that offers its members loans from the pool of savings built up by members themselves and is formed by people with a common interest or bond (Hinton 1989:76). Likewise, the money contributed to a stokvel is available to members either on a rotational basis or in time of need. The main purpose of a stokvel is to provide mutual financial assistance to its members (Struwig 1992:3). Rotating savings and credit associations resembling a stokvel are a popular form of informal finance in other countries and are referred to as *Tanda* in Mexico, *Pasianaku* in Bolivia, *Sun* in Dominican Republic, *Syndicate* in Belize, *Gamaiyah* in Egypt, *Isusu* in Nigeria, *Susu* in Ghana, *Tontins* in Niger, *Chit fund* in India, *Hui* in China and *Ko* in Japan.

A rotating savings and credit association is typically formed by a small number of individuals who elect a leader to collect a given amount from each person. The money collected (the funds) is then given to each member of the group on a rotational basis (Anon, 1989:114).

Lukhele (1990:25) lists the following as the possible advantages of a stokvel:

- It provides the means to purchase goods in bulk.
- It provides the means to acquire a business.
- It helps pay funeral expenses.
- It is a means of saving.

Burial societies (Makgotlas), umgalelo clubs, youth stokvels and investment syndicates or clubs are the various types of stokvel that operate in South Africa (Lukhele 1990:16). As far as the financing of small businesses is concerned, the investment syndicates or clubs are the most important. Lukhele (1990:19) describes an investment syndicate or club as a type of stokvel aimed at establishing a joint undertaking. Members subscribe funds to start-up a

joint business or to invest as a group in a business. The Southern African Black Taxi Association Foundation is, according to Lukhele (1990:26), the most successful financing scheme and is similar to a stokvel in that members contribute to a fund and can, in turn, borrow well above the amount that they contribute or have contributed to purchase taxis. Lukhele (1990:35) further points out that default on loan repayments is generally rare because stokvels rely for their survival on trust, and most members are carefully selected. A form of 'social credit' rating is at risk for a member who does not fulfil his/her commitments to the stokvel.

3.7.3 Money-lenders

Money-lenders (mashonisas), referred to by Lukhele(1990:21), extend short-term loans to clients of long standing. Such loans are rarely tied to any collateral. Interest rates are normally high and most money-lenders use their own funds for lending. In order to meet the demand for timely and convenient loans, money-lenders maintain adequate liquidity. This means that much of their funds may lie idle during a slack period (Anon 1989:114). Bell (1990:312) states that money-lenders solve the problem of adverse selection by confining their lending to known clients although they also do make the relevant investment in building up a clientele and adding to it when the occasion looks promising. It is costly for borrowers to switch from one lender to another because of the fact that money-lenders prefer to deal with known clients and take on new ones reluctantly. Anderson (1992:7) also mentions that money-lenders prefer their clients to have the security of fixed employment. Collection is on pay-day. Many borrowers with access to formal credit may borrow from money-lenders if formal lenders take too long to process an application. When the funds from formal lenders or institutions finally arrive these are used to repay the informal money-lender (Anon 1989:114).

Money-lenders reduce transaction costs and risk in ways denied to formal institutions, because they can operate out of their own homes or on the street, maintain only the simplest accounts, and mix finance with other business. Also, the services they provide are outside the review and control of the monetary authorities and this allows informal money-lenders greater flexibility (Anon 1989:113). Bell (1990:321) identifies the following factors as limiting arbitration between formal insti-tutional lenders and money-lenders who charge high interest rates :

- Access by individuals to loanable funds from formal institutions is limited.

- Re-lending requires inside knowledge of the borrowers and the cost of acquiring such information is reflected in the interest rates charged by money-lenders as against that charged by formal

institutions.

The importance of money-lenders in providing finance is illustrated by the fact that for the past 40 years government intervention in rural credit markets in developing countries has failed to drive money-lenders out of business (Hoff & Stiglitz (1990:235). Money-lenders continue to charge high interest rates.

3.8 CONCLUSION

In this chapter the different finance sources available to small businesses is considered. The cost of finance consists mostly of the interest rate that can either be fixed or variable and may by linked to the prime rate. The interest rate on informal finance provided by money-lenders is normally higher than interest charged by formal financial institutions. Trade credit as a source of short-term finance does not normally involve direct interest payment. Instead, a business can benefit by taking advantage of the discount offered on early settlement of the account. The cost of revolving credit can also include a commitment fee charged on the amount not yet utilized by the business. The cost of lease financing is the monthly payments that include finance charges over the period of the lease obligation. The cost of long-term loans may include the cost of drafting the loan contract.

Providers of finance will, in most cases, insist on collateral for security for the money advanced. There is also a reluctance to provide finance where the entrepreneur does not contribute own capital. Certain provisions are incorporated into the loan agreement to protect the funds advanced. These provisions outline certain actions that the borrower agrees to take during the term of the loan, and actions that the borrower agrees not to take without the consent of the lender, and also outline default provisions that permit the lender to insist on immediate repayment of the entire loan.

From a liquidity point of view it is best to finance variable capital requirements with short-term funds and permanent capital requirements with long-term funds. A business can also make use of medium-term financing to meet permanent capital requirements as a temporary measure until long-term finance is available. Table 3.1 illustrates the alternative sources of financing available to small businesses.

able 3.1: ALTERNATIVE SOURCES OF FINANCE AVAILABLE

A:	Sources of finance in the formal sector
	Short-term sources - Trade credit - Bank overdrafts - Revolving credit - Factoring
	Medium-term sources - Medium-term loans - Instalment sales - Leasing
	Long-term sources - Own capital - Long-term loans - Sale-and-leaseback
	Other sources - Small Business Development Corporation - Mini-loan Programme - Comprehensive Assistance Programme - Suppliers Guarantee Scheme - General Finance Programme - Small Business Support Fund - Small Builders' Bridging Fund - Bank Indemnity Scheme - Small Business Start-up Fund - Venture Capital
B:	Sources of finance in the informal sector
	- Stokvels - Money-lenders

In the next chapter, the methodology used for the empirical research and the results of the empirical research is discussed in detail.

CHAPTER 4

RESULTS OF EMPIRICAL INVESTIGATION

4.1 INTRODUCTION

In Chapter 2 the definition of a small business is formulated. The role of small businesses in the economy, the managing of small businesses, specific problems experienced by small businesses, capital requirements and financing of small businesses were discussed. In Chapter 3 the various sources of short, medium and long-term finance available to small businesses are discussed.

In this chapter the results of the empirical research are analyzed. Struwig (1991:157) states that research is valid if it measures what it sets out to measure and that a properly planned research design should ensure that the purpose and objectives of the study are achieved. The objectives of this study as set out in Chapter 1 are as follows:

- To identify the factors that influence the capital requirements before any financing can be obtained.

- To determine what sources of finance are actually used by small businesses in the Greater Soweto Area.

- To determine to what extent small businesses make use of informal sector financing and the reasons for doing so.

- To identify financing problems that are actually experienced by small businesses in this area.

This chapter also discusses the sample design which specifies the survey population, the sampling frame, the sample size, and the sampling procedure used in this study. The questionnaire design and the data collection procedure are also be outlined.

4.2 SAMPLE DESIGN

Chisnall (1992:90) suggests that, since sample design is an integral part of the total research design, great care should be taken at every stage in the development of suitable samples. Churchill (1992:456) outlines the following six-step procedure for drawing a sample.

- The first step involves defining the population.

- In the second step the sampling frame is identified.

- In the third step a sampling procedure is selected.

- The fourth step involves determining of the sample size.

- The fifth step entails selecting of the sample elements.

- The final step is the collection of data from the designated elements.

All the above steps will be discussed in the following paragraphs.

4.2.1 The definition of the population

The population is a collection of elements or units about which the researcher wishes to make an inference (Churchill, 1992:456) or it is the aggregate of elements from which the sample is drawn (Kress, 1988:174; Nel, Rädel & Loubser, 1988:291). According to Struwig (1991:158), a proper definition of the target population is important in order to address the problem statement of the study. Three points are mentioned by Dillon, Madden and Firtle (1987:267) concerning defining the target population.

- Firstly, the target population must be consistent with the objectives of the study, in other words, it must be possible to achieve the objectives using the selected target population.

- Secondly, any other qualities that respondents must have in order to be included in the sample must be clearly specified.

- Thirdly, all decision rules for inclusion or exclusion of respondents must be clearly explained.

In this study the target population is small businesses in the Greater Soweto Area. Small businesses must satisfy the quantitative and other measures as defined in Section 2.2 and tabled in Table 2.2. Small businesses in the informal sector are excluded from the study because of the problem of identifying businesses in this sector (refer Section 1.5); i.e. identifying the population, unavailability of a sampling frame and difficulty in locating informal businesses.

4.2.2 The identification of the sampling frame

A sampling frame is the listing of the elements or units from which the actual sample will be drawn (Churchill, 1992:456; Kress, 1988:174). Nel, et al

(1988:267) suggest several requirements that a reliable sampling frame should meet, but points out that nearly every sampling frame has inherent weaknesses. These requirements are the following:

- The sampling frame must represent all the elements and all the strata of the population.

- The sampling frame must be up to date.

- Each entry in the sampling frame must be complete and correct in every detail.

- There may be no duplication of entries.

- The sampling frame must be accessible and the information must be arranged in such a manner that a sample can be drawn from it.

- Ideally, the sampling frame should contain additional information that facilitates stratification.

For the purpose of this study a list of all businesses in the formal sector in the Greater Soweto Area was obtained from the Soweto Council. The list is a list of all businesses, big and small, that are registered with the Council. Care was taken to exclude obvious big businesses from the sampling frame, based on the researchers's knowledge of the area. The list contained information that facilitated stratification of the businesses into the various business sectors as indicated in Table 4.1.

4.2.3 Size of the sample

Determining the sample size is generally quite difficult (Dillon et al, 1990:317) and is a complex matter (Churchill, 1992:512). Researchers disagree on the guidelines for determining the number of elements to include in a study (Cates, 1985:62). Struwig (1991:166) notes that although there are statistical formulae available to compute a specific sample size, such formulae are of little use even to experienced researchers.

Nel et al (1990:303) provide the following formula for calculating the sample size:

$$\sqrt{n} = \frac{\delta}{\delta x}$$

where: δ = the standard deviation of the population
δx = the standard deviation of the sampling distribution
n = the sample size

Furthermore:

$$\delta x = \frac{E}{Z}$$

where: E = allowable error, i.e. the maximum that the sample mean should vary from the population mean

Z = the number of standard deviation units in the normal distribution that will yield the desired level of confidence (for a 95% confidence level $Z = 1,96$)

therefore:

$$n = \frac{\delta^2 \times Z^2}{E^2}$$

To use this formula the researcher still has to estimate δ and decide on E. Nel et al (1990:304) state the following methods of estimating δ:

- The standard deviation of previous similar studies may provide an indication of the population standard deviation.

- A pilot survey can be used to estimate the standard deviation of the population.

- An estimate of the standard deviation of the population can be made if use is made of the fact that 99,73 per cent of the elements of the population will fall within the spread of $\pm 3 \times \delta$. An estimate of the range (difference between the highest and lowest score) is made and the population δ is calculated as follows:

$$\delta = \frac{\text{range}}{6}$$

As indicated above, using this formula to determine the sample size still leaves the researcher with some unknown entities. Furthermore, most research projects include many variables and using this formula will yield different sample sizes for the different variables. If calculations for the different variables are done using this formula, the largest sample size calculated in this manner can be used. Alreck and Settle (1985:93) point out that in such a case the largest sample size may be larger than what is required for all but a few of the variables.

However, if this formula is applied in the case of this research with the assumptions as shown below, a sample size can be derived at.

Assume: Range of turn-over = R 990 000 (10 000 - 1 000 000)
A 95 per cent confidence level, that is for $Z = 1,96$

An E value of R 16 000

By using these values, a sample size of 408 is obtained.

According to Fraenkel and Wallen, (1990:79) researchers should try to obtain as large a sample as is practically manageable. Further, Kerlinger (1986:119) notes that large samples are advocated in order to allow the principle of randomness a change to work and to illuminate the problem of selecting deviant samples associated with small samples. Sommer and Sommer (1986:201) are also of the opinion that large samples provide more reliable and representative data than small samples while Cates (1985:62) suggests that for survey research the sample should constitute ten per cent of the population. From a population of 1 000 elements a sample of 250 elements is, according to Fraenkel and Wallen (1990:79) a large sample. This represents about 25 percent of the population.

Walizer and Wiener (1978:433) provide a table from which the size of a sample can be determined if a decision is made on the allowable percentage of times an error can occur in drawing a random sample of a specified size as well as the degree of accuracy required for the research under consideration. If both of the aforementioned criteria are set at the 5 per cent level, the reading on the table indicates a sample size of 384.

Considering the above, it was decided that 400 businesses from the sample frame would be included in the sample. The 400 constitute 19,85 per cent of the population. This decision is based on the suggestions by Cates (1985:62) and Fraenkel and Wallen (1990:79) as mentioned above and on the above calculation of sample size.

It should, however, be remembered that conclusions about a population based on a sample are never totally satisfactory, since researchers can never be sure that their sample is perfectly representative of the population (Fraenkel & Wallen, 1990:79). This is so even though statistical tests may be applied since, at best, the tests are only valid to the extent of the confidence level decided on.

4.2.4 Sampling procedure

A proportionate stratified sample of 400 small businesses was drawn from the sample frame of 2 015 small businesses. Churchill (1992:495) defines a proportionate stratified sample as a sample in which the number of observations in the total sample is allocated among the strata in proportion to the relative number of elements in each stratum in the population. Furthermore, Churchill (1992:488) points out that a stratified sample is a probability sample that is distinguished by the following two steps:

- Firstly, the parent population is divided into mutually exclusive and exhaustive subsets or strata.

- Secondly, a simple random sample of elements is chosen from each strata independently.

According to Parasuraman (1991:512) proportionate stratified random sampling results in a lower sampling error than simple random sampling for a given sample size. This is so because it offers the possibility of greater accuracy by ensuring that the groups that are created by the stratification criteria are represented in the same proportions as they occur in the population (Bryman & Cramer, 1990:101). The number of elements in each stratum for this research is given in Table 4.1.

Table 4.1: STRATIFIED SAMPLE OF SMALL BUSINESSES IN THE GREATER SOWETO AREA

Strata	Number of businesses	Percentage	Number selected
1. Bottle Stores	30	1 *	6
2. Butcheries	185	9	37
3. Coal Yards	208	10	41
4. Dry Cleaners	60	3	12
5. Filling Stations	41	2	8
6. Fish & Chip Shop	114	6	23
7. Fruit Shops	138	7	27
8. Funeral Parlours	39	2	8
9. General dealers	809	40	161
10. Hardware stores	69	3	14
11. Herbalists	28	1	6
12. Others	293	15	58
Total	2 015	100	400

(* Percentages and numbers selected are rounded to the nearest whole number)
Source: Soweto Council

The "other" in the above table includes all those types of small business that make up less than one per cent of the total.

4.3 THE EMPIRICAL RESEARCH DESIGN

4.3.1 Introduction

Dillon et al (1987:176) describe a survey as a method of collecting information from a sample of respondents in order to learn something about a population from which a sample of respondents is drawn. Nel et al (1990:142) indicate that there are no fixed guidelines as to which method for collecting information a researcher can use. The researcher must collect information as accurately and unambiguously as possible and at a reasonable cost. (Nel et al, 1990:142).

The technique for collecting primary data best suited to this research is the personal interview using a questionnaire and conducted by field workers. Kress (1988:87) argues that although personal interviews are expensive, they have a higher response rate because it is not that easy for respondents to refuse a request from a person standing in front of them.

The design of the questionnaire used in this study is discussed in the following section.

4.3.2 Questionnaire design

Designing questionnaires is still an art and not a science (Churchill, 1992:328), as there are no rules to be followed to ensure a perfect questionnaire (Parasuraman, 1991:364). Parasuraman (1991:363) defines a questionnaire as "a set of questions designed to generate the data necessary for accomplishing a research project's objectives".

The questionnaire in this study is divided into three different sections. Section A contains questions concerning the personal information about the respondent. Section B contains questions aimed at determining whether the business can be regarded as small in terms of the criteria for classifying small businesses (see Section 2.2). Section C of the questionnaire contains questions aimed at determining the criteria used by small businesses in deciding on the level of total investments, the plans and statements prepared by small businesses to determine total capital requirements, questions to determine the sources of finance used by small businesses and the reasons why it is difficult to obtain finance.

In evaluating questions for inclusion in the questionnaire, the following three questions considered by Weiers (1988:261), were used:

- Is the question really necessary in view of the objectives of the research study?

- Will the respondent be willing and able to provide the information required?

- Does the question adequately cover the content area for which it is responsible?

According to Kinnear and Taylor (1987:411), after issues relating to the content of the questionnaire have been analyzed, the next issue concerns the response format (that is the type of questions to use). Kinnear and Taylor (1987:411) describe three types of questions ranging from structured to unstructured response formats:

- Open-ended questions which require the respondent to provide their own answer to the question.

- Multiple-choice questions which require the respondent to choose an answer from a list provided in the questionnaire.

- Dichotomous questions which are an extreme form of the multiple choice question and which allows the respondent only one of two responses, such as either 'yes' or 'no'.

In the questionnaire used for this research a structured response format with both multiple-choice and dichotomous questions was employed. A structured response format have advantages such as comparability of data, accuracy, easier response task and also easily understood dimensions of the answers (Struwig, 1991:171).

Kinnear and Taylor (1987:419) emphasize that the questionnaire for personal interviews in field operations should be numbered serially to facilitate control in field operation and during data processing. This was done in this research.

4.3.3 The data collection procedure

As indicated in section 4.3.1 the survey technique best suited for this study is the personal interview and conducted by field workers using a questionnaire. The personal interview technique of collecting data was used because of its advantage in ensuring 100 per cent response rate and avoiding possible problems with a postal or telephonic survey in the Greater Soweto Area, such as bad postal deliveries and lack of telephone facilities.

The basic unit for which the questionnaire was compiled was the small businesses as it is defined in Chapter 2 of this study. Details with regard to the locations of the small businesses were listed but no personal details of the owners of the businesses were recorded. Anonymity of the respondents and confidentiality of results were ensured in order to elicit honest and reliable answers. A secret code was used to make follow-up easier. The secret code facilitated random checks by the researcher to enable him to locate specific small businesses in order to verify the information given. It also facillitated the work of the field workers when errors were discovered in the responses and they had to return to resolve errors. Although the questionnaire was in English, the field workers asked the questions in the African language preferred by each respondent.

Three fieldworkers were used, including the researcher himself. The other two field workers were selected on the basis of their knowledge of financial

management and their ability to speak most African languages, especially South Sotho and Zulu. The field workers were trained and given a comprehensive outline of the objectives of the research and an extensive explanation of the questions in the questionnaire. The researcher also acted as the controller.

Questionnaires were collected and checked daily and ten per cent of the respondents were again visited to control the information recorded. Each field worker completed four questionnaires per day over a period of 34 days from Mondays to Saturdays.

4.3.4 Reliability of results

Du Plessis and Levin (1989:7) report that as a general rule, it must be kept in mind that properly conducted research can yield useful results, but might not yield unquestionable values. Du Plessis and Levin (1987:7) stated that the following could affect the reliability of results in a survey.

- Sampling error that result from the fact that only a fraction of the population is used. In the case of this study a fairly large proportionate stratified sample of 400 units (19,85% of population) was used. As mentioned by Parasuraman (1991:512), a proportionate stratified random sample result in a lower sampling error.

- Survey errors are errors arising from memory error, misunderstanding of questions or reluctance to answer them. To minimize this care was taken in drawing up the questionnaire and in selecting and training field workers. The quality of data was thoroughly checked by the author.

4.4 ANALYSIS OF RESULTS

4.4.1 Introduction

The results of the 400 questionnaires completed are discussed below. Section A of the questionnaire was included to record the details of the respondents. As stated in section 4.3.3, personal details of the respondents were not recorded but a secret code was used to identify the business. This was done in order to ensure anonymity and confidentiality.

Section B of the questionnaire was included in order to determine whether a business could be regarded as small according to the discussion in Section 2.2.3. The quantitative definition is as stated in Table 2.2. The economic definition of this study is that the small business must be independently owned and managed by the owner(s), have a simple organizational structure and a relatively small influence on the market. Furthermore , some capital must

be provided by the owner(s), the number of people employed must be less than 50, total assets must not exceed R 1 million, and annual turnover must not exceed R 1 million. The discussion of the responses relate to Sections B and C of the questionnaire and will be done in the following sequence:

- Firstly, an analysis of the data is made to prove that all the respondents' businesses are in fact small businesses as defined (see Sections 4.4.2).

- Secondly, an analysis of the data in descriptive form is presented to give an overall picture of the results (see Sections 4.4.3).

- Thirdly, a search for relationships will be undertaken using cross-tabulations, CHI-squire analysis, correlation statistics and linear and multiple regression of dependent against independent variables (see Section 4.4.4).

4.4.2 Analysis of business size

An analysis of the size of the businesses of the respondents was done and the results are tabulated in Table 4.2. From Table 4.2 it can be seen that all the businesses of the respondents meet the criteria for small businesses. It would therefore be in order to include the data for all the respondents in further analyses.

Table 4.2 CLASSIFICATION OF BUSINESSES ACCORDING TO THE CRITERIA FOR A BUSINESS TO BE REGARDED AS SMALL

ITEM	CRITERIUM	OBSERVATION	SMALL YES/ NO
Privately owned	Must be	100 % respondents	Yes
Managed by owner(s)	Must be	100 % respondents	Yes
Some capital supplied by owners	Must be	100 % respondents	Yes
Percentage of capital supplied by owner(s)	> 50 %	100 % respondents	Yes
Number of employees	< ?	Mean 4,63 Std dev. 1,53 Lowest 1,00 Highest 12,00	Yes
Amount of assets	R 1500000 or less	Mean R 323 177 Std dev. R 322 371 Lowest R 0 - R 100 000 Highest R 501 000 - R 1 500 000	Yes
Amount of turnover	R 3000000 or less	Mean R 135 375 Std dev. R 181 590 Lowest R 0 - R 100 000 Highest R 501 000 - R 1 500 000	Yes

4.4.3 Descriptive analysis of the data

4.4.3.1 Number of employees

As indicated in Table 4.2, the maximum number of employees employed by the respondents is twelve, while the minimum number of employees is one. Statistical analysis of the number of employees shows that the mean number of employees is 4,63 with a standard deviation of 1,53. This means that 68,26 per cent of the respondents employ between 3,1 and 6,16 employees while 95,44 per cent of the respondents employ between 1,57 and 7,69 employees. This indicates that a very large proportion of the businesses included in the sample employ less than eight persons.

4.4.3.2 Size of the businesses as measured by their assets

For the purpose of analysing the size of the businesses in respect of the assets employed by the businesses, the scores were converted to midpoints of the size categories so that the resultant figures have a monetary meaning. From Table 4.2 it can be seen that the mean assets are R 323 177 with a standard deviation of R 322 371. Therefore, 68,26 per cent of the businesses in the sample employ assets between approximately R 1 000 and R 967 919.

4.4.3.3 Size of the businesses as measured by their turnover

From Table 4.2 it can be seen that the mean turnover is R 135 375 with a standard deviation of R 181 590. Therefore, 68,26 per cent of the businesses in the sample have a turnover between R 0,00 and R 316 875. The mean turnover to assets ratio is therefore 0,56 which is rather low.

4.4.3.4 The calculation of total capital requirements

Table 4.3 details the results on how often small businesses calqulate their total capital requirements.

Table 4.3 FREQUENCY OF CALCULATION OF CAPITAL REQUIREMENTS

	Quarterly	Half-yearly	Yearly	Multi-yearly
Number	36	122	183	59
Percentage	9 %	31 %	46 %	15 %

Most small businesses (46 %) calculate their capital requirements only once a year, while 31 per cent calculate their total capital requirements twice a year and 15 per cent of do so less than once a year (i.e. multi-yearly). Only a small percentage (9 %) calculate capital requirements on a quarterly basis.

The responses indicate that the majority (85 %) of small businesses calculate their capital requirements once yearly or more frequently. The above does not indicate the division between permanent capital requirements (which include all fixed assets and the minimum working capital for the desired level of activity) and varying capital requirements of which is the additional working capital required when the activity or level of production of the permanent capital requirement is exceeded (refer Section 2.9).

4.4.3.5 Criteria used to decide on the level of total capital investment

Table 4.4 details the responses with regard to the factors considered by small businesses in calculating the level of total capital investment.

Table 4.4 CRITERIA USED TO DECIDE ON THE LEVEL OF CAPITAL INVESTMENT

	Maximise Returns		Liquidity		Solvency		Other	
	No	%	No	%	No	%	No	%
Never	0	0	0	0	0	0	0	0
Sometimes	102	25,5	11	2,75	12	3,00	0	0
Always	298	74,5	389	97,25	388	97,00	0	0
Total	400	100	400	100	400	100	0	0

All (100 %) respondents indicate that they sometimes or always take the maximization of returns, liquidity and solvency into account in their calculation of the level of total investment. The results tally with the objective stated in Section 2.8.3 that in order for a business to achieve a positive financial leverage, liquidity and solvency must be considered. No respondent indicated that his/her business uses any other criteria for this purpose.

4.4.3.6 Plans and statements prepared to determine total capital requirements

Table 4.5 details responses with regard to plans and statements prepared by small businesses to determine total capital requirements.

Table 4.5: PLANS AND STATEMENTS PREPARED TO DETERMINE TOTAL CAPITAL REQUIREMENTS

	Business Plans		Budgets		Projected Income statements		Projected Balance Sheets		Projected Capital Req.	
	No	%	No	%	No	%	No	%	No	%
Never	163	40,75	0,00	0,00	184	46,00	184	46,00	380	95,00
Sometimes	211	52,75	185	46,25	167	41,75	167	41,75	20	5,00
Always	26	6,50	215	53,75	49	12,25	49	12,25	0	0,00
Total	400	100,00	400	100,00	400	100,00	400	100,00	400	100,00

The above table indicates that budgets are the statements prepared the most by the respondents in that 100 per cent of the respondents prepare budgets falling either into the 'sometimes' (46,25 %) or the 'always' (53,75 %) category. Radder (1988:137) found that 75,6 per cent of black small businesses in Port Elizabeth make use of budgets, while Holmes and Nicholls (1988:61) in their study of 938 Australian small businesses have found that 48,3 per cent of the respondents never make use of written budgets in planning capital requirements. The figure of 100 per cent of businesses that make use of budgets, as indicated by this research, would therefore appear to be high.

This may be due to a sampling error in that the interviewers did not explain to the respondents that the question refers to formal budgets or that the respondents did not understand the question (see also Section 4.4.3.4).

The next most frequently prepared financial statement is the projected income statement and the projected balance sheet (12,25 % 'always' and 41,75 'sometimes'). Holmes and Nicholls (1988:61) have found that only 14,5 per cent of respondents prepare balance sheets and profit and loss statements internally, but that 69,3 per cent seek outside help from accountants for the preparation of these statements.

Business plans are prepared by 59 per cent of the respondents (52,75 % 'sometimes' and 6,25 % 'always'). This result is in strong contrast to the findings of Potgieter (1993:17) that only 20 per cent of respondents give any attention to a business plan, while Holmes and Nicholls (1988:61) have found that only 25,8 per cent of respondents draw up a business plan. Again, the high percentage of respondents that indicated that they prepare a business plan compared to the findings of both Potgieter (1993:17) and Holmes and Nicholls (1988:61) may be due to a sampling error. The projected capital requirement schedule is only sometimes prepared by five per cent of the respondents.

It can therefore, be concluded from the above that most small businesses in the Greater Soweto Area do draft budgets to determine capital requirements and projected income statements and balance sheets to summarize the requirements.

4.4.3.7 Types of short-term finance used

Table 4.6 indicates the type of short-term finance used by small businesses in the Greater Soweto Area.

Table 4.6: TYPE OF SHORT-TERM FINANCE UTILIZED

	Trade credit		Bank overdraft		Revolving credit		Factoring of debtors	
	No	%	No	%	No	%	No	%
Never	3	0,75	253	63,25	146	36,50	398	99,50
Sometimes	81	20,25	120	30,00	147	36,75	2	0,50
Always	316	79,00	27	6,75	107	26,75	0	0,00
Total	400	100,00	400	100,00	400	100,00	400	100,00

Small businesses make use of short-term finance as follows: trade credit 99,25 per cent ('sometimes' 20,25 % and 'always' 79 %); bank overdraft 36,75 per

cent ('sometimes' 30 % and 'always' 6,75 %); revolving credit 63,50 per cent ('sometimes; 36,75 % and 'always' 26,75%); factoring of debtors 0,5 per cent.

Therefore, it can be concluded from the above that trade credit is the most frequently used source of short-term finance in the Greater Soweto Area. This is followed by Revolving credit (63,5 %), bank overdraft (36,75 %), and lastly, factoring of debtors (0,5 %). Factoring of debtors cannot be regarded as a source of finance used by businesses in this area because of the small percentage of businesses using it. The use of revolving credit and bank overdrafts indicates that small businesses in the Greater Soweto Area do make use of services provided by formal financial institutions.

4.4.3.8 Types of medium-term finance used

Table 4.7 lists the type of medium-term finance used by small businesses in the Greater Soweto Area.

Table 4.7: TYPES OF MEDIUM-TERM FINANCE UTILISED

	Medium term loans		Leasing		Instalment sales (HP)	
	No	%	No	%	No	%
Never	154	38,50	241	60,25	57	14,25
Sometimes	178	44,50	107	26,75	318	79,50
Always	68	17,00	52	13,00	25	6,25
Total	400	100,00	400	100,00	400	100,00

Medium term loans are used by 61,5 per cent (44,5 % 'sometimes' and 17% 'always'); leasing 39,75 per cent (26,75 % 'sometimes' and 13 % 'always'); and the most frequently used source of medium-term finance is instalment sales with 85,75 per cent use (79,50 % 'sometimes' and 6,25 % 'always').

It can be concluded from the above that most small businesses (85,75 %) finance their medium-term requirements by means of instalment sales. Businesses also finance some of their medium-term requirements by means of lease agreements.

4.4.3.9 Types of long-term finance used

In section 3.4.1 it was indicated that the long-term sources of finance that should be available to small businesses are own capital, long-term loans and sale-and-leaseback. Table 4.6 tabulates the types of long-term finance actually used by small businesses in the Greater Soweto Area.

Table 4.8: LONG-TERM FINANCE USED

	Own capital		Long-term Loans		Sale and leaseback		Venture capital		SBDC Loans	
	No	%	No	%	No	%	No	%	No	%
Never	0	0,00	18	4,50	327	81,75	310	77,50	131	32,75
Sometimes	0	0,00	330	82,50	63	15,75	88	22,00	203	50,75
Always	400	100,00	52	13,00	10	2,50	2	0,50	66	16,50
Total	400	100,00	400	100,00	400	100,00	400	100,00	400	100,00

Venture capital is also included in long-term loans because, according to Schwenke (1992:1), venture capital is a long-term investment that often requires a period of five to ten years before any significant returns are realized.

Own capital is utilized by 100 per cent of the businesses, followed by long-term loans at 95,5 per cent (82,5 % 'sometimes' and 13 % 'always'); then SBDC loans at 67,25 per cent (50,75 % 'sometimes' and 16,50 % 'always'). Then venture capital at 22,5 per cent with the least used source of finance sale-and-lease back at 18,25 per cent (15,75 % 'sometimes' and 2,5 % 'always').

Table 4.6 also indicates that all although small businesses rely on their own capital to finance their businesses, they also use long-term loans as sources of finance.

4.4.3.10 Types of informal financing used

Informal money lenders and stokvels are institutions operating in the informal money market (see Section 3.7). Table 4.9 indicates the type of informal finance used by small businesses in the Greater Soweto Area.

Table 4.9: TYPES OF INFORMAL FINANCING USED

	Stokvel loans		Money lender's loans	
	No	%	No	%
Never	152	38,00	375	93,75
Sometimes	246	61,50	25	6,25
Always	2	0,50	0	0,00
Total	400	100,00	400	100,00

Table 4.7 shows that 62 per cent (61,5 % 'sometimes' and 0,5 % 'always') of small businesses make use of stokvel loans. This indicates that a large percentage of owners of small businesses do belong to a stokvel. The type of

stokvel referred to is the investment stockvel described by Lukhele (1990:19) as a type of stokvel aimed establishing a joint undertaking, that is, members subscribe funds to start-up a joint business or make a joint investment. This type of financing could also be attractive owing to the low rate of default as pointed out in Section 3.7.2. The response also indicates that loans from money lenders are not an attractive form of financing in Soweto. This shows that, despite Hoff and Stiglitz's (1990:235) assertion that money lenders are important in providing finance in rural credit markets of developing countries, the money lender is not an important source of finance in the Greater Soweto Area.

4.4.3.11 Reasons for using informal financing

One of the secondary objectives of this study is to determine to what extent small businesses in the Greater Soweto Area make use of informal financing and the reasons for doing so. Table 4.10 reflects the reasons why businesses make use of informal financing.

Table 4.10: REASONS FOR USING INFORMAL FINANCE

Reasons	Percentage	
	Yes	No
1. No formal requirements	98,75 %	1,25 %
2. No security required	99,25 %	0,75 %
3. Could not obtain funds from financial institutions	66,50 %	33,5 %

As indicated above, 98,75 per cent of the respondents who used informal financing stated that they preferred or used informal finance because no formal requirements are necessary which is not the case when applying for finance from formal financial institutions. In the case of stokvel loans, the only requirement is that the applicant must be a member of the stokvel. The fact that no security is required in the case of informal financing is another reason why small businesses make use of informal finance. A large percentage (66,5 %) of the respondents indicated that they could not obtain funds from formal financial institutions and hence the reason for using informal sector financing.

4.4.3.12 Difficulty in obtaining finance

It was mentioned in section 1.3 that the major factor influencing the establishment and success of small businesses in the Greater Soweto Area is the lack of finance. Table 4.11 indicates the number of small businesses that

have difficulty in obtaining finance.

Table 4.11: BUSINESSES THAT HAVE PROBLEMS OBTAINING FINANCING

	TOTAL	NEVER	SOMETIMES	ALWAYS
NO	400	44	52	304
%	100,00	11,00	13,00	76,00

The responses above show that 89 per cent (13 % 'sometimes' and 76 % 'always') of small businesses in this region have problems obtaining finance. The results support De Coning's (1986:753) investigation of external or environmental factors that influence small businesses in the Greater Soweto Area and confirm the problems identified by Vosloo (1989(d):1) and by Amey (1988:6) mentioned in section 1.3.

4.4.3.13 Reasons why it is difficult to obtain finance

Section 4.4.10 indicates that 89 per cent of small businesses have difficulty obtaining finance. Table 4.12 reflects their responses in this regard.

Table 4.12 REASONS WHY FINANCE IS DIFFICULT TO OBTAIN FROM FINANCIAL INSTITUTIONS

Reasons	Yes	%	No	%
(a) Sources of financing not available	16	4,49	340	95,51
(b) Lack of understanding by banks	226	63,48	130	36,52
(c) Difficulty in supplying information	282	79,21	74	20,79
(d) Discrimination by banks	302	84,83	54	15,17
(e) Owners capital contribution low	174	48,83	182	51,12
(f) Past net profits too low	44	12,36	312	87,64
(g) Other borrowed capital too high	76	21,35	280	78,65
(h) Business regarded as too risky	220	61,80	136	38,20
(i) Not aware of existing sources of financing	56	15,73	300	84,27
(j) Lack of managerial skills	157	44,10	199	55,90

Total 356 = 100%

Discrimination by banks (84,83 %) is regarded as the main reason why finance is not obtained from financial institutions. This is followed by difficulty in supplying the required information (79,21 %) and then lack of understanding by banks 63,48 %. This contrasts with the findings (Section 4.3.)7 that about 63 per cent of businesses make use of revolving credit and 36,75 per cent make use bank of overdrafts, the two short-term sources of finance provided by banks. A very small percentage (4,49 %) indicated that financing sources were not available, while 15,73 per cent indicated that they were not aware of existing sources of financing. This shows that small businesses in this area

have no problem in identifying existing finance sources. The reason of too low owner's capital contribution (48,88 %) can also be regarded as an impediment for small businesses in obtaining funds, although in Section 4.2 it was shown that 100 per cent of all small businesses canvassed used own capital. The fact that the businesses are regarded as too risky (61,80 %) is also a reason why finance is difficult to obtain, while too high borrowed capital (21,35 %) is another reason. The low percentage in which the level of borrowed capital is too high could be as a result of the fact that most (100 %) small businesses use a high percentage (> 50 %) own capital. Lack of managerial skills (44,10 %) is a further factor hampering the obtaining of finance.

4.4.4 The search for relationships

4.4.4.1 Introduction

Bryman and Cramer (1990:150) quite rightly state that having examined the distribution of value for particular variables through the use of tables, histograms and associated statistics, a major strand in the analysis of a set of data is likely to be bivariate analysis. This concerns the question of how two variables are related to each other and the annalist will probably be concerned to demonstrate whether two variables are related (Bryman & Cramer, 1990:150), because researchers are mostly interested in relationships among variables (Emory & Cooper, 1991:54).

Bryman and Cramer (1990:150) indicate the following methods that can be used for the search for relationships between two or more variables:

- Cross-tabulation

Cross-tabulation is one of the simplest and most frequently used ways of demonstrating the presence or absence of a relationship between variables (Bryman & Cramer, 1990:150). As indicated by Emory and Cooper (1991:536) the most widely used nonparametric statistical test used with cross-tabulation is the chi-square (χ^2) test of significance. The chi-square test answers the question whether there is really a relationship between the variables or whether the relationship has arisen by chance, for example as a result of sampling error that has engendered an idiosyncratic sample (Bryman & Cramer, 1990:157). Emory and Cooper (1991:536) point out that the chi-square test is particularly useful in tests involving nominal data, that is, data that is measured on a scale that has no order, distance or origin (Emory & Cooper, 1991:172), but which can also be used for data measured on higher scales (Emory & Cooper, 1991:536). Higher scales of measurement are: ordinal data which have order, but no distance or origin; interval data which have both order and distance but no unique origin; and ratio data which have order, distance and a unique origin (Emory & Cooper, 1991:172).

Bryman and Cramer (1990:158) state that the starting point for administering of a chi-square test, as with tests of significance in general, is a null hypothesis of no relationship between the two variables being examined. In order to discern whether a relationship does exist between two variables in the population from which the sample was selected, the null hypothesis needs to be rejected. To be able to do this, a decision should be made as to what significance level to use (Bryman & Cramer, 1990:158). The three most commonly used significance levels are: 0,05, 0,01 and 0,001 (Bryman &. Cramer, 1990:158).

In this research the 0,05 level of significance will be employed. Thus, $p > 0,05$ means that the chi-square value is below that necessary for achieving the 0,05 level of significance. This means that there is more than a five per cent chance that there is no relationship between the two variables in the population (Bryman & Cramer, 1990:161). Alternatively, if $p < 0,05$, the null hypothesis H_o, that there is no relationship between the two variables in the population, can be rejected and the alternative hypothesis H_a, that there is a relationship between the two variables in the population, can be accepted.

The chi-square test of significance is, however not a strong statistical test as it does not convey information about the strength or the direction of a relationship (Bryman & Cramer, 1990:161). Bryman and Cramer (1990:162) point out that chi-square can be unreliable if expected cell frequencies are less than five, although this is a matter of controversy. For this reason, in some of the applications in this research, data categories have been collapsed to increase the expected cell frequencies. The SPSS program used for the analysis prints the number and percentage of such cells for each table generated and for which the chi-square is requested.

- Correlation

Correlation is one of the most important and basic measures of association in the elaboration of bivariate relationships. Unlike chi-square analysis, measures of correlation indicate both the strength and the direction of the relationship between a pair of variables (Bryman & Cramer, 1990:162). The statistic that is calculated in this case is Pearson's Product Moment Correlation Coefficient, also referred to as Pearson's r (Bryman & Cramer, 1990:163). This measure of correlation presumes that interval variables are being used, so that even ordinal variables are not supposed to be employed, although this matter is a matter of some debate (Bryman & Cramer, 1990:163).

Pearson's r varies between -1 and + 1 which indicates the strength and the direction of the relationship. A minus value is a negative or left to right downward slanting relationship while a positive value indicates a positive or left to right upward slanting relationship (Bryman & Cramer, 1990:168). The

strength of the relationship is indicated by the absolute value of r while a zero value would indicate that no relationship exists. Thus, the nearer the value of r is to zero, the weaker is the relationship. However, the closer the value of r is to unity, regarless of whether it has a positive or a negative value, the stronger is the relationship (Bryman & Cramer, 1990:168).

The question thet arises is: what is a large correlation? Bryman and Cramer (1990:168) refer to Cohen and Holliday (1982) who suggest the following: below 0,19 is very low; 0,20 to 0,39 is low; 0,40 to 0,69 is modest; 0,70 to 0,89 is high; and 0,90 to 1,00 is very high. They point out however that these are rules of thumb and should not be regarded as definite indications, since there are hardly any guidelines for interpretation over which there is substantial consensus.

Bryman and Cramer (1990:168) point out that caution is required when comparing computed correlation coefficients, since an r of -0,60 is larger than an r of -0,3, but it is not possible to say that the relationship is twice as strong. To overcome this problem Bryman and Cramer (1990:169) propose the introduction of the coefficient of determination, r^2, which is simply the square of r multiplied by 100. Thus, if r = -0,60, r^2 = 36%. This means that 36 per cent of the variance in one variable is due to the other variable. When r = -0,30, r^2 = 9%. Therefore, although an r of -0,60 is twice as large as one of -0,3, four times more variance is being accounted for by an r of -0,60.

Bryman and Cramer (1990:169) also point out that a high correlation does not indicate causation, since a 49 per cent variation in y due to x also means a 49 per cent variation in x due to y. Which variable is dependent on which other variable is a figment of the researcher's imagination until demonstrated convincingly (Emory & Cooper, 1991:56). More than one other variable may have an influence on what the researcher designates as the dependent variable. In this research, for example, the level of turnover may be caused by both the level of assets as well as the number of people employed by the relevant business.

- Linear regression

Linear regression analysis has become one of the most widely used techniques in the analysis of data in the social sciences and is a powerful tool for summarizing the nature of the relationship between variables and for making predictions of likely values of the dependent variable (Bryman & Cramer, 1990:177). The idea of linear regression is to summarise the relationship between two or more (multiple regression) variables in a regression equation. This equation is called the equation of best fit and can be represented by a simple equation (Bryman & Cramer, 1990:179):

$y = ax + b + e$

Where: y = the dependent variable;
x = the independent variable;
a = the coefficient of x and is equal to the slope of the line and therefore represents the rate at which changes in values of the independent variable (x) affect values of the dependent variable (y).
b = a constant indicating the point where the line intercepts the y-axis;
e = an error term that points to the fact that a proportion of the variance in the dependent variable is unexplained by the regression equation. For the purpose of making predictions the error term is ignored.

As for correlation, the statistic calculated here is Pearson's r which indicates the slope 'a' of the regression line, while r^2 is also employed to indicate the percentage of variance explained (Bryman & Cramer, 1990:184). Bryman and Cramer (1990:185) also point out that outlier, that is extreme values of x or y, can exert an excessive influence on the results of both correlation and regression. For this reason some outlier were eliminated in this research when correlation and regression techniques were used.

In the case of multiple regression the SPSS program also provides a value for the standardised regression coefficient, designated Beta, which provides an indication of the relative influence of the more than one independent variable on the dependent variable (Bryman & Cramer, 1990:244).

Bryman and Cramer (1990:65) state that if variables such as assets or turnover are grouped into categorical intervals, they become ordinal variables. They proceed, however, (p.66) to quote Labovitz (1970) who suggests that almost all ordinal variables can and should be treated (for the purpose of statistical analysis) as interval variables. Labovitz'(1970) argument is that the amount of error that can occur is minimal compared with the advantages that can accrue to the annalist in using correlation and regression as analysing techniques because of their power and ease to interpret. For this research, it was decided to adopt the view of Labovitz as mentioned to above.

In this research, the relationships indicated in Table 4.13 are analyzed. Also shown in Table 4.13 are the dependent variables, the method used for the analysis, the statistical value calculated, the statistics employed, the null hypothesis, the significance test used and the level of significance decided on.

Tables 4.15, 4.16 and 4.17 indicate some further relations investigated. Table 4.15 lists the results of the regression analysis of the relationship between assets and turnover for each of the 12 categories of small businesses included in the sample. Table 4.16 lists the results of a computation of the turnover to assets ratio for all of those respondents that did not indicate whether they know the amount of the assets of their businesses, that is, 192 cases. Table 4.17 lists the results of a computation of turnover per employee for all 400 respondents. The analyses indicated above are not an exhaustive list of analyses that can be performed on the data compiled in this research, but rather are regarded as sufficient for the purpose of this dissertation.

The SPSS was used as the analysing tool for all the analyses done for this research. The rationale for the tests selected was based on Bryman and Cramer's (1990:187) rule of thumb for selecting statistical methods and tests and their classification of variables (Bryman & Cramer, 1990:63) and Emory and Cooper's (1991:172) classification of variables as referred to in Section 4.4.4.1(a). The variables selected are as follows:

- Number of employees which is a ratio variable;
- Size of assets which is a ratio variable;
- Size of turnover which is a ratio variable;
- Frequency of calculation of capital requirements which is an ordinal variable;
- Frequency of preparing a business plan which is an ordinal variable;
- Frequency of preparing a budget which is an ordinal variable.

Thus, only ordinal and ratio variables are analyzed and the tests as listed in Table 4.13 are therefore in order.

Table 4.13: RELATIONSHIPS TO BE ANALYZED

Variables	Dependent variable	Method of analysing relationship	Statistical value calculated	Statistic	Null hypothesis H_0:	Significance test and level of significance
No. of employees (B5) BY size of assets (B6A)	B5	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
No. of employees (B5) BY size of turnover (B6T)	B5	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Size of assets (B6A) BY size of turnover (B6T)	B6T	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Size of turnover (B6T) BY frequency of calculation of capital requirements (C1)	C1	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Size of turnover (B6T) BY frequency of preparation of business plan (C3A)	C3A	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Size of turnover (B6T) BY frequency of preparation of budgets (C3B)	C3B	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Frequency of preparation of business plan (C3A) BY frequency of SBDC loan (C6E)	C3A	Cross-tabulation Correlation	Chi-square Correlation coefficient	Pearson's χ^2 Pearson's r & r^2	No relationship No relationship	Significance of χ^2, $p < 0,05$ Significance of r, $p < 0,05$
Size of assets (B6A) BY size of turnover (B6T)	B6T	Regression	Regression coefficient	a & b r & r^2	No relationship	F-test of significance, $p < 0,05$
Number of employees (B5) BY size of turnover (B6T)	B6T	Regression	Regression coefficient	a & b r & r^2	No relationship	F-test of significance, $p < 0,05$
Number of employees (B5) as well as size of assets (B6A) BY size of turnover (B6T)	B6T	Multiple regression	Regression coefficients	a_1 , a_2 & b r & r^2 Beta = standerdised reg. coeff.	No relationship	F-test of significance, $p < 0,05$ T-test of significance, $p < 0,05$

Table 4.14: RESULTS OF SEARCH FOR RELATIONSHIPS

Analysis No.	Variables	Statistic	Value of statistic	p for each statistic	Conclusion
1.	Number of employees (B5) BY size of assets (B6A)	χ^2 r r^2	13,88 0,25 0,06	0,0309 0,0006	p < 0,05, Relationship exists p < 0,05, Relationship exists
2.	Number of employees (B5) BY size of turnover (B6T)	χ^2 r r^2	16,74 0,15 0,02	0,0103 0,002	p < 0,05, Relationship exists p < 0,05, Relationship exists
3.	Size of assets (B6A) BY size of turnover (B6T)	χ^2 r r^2	23,45 0,64 0,42	0,000 0,000	p < 0,05, Relationship exists p < 0,05, Relationship exists
4.	Size of turnover (B6T) BY frequency of calculation of capital requirements (C1)	χ^2 r r^2	47,44 0,41 0,17	0,000 0,000	p < 0,05, Relation exists p < 0,05, Relation exists
5.	Size of turnover (B6T) BY frequency of preparation of business plan (C3A)	χ^2 r r^2	45,58 0,26 0,07	0,000 0,000	p < 0,05, Relationship exists p < 0,05, Relationship exists
6.	Size of turnover (B6T) BY frequency of preparation of budgets (C3B)	χ^2 r r^2	13,73 0,15 0,02	0,003 0,003	p < 0,05, Relationship exists p < 0,05, Relationship exists
7.	Frequency of preparation of business plan (C3A) BY frequency of SBDC loan (C6E)	χ^2 r r^2	50,82 -0,13 0,02	0,000 0,000	p < 0,05, Relationship exists p < 0,05, Relationship exists
8.	Size of assets (B6A) BY size of turnover (B6T)	a b r r^2	0,49 26,64 0,64 0,42	F = 134,93 Sig = 0,000	p < 0,05, Relationship exists
9.	Number of employees (B5) BY size of turnover (B6T)	a b r r^2	35,06 -26,77 0,30 0,09	F = 38,12 Sig = 0,000	p < 0,05, Relationship exists
10.	Number of employees (B5) as well as size of turnover (B6T) BY size of assets (B6A)	a_1 a_2 b r r^2 Beta a_1 Beta a_2	42,41 0,43 -45,08 0,63 0,39 0,10 0,60	F = 61,61 Sig = 0,000 T_1 = 1.80 Sig = 0,073 T_2 = 10,40 Sig = 0,000	p < 0,05, Relationship exists p > 0,05, Relationship exists but on p < 0,08 level only p < 0,05, Relation exists

Table 4.15: REGRESSION ANALYSIS BETWEEN ASSETS AND TURNOVER FOR THE VARIOUS SECTORS OF SMALL BUSINESSES

Sector	NO. of cases total=192	r	r^2	a	b	F-test significance	Linear relation valid ?
Bottle stores	3	0,76	0,57	-0,31	357,69	0,45	NO
Butcheries	15	0,91	0,84	0,92	-33,27	0,00	YES
Coal yards	1	N/A					N/A
Dry cleaners	10	0,09	0,007	0,11	461,53	0,81	NO
Filling stations	7	0,30	0,09	0,30	570,00	0,51	NO
Fish and chips shops	23	0,27	0,07	-0,30	112,25	0,21	NO
Fruit shops	27	0,21	0,04	-0,29	93,75	0,29	NO
Funeral parlours	1	N/A					N/A
General dealers	57	0,95	0,91	0,43	-79,55	0,00	YES
Hardware shops	1	N/A					N/A
Herbalists	5	0,63	0,40	-0,50	325,00	0,18	NO
Other	27	0,31	0,09	0,14	155,40	0,11	NO

Table 4.16: TURNOVER TO ASSETS RATIO

Turnover to assets ratio	Frequency	Percent of total
0,05	1	0,5
0,14	41	21,4
0,15	3	1,6
0,33	18	9,4
0,35	16	8,3
0,43	18	9,4
1,00	68	35,4
2,33	6	3,1
2,86	2	1,0
3,00	19	9,9
Total	192	100,00
Mean	0,887	
Standard deviation	0,871	
Median	0,429	
Mode	1,00	

Collapsed frequencies		
Ratio value	Frequency	Percent
≤ 1,00	165	85,90
> 1,00	27	14,10
Total	192	100,00

Table 4.17: TURNOVER PER EMPLOYEE

Turnover per employee in R 1000	Frequency	Percent
0 - 10 000	107	26,80
10 001 - 20 000	193	48,30
20 001 - 30 000	66	16,50
30 001 - 70 000	15	3,80
More than 70 000	19	4,80
Total	400	100,00

4.4.4.2 Results of search for relationships

(a) Cross-tabulation of number of employees with size as represented by assets

It would be logical to hypothise that the greater the assets of a business, the larger the number of employees employed by the business should be, particularly for low capital intensity small businesses. The aim of this analysis is to accept or reject the null hypothesis that no relationship exists between the number of employees and the size of the assets of the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as the method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the number of employees and the size of the business as measured by its assets at the 95 per cent confidence level. Pearson's r is, however, only 0,25 which can be classified as low, while a r^2 of only 0,06 indicates that a very low percentage of the variation in the number of employees can be explained by the variation in the size of the assets.

(b) Cross-tabulation of number of employees with size as represented by turnover

It would be logical to hypothise that the greater the turnover of a business, the greater the number of employees employed by the business should be to enable it to generate that turnover. The aim of this analysis is to accept or

reject the null hypothesis that no relationship exists between the number of employees and the amount of the turnover of the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significancefor both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the number of employees and the size of the business as measured by its turnover at the 95 per cent confidence level. Pearson's r is, however, only 0,15 which can be classified as very low, while a r^2 of only 0,02 indicates that almost none of the variation in the number of employees can be explained by the variation in the amount of turnover.

(c) Cross-tabulation of size as represented by assets with size as represented by turnover

It would be logical to hypothise that the greater the assets of a business, the greater should be the turnover generated by those assets. The aim of this analysis is to accept or reject the null hypothesis that no relationship exists between the size of assets and the amount of the turnover of the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the size of assets and the amount of the turnover of the business in the population at the 95 per cent confidence level. Pearson's r is, however, on the low side at 0,35, while a r^2 of only 0,12 indicates that only 12 per cent of the variation in the amount of the turnover can be explained by the variation in the amount of turnover.

(d) Cross-tabulation of size of turnover with the frequency of calculation of capital requirements

It would be logical to hypothise that the greater the turnover of a business, the more frequently the business should calculate its capital requirements. The aim of this analysis is to accept or reject the null hypothesis that no relationship exists between the amount of the turnover and the frequency of calculation of capital requirements for the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the amount of the turnover and the frequency of calculation of capital requirements at the 95 per cent confidence level. Pearson's r is equal to 0,41 which can be classified as modest, while a r^2 of only 0,17 indicates that 17 per cent of the variation in the frequency of the calculation of capital requirements can be explained by a variation in the amount of turnover.

(e) Cross-tabulation of amount of turnover with the frequency of the preparation of a business plan

It would be logical to hypothise that the greater the turnover of a business, the more frequently the business should prepare a business plan. The aim of this analysis is to accept or reject the null hypothesis that no relationship exists between the amount of the turnover and the frequency of preparation of a business plan for the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a

relationship between the amount of the turnover and the frequency of preparation of a business plan at the 95 per cent confidence level. Pearson's r is equal to 0,26 which can be classified low, while a r^2 of only 0,07 indicates that only 7 per cent of the variation in the frequency of the preparation of a business plan can be explained by a variation in the amount of turnover.

(f) Cross-tabulation of amount of turnover with the frequency of preparation of a budget

It would be logical to hypothise that the greater the turnover of a business, the more frequently the business should prepare a budget. The aim of this analysis is to accept or reject the null hypothesis that no relationship exists between the amount of the turnover and the frequency of preparing a budget for the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of analysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the amount of the turnover and the frequency of preparation of a business plan at the 95 per cent confidence level.

Pearson's r is equal to 0,15 which can be classified as very low, while a r^2 of only 0,02 indicates that almost none (2%) of the variation in the frequency of the preparation of a budget can be explained by a variation in the amount of turnover.

(g) Cross-tabulation of the frequency of preparation of a business plan and the frequency of obtaining a SBDC loan

It would be logical to hypothise that the more frequently a business makes use of a loan from the SBDC, the more frequently the business should prepare a business plan as the SBDC requires its clients to prepare a business plan (Van Rensburg, 1993). This analysis would also shed more light on the fact that descriptive analysis of question C3B of the questionnaire revealed that none of the respondents reported that they never prepare a budget (see Table 4.5). The aim of this analysis is, therefore, to accept or reject the null hypothesis that no relationship exists between the frequency of preparing a business plan and the frequency of obtaining a SBDC loan for the small businesses in the population under consideration.

To be able to accept or reject the null hypothesis, cross-tabulation was used as method of ananlysis with the calculation of Pearson's χ^2, Pearson's r and r^2 as decision-making statistics. Furthermore, use was made of the significance of χ^2 and the significance of r, as calculated by the SPSS program, to determine the significance level of the relationship.

Conclusion:

As indicated in Table 4.14 the test of significance for both χ^2 and r resulted in a value of $p < 0,05$. The conclusion can therefore be made that there is a relationship between the frequency of preparation of a budget and the frequency of obtaining a SBDC loan at the 95 per cent confidence level. Pearson's r is equal to -0,13 which can be classified as very low, while a r^2 of only 0,02 indicates that almost none (2%) of the variation in the frequency of the preparation of a business plan can be explained by the frequency of obtaining a SBDC loan.

(h) Linear regression of size of assets by size of turnover with turnover as dependent variable

Since the cross-tabulation of the size of assets with the size of turnover (see Section 4.4.4.2(c)) reveals that there is a relationship between these two variables, the aim of this analysis is to determine the nature of this relationship. For this analysis a linear regression analysis was employed using the SPSS program as analysing tool.

To be able to perform this analysis both the size of the assets and the size of the turnover were converted to the mid-points of the interval scale categories in order to end up with a regression equation in monetary terms. For this analysis a, b, r and r^2 were calculated, while the F-test of significance was used to determine the significance of r.

Conclusion:

Table 4.14 it shows that a = 0,49, b = 24,64, r = 0,64, r^2 = 0,42, the F value = 134,93 and the significance is 0,0000, i.e. $p < 0,05$. The null hypothesis can therefore be rejected and the relationship is significant at the 95 per cent confidence level. From the above results the following regression equation can be derived:

Turnover = 0,49 x Assets + 24,64

From this equation it can be stated that for every R 10 000 increase in assets the turnover will increase by R 4 900. However, a = 0,49 indicates a slope of only 26^{o} which is considerably lower than 45^{1} which would be the slope at

which the turnover to assets ratio would be unity. This lower slope of the regression line indicates that the small businesses turn over their assets approximately only once in two years. Although this is much slower than would be expected, it is acceptable.

In view of the above, the question may be asked: How do the different business sectors included in the sample (see Table 4.1) compare with each other in respect of a linear regression analysis. To answer this question, linear regression was done on each of the twelve business sectors and the results are tabled in Table 4.15. Owing to the elimination of the responses in the case of respondents who did not know the size of the assets, the total sample is reduced to 192 cases. This also had the consequence that in the case of coal yards, funeral parlours and hardware shops, only one case remained with the result that a regression analysis for these three sectors could not be performed (see column 2 of Table 4.15). For only two of the remaining sectors namely, butcheries and general dealers, could a relationship be confirmed at the 95 per cent confidence level. In the case of bottle stores a relationship appears to exist (r = 0,76), but only at a low 55 per cnet confidence level. In the case of butcheries and general dealers, the respective regression equations are as follows:

Turnover = 0,92 x Assets -33,27 .....(2)
Turnover = 0,43 x Assets -79,55 .....(3)

Even for the best of these two sectors, namely, butcheries, the slope (a = 0,92) is still less than unity. In the case of the other sector, namely, general dealers, the slope (a = 0,43) is close to the slope (a = 0,49) of all the sectors grouped together.

(i) Linear regression of number of employees by size of turnover with turnover as dependent variable

Since the cross-tabulation of the number of employees with the size of turnover (see Section 4.4.4.2(b)) reveals that there is a relationship between these two variables, the aim of this analysis is to determine the nature of this relationship by means of a linear regression analysis.

Item nine of Table 4.14 lists the results of this analysis as a = 35,06, b = -26,77, r = 0,30, r^2 = 0,09, the F value = 38,12 and the significance of F = 0,0000, that is $p < 0,05$. Although the relationship is weak, it does exist at the 95 per cent confidence level. The regression equation can be stated as follows:

Turnover = 35,06 x Assets - 26,77 .....(4)

(j) Multiple regression of number of employees and size of assets by size of turnover with turnover as dependent variable

Since it was found (see Sections 4.4.4.2(b) and 4.4.4.2(c)) that there is a relationship between both size of assets and number of employees and the size of turnover, the aim of this analysis is to determine whether there is multiple relationship between these three variables and if so, the nature of such a relationship. The SPSS program was used to do the analysis and the results are listed under item ten of Table 4.14.

The values obtained are: a_1 = 42,41 (the coefficient of number of employees), a_2 = 0,43 (the coefficient of assets), b = -45,08, r = 0,63, r^2 = 0,39, Beta a_1 = 0,10 and Beta a_2 = 0,60. A F value of 61,61 was calculated with significance of 0,0000 ($p < 0,05$) which means that it is extremely improbable that r in the population is zero, that is, that no relationship exists (Bryman & Cramer, 1990:240). To test the significance of the individual r's, the two-tailed T-test is employed by SPSS (Bryman & Cramer, 1990:240). The T value for a_1 was 1,80 with significance of 0,073 which indicates a confidence level of 92 per cent ($p > 0,05$, but $p < 0,08$). The T value for a_2 was 10,40 with significance of 0,000 ($p < 0,05$). The conclusion can therefore be made that turnover is dependent on assets and the number of employees, but only at a 92 per cent confidence level. The Beta values (standardised regression coefficients) for a_1 and a_2 are an indication of the relative influence of the two (or more) independent variables on the dependent variable (Bryman & Cramer, 1990:244). For this analysis they were calculated respectively as 0,10 and 0,60. This indicates that only 10 per cent of the variance in the turnover can be explained by the number of employees, whereas 60 per cent of the variation in turnover can be explained by the variation in assets. The null hypothesis, that no relationship between the stated variables exists, can therefore be rejected and the alternative hypothesis, that a relationship between them does exist, can be accepted.

The multiple regression equation can be stated as follows:

Turnover = 42,41 x No. employees + 0,43 x assets -45,08 ..... (5)

(k) Other analyses

Further analyses of the turnover to assets ratio and the turnover to employee ratio were made and the results are summarized in Tables 4.16 and 4.17 respectively.

From Table 4.16 it can be seen that the turnover to assets ratio varies from 0,5 to 3,00 with a mean of 0,887, a standard deviation of 0,871, a median of 0,429 and a mode of 1,00. When the frequencies are collapsed to only two

categories namely, ≤ 1,00 and > 1,00, it can be seen from the right-hand side of Table 4.16 that the frequency of the first category is 165, while the frequency of the second category is only 27 (total = 192). This indicates that 165 of the 192 businesses in the reduced sample at best turn over their assets once a year (68 of these once a year with the ratio = 1,00). This indicates bad asset management as one would expect a small business to turn over its assets a number of times per year. The other 27 do much better than that in that they turn over their assets more than once per annum.

Research of the literature did not produce any comparative empirical research results for the purpose of a yardstick against which to measure the results as indicated above. However, Table 4.18 lists the results of a comparative analysis of 744 cases of companies listed on the Johannesburg Stock Exchange from 1999 to 1991 as calculated by the Department of Business Management of Vista university from data accumulated from the annual reports of the relevant listed companies.

From Table 4.18 it can be seen that the mean value of turnover to total assets is 2,33 with a standard deviation of 1,06, a median of 2,00 and a mode of 2,00. Of the 744 cases 14,90 per cent have a turnover to total asset ratio ≤ 1,00 compared to 85,90 per cent in the case of the research sample, 53,90 per cent have a ratio > 1,00 ≤ 2,00, while 22,20 per cent have a ratio of > 2,00 ≤ 3,00. In the case of the quoted companies 91,00 per cent have a turnover to total assets ratio ≤ 3,00, while the ratio for the research sample is 100 per cent ≤ 3,00. The conclusion can therefore be made that small businesses in the Greater Soweto Area are lagging behind the quoted companies in this respect. Better asset management can improve the relatively low turnover to total asset ratio.

Table 4.18: TURNOVER TO TOTAL ASSETS RATIO FOR QUOTED COMPANIES 1989 TO 1991

Category	Frequency	Percent	Cumulative percentage
> 0,00 ≤ 1,00	111	14,90	14,90
> 1,00 ≤ 2,00	401	53,90	68,80
> 2,00 ≤ 3,00	165	22,20	91,00
> 3,00 ≤ 4,00	33	4,40	95,40
> 4,00 ≤ 5,00	17	2,30	97,70
> 5,00 ≤ 6,00	12	1,60	99,30
> 6,00 ≤ 7,00	2	0,30	99,60
> 7,00 ≤ 8,00	3	0,40	100,00
Total	744	100,00	

Mean	= 2,33
Std. Dev.	= 1,06
Median	= 2,00
Mode	= 2,00

Table 4.17 shows the frequencies for various categories of turnover per employees. In the case of 75,10 per cent of the businesses in the sample, the turnover per employee is between zero and R 20 000, while for only 24,90 per cent of the businesses the turnover per employee ratio exceeds R 20 000.

In question C10 of the questionnire the respondents were asked to give their opinion with regard to the reasons why finance is difficult to obtain (see Section 4.4.3.13 for a descriptive analysis of the responses to question C10). It is logical to hypothise that the responses to questions C10(a) to C10(j) would reveal a relationship between the size of the businesses and the responses to question C10. For example, in question C10(c) respondents were required to indicate whether they think that difficulty in supplying information to financial institutions is a reason for the non-availability of finance. A logical hypothesis would be that the smaller the business, the more difficult it would be to supply the necessary information required by financial institutions as recent research has shown that small businesses lack proper management information systems, accounting systems and expertise (Potgieter, 1993:17; Holmes & Nicholls 1988:61).

To test the null hypothesis that there is no relationship between the size of the businesses in the population under consideration and the dichotomous (yes/no) answers to questions C10(a) to C10(j), cross-tabulations were done between turnover as measure of size and the answers to these questions. According to Bryman and Cramer (1990:187) the appropriate analysis would be

a contingency-table plus the use of Chi-square if the interval variable (in this case turnover) can be collapsed into meaningful categories. Turnover was recorded in categories.

The results of this analysis is shown in Table 4.19. In Table 4.19 the following statistics and the results of their associated significance tests are tabled: Pearson's χ^2, Phi and Cramer's V.

Table 4.19 RESULTS OF CROSS-TABULATIONS OF TURNOVER BY RESPONSES TO QUESTION C10

Question number	Question	Pearson's χ^2		Phi		Cramer's V	
		χ^2	Sign.	ϕ	Sign.	V	Sign
C10(a)	Financing sources not available	5,55	0,135	0,125	0,135	0,125	0,135
C10(b)	Difficulty in supplying information	6,45	0,091	0,135	0,091	0,135	0,091
C10(c)	Difficulty in supplying information required by financial institutions	0,54	0,909	0,039	0,909	0,039	0,909
C10(d)	Discrimination by banks	2,74	0,433	0,088	0,433	0,088	0,433
C10(e)	Owners' capital contribution too low	0,35	0,951	0,031	0,951	0,031	0,951
C10(f)	Past net profits too low	1,78	0,618	0,071	0,618	0,071	0,618
C10(g)	Other borrowed capital too high	2,23	0,525	0,079	0,525	0,079	0,525
C10(h)	Business regarded too risky	4,18	0,242	0,108	0,242	0,108	0,242
C10(i)	Not aware of existing financing sources	6,14	0,105	0,131	0,105	0,131	0,105
C10(j)	Lack of managerial skills	3,54	0,315	0,099	0,315	0,099	0,315

From table 4.19 it can be seen that all the statistics, Pearson's r, Phi and Cramer's V, have very low values. Also, the significance level associated with all three statistics are equal in each case and are all at a level where $p > 0,05$. It can therefore be concluded that the size of the businesses have no influence on the way in which the respondents view the difficulty of obtaining finance as represented by question C10, that is, the null hypothesis that there is no relationship between these two variables can be accepted at the 95 per cent confidence level. However, difficulty in supplying information, (C10(b); $p < 0,10$) and not being aware of existing financing sources (C10(i), $p < 0,11$) can be concluded to have a relationship with businesses size at the lower confidence levels of 90 per cent and 89 per cent respectively. The low Cramer's V values for both of these questions ($V = 0,131$; $V = 0,135$) indicate very weak relationships and that, even at the reduced levels of confidence,

these two relationships should be treated with caution.

Having established that there is no relationship between the size of the businesses and the answers to questions C10, the question that arises is whether there is a difference in the way in which these questions were answered in cases where there may be a logical connection between the questions. For example, one may hypothise that respondents that answer that they conceive the difficulty of supplying information as a reason for financing not being available, may also be those respondents that answered that they regard lack of managerial skills as a reason for difficulty in obtaining finance, as a lack of managerial skills logically implies a lack of information.

Bryman and Cramer (1990:124) propose the use of the McNemar tests for two related samples to compare the frequencies of dichotomous variables from the same cases at two points in time. Bryman and Cramer (1990:125) mention as an example the attendance of workers at a firm's monthly meetings in two consecutive months. If the answers to the sub-questions of question C10 can be taken as giving the same answers at different times, although the time gap is minimal, this test can be applied to answer the above question.

McNemar tests were done using SPSS to test the following null hypotheses:

H_0 1: There is a significant difference in the way that the respondents answered questions C10(b) (difficulty in supplying information) and C10(j) (lack of managerial skills).

H_0 2: There is a significant difference in the way that the respondents answered questions C10(a) (financing sources not available) and C10(i) (not aware of financing sources).

H_0 3: There is a significant difference in the way that the respondents answered questions C10(e) (owners capital contribution too low) and C10(g) (other borrowed capital too low).

Table 4.20 lists the results of the McNemar tests to test the above hypotheses.

Table 4.20: RESULTS OF McNEMAR TESTS

Hypothesis	Chi-square	Significance	Conclusion
H_0 1	28,36	0,0000	There is no difference
H_0 2	21,12	0,0000	There is no difference
H_0 3	53,46	0,0000	There is no difference

As can be seen from Table 4.20, the significance for all three hypotheses is equal to 0,0000, which implies that all three hypothesis can be rejected at the 99,99 per cent level of confidence ($p < 0,001$). It can therefore be concluded that the respondents answered these paired questions in the same manner as paired in the above hypotheses, that is, as logical reasoning would hypothise.

4.5 CONCLUSION

In this chapter the sample design, the population definition, the sampling frame and the size of the sample for this research was discussed. It was concluded that a sample of 400 was sufficient to undertake the research and to achieve the objectives as stated in Chapter 1. The sampling procedure was also discussed and the use of a stratified sample was decided on as detailed in Table 4.1. The questionnaire design was also discussed and the analysis of the empirical results was discussed in detail. Various conclusions were made. These conclusions are summarized in Section 5.2.4.

In the next chapter a summary of the study is provided. The next chapter also provides an extensive summary of the conclusions drawn in this study (see Section 5.2). The objectives of the study are also evaluated to determine whether they have been achieved, while major conclusions and recommendations are also stated in the next chapter.

CHAPTER 5

SUMMARY, CONCLUSIONS, EVALUATION OF OBJECTIVES AND RECOMMENDATIONS

5.1 SUMMARY

5.1.1 Introduction

In Section 1.2 it was pointed out that the purpose of this study emanates from the importance of small businesses in both the formal and informal sector in creating employment, in particular in areas of greater population concentration like the Greater Soweto Area. Booysen (1992:20) also state that interest in small business research can be attributed to the fact that small businesses serve as an economic seedbed and as an important source of employment.

The financing problems of small businesses in the Greater Soweto Region are pointed out in section 1.3. According to Booysen (1992:61), small businesses all over the world have common problems, and in the United Kingdom access to borrowing or credit is, amongst others, a specific difficulty experienced by small businesses. Booysen (1992:62) proceed to quote Cant and Machado (1991:9-10) as stating that availability of capital and financial management are amongst the obstacles to growth of small businesses in South Africa, especially in the case of Black small businesses.

In order to achieve the objectives of this study as set out in Section 1.4 and Section 4.1, the study was conducted in two parts. In the first part the relevant literature on the subject of small business is reviewed and in the second part the financing problems of small businesses in the Greater Soweto Area is investigated by means of an empirical study. A random sample of 400 small formal businesses was selected and field workers interviewed the selected respondents using a questionnaire (see Annexure A).

Chapter 5 seeks to summarise the most salient points discussed in earlier chapters, certain conclusions are highlighted and recommendations are made. The process of summarizing will inevitably entail some repetition, but is nevertheless necessary so as to serve as an introduction and overview to readers before reading the text in total.

5.1.2 Literature review

The review of literature was conducted by means of secondary research in order to highlight important aspects of the study and hence shape the research on which the empirical investigation is based.

In Chapter 1 the following aspects of the study are addressed: reasons for the study, financing problems of small businesses, objectives of the study, scope of the study, research methodology and problems encountered in the study. An outline of the study is also provided in Chapter 1.

In Chapter 2, which serves as a point of departure, different definitions of a small business from different countries such as the United States of America, Great Britain and South Africa are reviewed. It was pointed out that no universally acceptable definition was found. The economic definition of the Department of Manpower which, in summary state that; the small business must be independently owned, have a small influence on the market, and have a simple organizational structure, was adopted in this study. The economic and quantitative definition of small businesses, as applicable to this study, is indicated in Table 2.3.

In view of the fact that small businesses are found in both the formal and informal sector of the economy, the informal sector was described as the un-enumerated, unorganized sector whose activities are unregistered or unlicensed. Small business enterprises are classified as; service organizations, wholesalers, retailers, construction undertakings and manufacturing concerns. The informal sector businesses include, amongst others, hawkers, home businesses, backyard manufacturers, taxi-owners and craft curio makers.

Job creation, satisfaction of demand for basic or specialized goods, promotion of free enterprise, innovation and creativity, employment creation and the encouragement of grassroots development are regarded as factors that contribute to the importance of small businesses. Small businesses are also important in fostering the spirit of entrepreneurship.

In Section 2.7 it is concluded that the management of small businesses, like large companies, consists of planning, organizing, directing and control. Planning and control in small businesses are the most difficult management functions, because small business owners are too involved in day-to-day operations and do not have the time to control all activities.

In Section 2.8 the factors that influence the capital requirements of a small business are identified as: maximization of return on investment, financial leverage which provide a measure to indicate to what extent the business is successful in using debt capital to increase owners equity, liquidity which measure the ability of the business to satisfy its short-term obligations, and solvency which can be regarded as liquidity in the long-term.

It was also concluded in Section 2.8 that, to establish the extent of the capital requirements, the sales budget, cost of sales budget, expense budget,

current asset budget, fixed assets budget and the cash budget need to be prepared. The projected income statement, balance sheet and a business plan summarize the capital requirements of the business. Total capital requirements of a business is made up of: permanent capital requirements which consist of fixed assets and the minimum working capital for a desired level of activity, and also varying capital requirements which is the additional working capital required when the activity level of permanent capital requirement is increased due to temporary higher activity levels.

In Chapter 3 the various sources of finance available to small businesses are discussed and elaborated on. The short-term sources of finance available to small businesses are identified as: trade credit, bank overdrafts, revolving credit and factoring.

On the other hand, medium-term sources of finance discussed are: term loans which are defined as debt instruments that have an original maturity longer than one year, leasing which is described as a contract whereby the owner of an asset grants another party the exclusive right to use the asset for an agreed period in return for the payment of rent and the instalment sale agreement whereby a business obtains an asset and a financial institution finances the cost of the asset and the business repays a stated amount in instalment over a stated period.

Sources of long-term finance discussed in Chapter 3 are: own capital, long-term loans and sale-and-leaseback.

The different financial assistance schemes, which are available from the SBDC, and which have different characteristics were also discussed in Chapter 3. Further, venture capital financing which consist of certain institutions who invest in new or expanding businesses with the view of getting a return on their investments at a later date, is also discussed. Lastly, informal money market financing which consists of individuals obtaining short-term finance from informal institutions is discussed. The informal money lenders and stokvels are identified as institutions operating in the informal money market.

5.1.3 Empirical research

In this study, data for the empirical research was collected by means of a survey of a randomly selected sample of small businesses in the Greater Soweto Area in order to achieve both the primary and secondary objectives of this study as stated in Section 1.4. Saenger (1991:253) describes empirical research by means of a survey as a fact-finding process according to which data is collected in a planned manner in order to discover the distribution of, and interrelation between, certain variables.

A six-step procedure for drawing a sample was employed (refer Section 4.2). The target population in this study is small businesses in the Greater Soweto Area. Informal sector businesses were excluded because of the problem of identifying them (refer Section 1.5). A statistical formula (Nel, et al, 1990:304) was used to determined the size of the sample which was proportionately stratified according to the stratification of the population (see Table 4.1). A sample of 400 businesses from a population of 2 015 small businesses in the Greater Soweto Area was decided on (see Sections 4.2.3 and 4.2.4).

To implement the survey research, the technique used for collecting data was by means of personal interviews using a questionnaire and conducted by field workers (refer Section 4.3.3). The discussion and evaluation of the findings resulting from the survey was done in the following sequence:

- Firstly, an analysis of data was made to prove that all the businesses of the respondents are small businesses.

- Secondly, an analysis of the data in descriptive form was presented to give an overall picture of the results.

- Thirdly, a search for relationship was undertaken using cross tabulations, chi-square analysis, correlation statistics and linear regression of dependent against independent variables.

5.1.3.1 Analysis of the size of the businesses

The analysis of the size of the businesses of the respondents indicated that all businesses included in the sample meet the criteria for small business and that they should be included in the analysis (see Section 4.4.2).

5.1.3.2 Descriptive analysis of data

In Section 4.4.3 the results of a descriptive analysis of the data is described. The descriptive analyses consist of simple frequency counts and percentages. Various conclusions are arrived at regarding the findings and are summarized in Section 5.2.

5.1.3.3 The search for relationships

In Section 4.4.4 various techniques are used to explore possible relationships between the variables. These techniques include cross-tabulation with correlation calculations, employing chi-square and correlation coefficient statistics Pearson's χ^2, r and r^2 to evaluate the relationships and their significance (see Table 4.13). Linear regression is also employed to establish

whether any linear relationships exist between some of the variables (see Table 4.15). The turnover to assets ratio as well as the turnover per employee is also established and compared with an analysis of 746 cases of companies listed on the Johannesburg Stock Exchange for the years 1989 to 1991 as calculated by the Department of Business Management of Vista University from data accumulated from the annual reports of listed companies.

5.2 CONCLUSIONS

A number of conclusions are arrived at in Chapters 1 to 4. The objective in this chapter is to list the most important conclusions arrived at. Conclusions for each chapter are listed under a chapter heading.

5.2.1 Chapter 1

From Chapter 1 the following conclusions can be drawn:

(a) small businesses make a significant contribution to economic activity and employment in many countries, including South Africa (see Section 1.2);

(b) the major factor which impede the establishment of small businesses in the Greater Soweto Area is a lack of capital which is ascribed to a lack of own funds and a lack of assets, especially fixed assets, which could serve as security to obtain loans and bank overdrafts (see Section 1.3);

(c) other factors which impede the establishment of small businesses in the Greater Soweto Area are a lack of business tradition, experience and exposure, educational qualifications and poor location of businesses and poor quality of business premises (see Section 1.3).

5.2.2 Chapter 2

From Chapter 2 the following conclusions can be drawn:

(a) that there is no universally acceptable definition of small businesses (see section 2.2);

(b) there are a number of causes contributing to the shortage of successful entrepreneurs in South Africa (see Section 2.6);

(c) the accepted management activities of planning, organizing, directing and control are equally applicable to small businesses as they are to large businesses (see Section 2.7.1);

(d) factors such as return on investment, financial leverage, liquidity and solvency are important in determining financial requirements of a small business (see Section 2.8);

5.2.3 Chapter 3

From Chapter 3 the following conclusions can be drawn:

(a) the same sources of short-term finance that are available to large businesses are also available to small businesses (see Section 3.2);

(b) the same sources of medium-term finance that are available to large businesses are also available to small businesses (see Section 3.3);

(c) the same sources of long-term finance that are available to large businesses are also available to small businesses (see Section 3.4);

5.2.4 Chapter 4

From Chapter 4 the following conclusions can be drawn:

5.2.4.1 Conclusions pertaining to descriptive analysis

(a) there are 2015 formal small businesses in the Greater Soweto Area as indicated by a register of businesses provided by the Soweto Council (see Section 4.2.4);

(b) there are eleven main categories of small businesses in the area which individually represent more than one percent of the total of 2015 small businesses (see Table 4.1, Section 4.2.4);

(c) the mean assets of the businesses is R 323 177 (see Section 4.4.3.2);

(d) the mean annual turnover of the businesses is R 135 375 (see Section 4.4.3.3);

(e) most small businesses are calculating their capital requirements only once per year (see Section 4.4.3.4);

(f) all businesses indicated that they use the criteria of maximizing returns, liquidity, financial leverage and solvency in their determination of the level of total investments;

(g) almost 60 per cent of the businesses indicated that they sometimes or always prepare a business plan (see Section 4.4.3.6);

(h) all businesses indicated that they sometimes or always prepare budgets (see Section 4.4.3.6);

(i) more than 50 per cent of the businesses indicated that they sometimes or always prepare a projected income statement (see Section 4.4.3.6);

(j) more than 50 per cent of the businesses indicated that they sometimes or always prepare a projected balance sheet (see Section 4.4.3.6);

(k) almost all businesses indicated that they never prepare projected capital requirement statements (see Section 4.4.3.6);

(l) almost all businesses indicated that they sometimes or always use trade credit (see Section 4.4.3.7);

(m) as much as 60 per cent of the businesses indicated that they never use a bank overdraft (see Section 4.4.3.7);

(n) approximately one third of the businesses never make use of revolving credit (see Section 4.4.3.7);

(o) all but two respondents indicated that they never make use of factoring as a means of financing (see Section 4.4.3.7);

(p) most of the businesses make use of all three of the medium-term sources of finance indicated in Table 4.7 (see Section 4.4.3.8);

(q) all businesses indicated that they always use own capital as a long-term means of finance, while most make use of long-term loans. Only a small percentage make use of sale and leaseback and venture capital for this purpose. Two-thirds indicated that they have in the past used SBDC loans (see Section 4.4.3.9);

(r) a large percentage of businesses indicated that they sometimes make use of stockvel loans, while almost all indicated that they never use money lenders loans (see Section 4.4.3.10);

(s) almost all businesses that indicated that they use informal financing also indicated that the reason for using informal financing is that there are no formal requirements, that no security

is required and that they could not obtain funds from formal sources (see Section 4.4.3.11);

(t) a large percentage of businesses indicated that they sometimes or always have difficulty in obtaining finance (see Section 4.4.3.12);

(u) discrimination by banks is regarded as the main reason for not being able to obtain funds from financial institutions followed by difficulty in supplying information as second most important reason for not being able to obtain funds from financial institutions (see Section 4.4.3.13);

(v) although various short-term, medium-term and long-term sources of finance are available to small businesses as discussed in Sections 3.2, 3.3 and 3.4, small businesses encounter a number of problems acquiring the necessary funds (see Section 4.4.3.13);

5.2.4.2 Conclusions pertaining to a search for relationships

(a) there is a statistically significant relationship between the number of employees and the size of small businesses as represented by their assets (see Table 4.14);

(b) there is a statistically significant relationship between the number of employees and the size of small businesses as represented by their turnover (see Table 4.14);

(c) there is a statistically significant relationship between the size of small businesses, as represented by their turnover, and the size of small businesses, as represented by their assets (see Table 4.14);

(d) there is a statistically significant relationship between the size of small businesses, as represented by their turnover, and the frequency of calculation of capital requirements (see Table 4.14);

(e) there is a statistically significant relationship between the size of small businesses, as represented by their turnover, and the frequency of the preparation of a business plan (see Table 4.14);

(f) there is a statistically significant relationship between the size of small businesses, as represented by their turnover, and the frequency of the preparation of budgets (see Table 4.14);

(g) there is a statistically significant relationship between the

frequency of preparation of a business plan and the frequency of using a SBDC loan (see Table 4.14);

(h) linear regression of size of assets by size of turnover produced the following regression equation (see Section 4.4.4.2(h)):

Turnover = 0,49 x assets + 24,64

(i) linear regression of number of employees and size of turnover produced the following regression equation (see Section 4.4.4.2(i)):

Turnover = 35,06 x Number of employees - 26,77

(j) multiple regression of number of employees and size of assets by the size of turnover produced the following multiple regression equation (see Section 4.4.4.2(j))::

Turnover = 42,41 x Number of employees + 0,43 x Assets - 45,08

(k) for most of the small businesses in the area the turnover to assets ratio is less than one (see Table 4.16), while for only 15 per cent of a selection of quoted companies this ratio is less than one (see Table 4.18). This indicates a need for better assets management;

(l) the size of the businesses has no influence on the manner in which the respondents view the difficulty of obtaining finance as represented by questions C10(a) to C10(i) (see Table 4.19);

(m) there is no significant difference in the way that the respondents answered questions C10(b) (difficulty in supplying information) and C10(j) (lack of managerial skills) (see Table 4.20);

(n) there is no significant difference in the way that the respondents answered questions C10(a) (financing sources not available) and C10(i) (not aware of financing sources) (see Table 4.20);

(o) there is no significant difference in the way that the respondents answered questions C10(e) (owners capital contribution too low) and C10(g) (other borrowed capital too high) (see Table 4.20);

5.2.4.4 Major conclusions

From the study in general, and from the conclusions as listed above, the following major conclusions can be drawn regarding small businesses in the Greater Soweto Area:

(a) although small businesses make a significant contribution to economic activity and employment, there are a number of factors that impede their establishment, growth and economic success;

(b) conclusion (a) above may contribute to the fact that there is a shortage of entrepreneurs in South Africa and also in the Greater Soweto Area;

(c) the accepted management activities as well as accepted factors for the determination of capital requirements are equally applicable to small businesses;

(d) the generally accepted sources of funds are also available to small businesses, but their are a number of factors that make it difficult for small businesses to obtain funds;

(e) small businesses will benefit by compiling feasibility studies before a business venture is started, a business plan on a continuous basis and a well structured, although appropriate in extend, management accounting system that will provide the managements of small businesses with up to date information for decision-making. This will also serve as a source of information for the preparation of presentations to financial institutions as the research concluded that supplying information is seen as the second most reason for not being able to obtain funds.

(f) in the search for relationships it was generally concluded that expected relationships between a number of variables, as evidence by the questionnaire used, (see Annexure A) exist for small businesses in the Greater Soweto Area.

(g) it was found that assets management by the small businesses in the area is not satisfactory as evidenced by the low turnover to total assets ratio. This area of financial management needs to be improved.

5.3 EVALUATION OF OBJECTIVES

In Section 1.4 six objectives for this study were stated. The aim of this Section is to evaluate those objectives in order to assess whether these objectives have been achieved. Considering those objectives, the following comments can be made:

5.3.1 The different sources of finance available to small businesses in the Greater Soweto Area were identified and commented on in Chapter 3.

5.3.2 The factors that influence the capital requirements of small businesses were identified in Section 2.8.1 and an analysis of the factors that small businesses in the Greater Soweto Area actually take into account in determining their capital requirements was detailed in Section 4.4.3.5.

5.3.3 The various sources of formal finance actually used by small businesses in the Greater Soweto Area were analyzed in Section 4.4.3.7, 4.4.3.8 and 4.4.3.9.

5.3.4 The various sources of informal finance actually used by small businesses in the Greater Soweto Area were analyzed in Section 4.4.3.10 and the reasons why they use informal finance are analyzed in Section 4.4.3.11.

5.3.5 Financing problems experienced by small businesses in the Greater Soweto Area were analyzed in Section 4.4.3.13.

5.3.6 Recommendations as to ways in which the small businesses in the Greater Soweto Area can possibly alleviate problems regarding financing are stated in Section 5.4.

From the above it can be concluded that the objectives set for this study have been achieved.

5.4 RECOMMENDATIONS

In view of the findings in this study, the following recommendations are made:

5.4.1 Recommendations regarding what small businesses in general, and in particular small businesses in the Greater Soweto Area, can do to secure their financial success and improve their credibility with financial institutions.

From the findings of the study, there appear to be a number of actions that small businesses can take to secure their financial success and at the same time improve their credibility with financial institutions. These actions include the following:

(a) In Section 4.4.3.13 an analysis of the responses to questions C10(a) to C10(j) is provided. It is recommended that managements of small businesses, prospective or existing, should study the reasons, as

listed in Table 4.12, and determine in which way each of these reasons, is applicable to their businesses. This would not only enlighten them on the financing problems that they may have, but also provide them with a basis for analyzing their strengths and weaknesses in respect of their credibility with financial institutions. Subsequently the necessary actions can be taken to eliminate the weaknesses identified.

(b) With reference to the major conclusion in Section 5.4.4.2.4 above, it is strongly recommended that managements of small businesses should:

- compile feasibility studies before a business venture is started;
- prepare a business plan on a continuous basis;
- see to it that a well structured, although appropriate in extend, management accounting system is instituted in their businesses that will provide them with up to date information for decision-making;
- prepare a presentable presentation before blindly rushing into an application for financial assistance;
- seek the help of a qualified accountant to assist them in preparing an application for financial assistance. Holmes and Nicolls (1988:61) has found that the majority of Australian small businesses seek outside help in the preparation of accounts and applications for funds.

(c) Managements of small businesses will be well advised to pay special attention to assets management in order to achieve an acceptable turnover to assets ratio. It is often the case that better asset management set free some of the funds tided up in a business for creating greater turnover, better discounts or expansion.

(d) Radder (1988:161) recommended that managements of Black small businesses in Port Elizabeth should improve their managerial skills on aspects of financing, financial information preparation, calculation of capital requirements and other related matters of management. The author wishes to re-iterate the recommendation of Radder in respect of managements of small businesses, in general, and particular in the case of small businesses in the Greater Soweto Area.

5.4.2 Recommendations regarding what financial institutions can do to alleviate the plight of small business in respect of financing their businesses

It has been stated by many supporters of a free enterprise system in South Africa, amongst them Sunter (1993b), that the key to sustained economic revival and higher employment levels in South Africa, is full support by all of the development of the small business sector. Again with reference to Table 4.12, it is recommended that financial institutions should take note of the reasons offered by respondents as to why they perceive it to be difficult for their businesses to obtain funds. Financial institutions should plan a strategy for assisting small business, and their own institutions, if applicable, in overcoming the reasons as listed in Table 4.12. The following specific recommendations are made in this regard:

(a) Respondents felt that there is a lack of understanding by banks of the circumstances of small business and their problems regarding acquisition of funds. The study did not attempt to explore the reasons for this perception by small business managers, but banks may do well to research the reasons and take appropriate action.

(b) The majority of the respondents felt that they have difficulty in supplying information to financial institutions. Financial institutions can make a substantial contribution in the training of small business persons. It is therefore recommended that financial institutions should become even more, and by that is meant more directly, involved in the training of small business persons, particularly in respect of financial matters. This recommendations is made with recognition of the work that financial institutions are already do in this respect. The emphasis should, however, fall on direct involvement and training regardless of whether the person(s) is a client or a prospective client.

(c) The vast majority of respondents felt that banks discriminate against their businesses. Whether this perception is referring to discrimination as Black businesses or as small businesses was not determined, but that does not negate the perception. It is recommended that financial institutions should seek to eliminate this perception by means of a substantial public relations campaign that will not only eliminate the perception, but will also enhance small business people's knowledge as to the criteria and other decision rules used by them in the financing of private enterprise, and in particular the criteria used in decideing on the financing of small businesses.

5.4.3 Recommendations regarding what the education system can do to foster an increase in small business

Sunter (1993a:82) asks the question: Is there one South African school that is running classes in how to be an entrepreneur and open up your own business as part of it's core curriculum ? Sunter (1993a:81) also makes the statements that the world of education and the world of business is completely out of 'sync' with each other and that the world of education and the world of business will have to move a lot closer in order to overcome the incredible mismatch that lies between them at the moment. This study has found that small business people in the Greater Soweto Area lack certain training in respect of financial matters. The level of education of respondents in this study was not determined, but, in view of Sunter's (1993a:82) question, there is no reason why they should have had business management or entrepreneurial education at school. Some of them may have had some business management related education at tertiary level. It can, however, be concluded that some changes should be made to primary, secondary and tertiary education in order that school, technicon, and university leavers have at least some business management or entrepreneurial training. The following changes are recommended:

(a) That primary and secondary school curricula should include a study of entrepreneurial management.

(b) That non-economic and management science faculties at universities should all provide for a compulsory course, or more than one course if necessary, in entrepreneurial management.

(c) That schools, technicons and universities should become pro-actively involved in entrepreneurial management training of adults on a much larger scale as is hitherto the case, since, as Sunter (1993a:99) points out quite correctly, education is certainly not only for six- to twenty-two-year-olds, particularly when education (training) is focused on entrepreneurial management. People at all levels of age will have to get more and more involved in self-employment efforts, because Pretoria will not always provide and large businesses are shrinking their employment numbers all over the world (Sunter, 1993). More and more people will therefore have to provide for themselves in the form of self-emplyment.

(d) Courses at technicons and universities in economics and business management faculties should be focused much more on entrepreneurial skills rather than on training undergraduates to work for large companies. This study has shown that the accepted management activities are equally applicable to small businesses as they are

to large businesses (see Section 2.7.1). The emphasis should, however, change from large business to small business. Graduates can subsequently, as part of their experience and in-house training, be trained in the aspects of corporate business that were not included in their undergraduate courses.

(e) Courses at technicons and universities in economics and business management faculties should make provision for the transitional accommodation of educationally disadvantage students by means of special additional courses.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

In view of the findings in this study, the following suggestions for further research are put forward:

- Comprehensive research on the financing of small business in South Africa should be undertaken in order to bring about a system of small business financing that is adequate for the future needs of the country.

- Research on the problems of small business in acquiring finance should be undertaken with special reference to the perceptions of small business of the services provided to them by financial institutions.

- Research on the role of the feasibility study in the success rate of small business can be undertaken.

- Future content of school, technicon and university curricula to incorporate entrepreneurial management, should be undertaken, with special reference to the accommodation of educationally disadvantaged students.

5.6 CONCLUSION

In this chapter the study is summarised, conclusions drawn in the previous chapters are listed for the convenience of the reader, major conclusions are made, and a number of recommendations are made.

ANNEXURE A

QUESTIONNAIRE REGARDING THE FINANCING OF SMALL BUSINESSES IN THE GREATER SOWETO AREA

This questionnaire is strictly confidential and you or the business will not be identified to any third party.

SECTION A

Please provide the following information:

1. Name of business: .....

2. Address: .....

.....

3. Telephone number: .....

SECTION B

Please answer the following questions:

1. Is the business privately owned ? YES / NO

2. Is the business managed by the owner(s) ? YES / No

3. Is part of the capital supplied by the owner(s) ? YES / NO

4. If the answer to 3. is yes, what part of the capital is supplied by the owners ?

5%	10%	20%	30%	40%	50%	>50%

5. How many people are employed by the business ? .....

6. Depending on the nature of the business, i.e. whether it is a wholesaler, general dealer, etc., indicate the order of your assets and turnover below.

ASSETS

Wholesaler

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Retailer

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

General dealer

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Service station

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Hair salon

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Shoe-maker

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Manufacturing

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Other, please specify

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

TURNOVER

Wholesaler

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Retailer

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

General dealer

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Service station

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Hair salon

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Shoe-maker

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Manufacturing

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

Other, please specify

0 to 100 000	101 000 to 200 000	201 000 to 500 000	501 000 to 1,5 M	> 1,5 M	Do not know

SECTION C

Please cross the applicable on all the questions

1. How often do you calculate the total capital requirements for your business ?

Quarterly	Half-yearly	Yearly	Multi-yearly

2. To what extend do you consider the following criteria in deciding on the level of total capital investment in your business ?

Maximise return on investment	never	sometimes	always
Liquidity	never	sometimes	always
Solvency	never	sometimes	always
Other, please specify	never	sometimes	always

3. Are the following plans and statements prepared to determine capital requirements ?

Business plan	never	sometimes	always
Budgets	never	sometimes	always
Projected income statements	never	sometimes	always
Projected balance sheets	never	sometimes	always
Projected capital requirements schedule	never	sometimes	always
Other, please specify	never	sometimes	always

4. To what extend are the following short-term financing sources used by your business ?

Trade credit	never	sometimes	always
Bank overdraft	never	sometimes	always
Revolving credit	never	sometimes	always
Factoring of debtors	never	sometimes	always
Other, please specify	never	sometimes	always

5. To what extend are the following medium term financing sources used by your business ?

Medium term loans	never	sometimes	always
Leasing	never	sometimes	always
Instalment sale (HP)	never	sometimes	always
Other, please specify	never	sometimes	always

6. To what extend are the following long-term financing sources used by your business ?

Own capital	never	sometimes	always
Long-term loans	never	sometimes	always
Sale and lease-back	never	sometimes	always
Venture capital	never	sometimes	always
SBDC loan schemes	never	sometimes	always
Other, please specify	never	sometimes	always

7. To what extend are the following informal financing sources used by your business ?

Stockvel loans	never	sometimes	always
Money lender's loans (Mashonisa)	never	sometimes	always
Other, please specify	never	sometimes	always

8. If your business use informal financing, please indicate the reason why you use informal financing.

(a) No formal requirements YES / NO

(b) No security required YES / No

(c) Could not obtain funds from financial institutions YES / NO

(d) Other reasons, please specify .....

9. Do you have difficulty in obtaining finance ?

Never	Sometimes	Always

If your answer to question nine is sometimes or always, then please answer question 10 below.

10. Why in your opinion is finance not available or financial assistance refused by financial institutions ?

(a) Sources of financing not available	YES	NO
(b) Lack of understanding by banks	YES	NO
(c) Difficulty in supplying information	YES	NO
(d) Discrimination by banks	YES	NO
(e) Owners capital contribution low	YES	NO
(f) Past net profits too low	YES	NO
(g) Other borrowed capital too high	YES	NO
(h) Business regarded as too risky	YES	NO
(i) Not aware of existing sources of financing	YES	NO
(j) Lack of managerial skills	YES	NO
(k) Other, specify		

THANK YOU FOR YOUR CO-OPERATION

BIBLIOGRAPHY

Alreck, P. L. & Settle, R. B. 1985. The survey research handbook. Boston: Irwin.

Ames, M. D. & Wellsfry, N. L. 1983. Small business management. Minnisota: West publishing company.

Amey, R. L. 1986. An approach to providing venture capital to the informal black manufacturing sector. Johannesburg: Small business committee.

ANON. 1988. Small business and the South African economy.Johannesburg: Small Business Development Corporation.

Anon. 1989(a). Issues in informal finance. World Development Report -1989. Washington: Oxford University Press.

Anon. 1989(b). The SBDC...your partner in business. The Small Business Development Corporation Fact sheet B17/89e. Johannesburg: Small Business Development Corporation.

Anon. 1991. Business Day. 15 October, 1991.

Anon. 1992. New employment Definition needed. Engineering Week. 14(1), January

Beavon. K. 1989. Informal ways: a window on informal business in South Africa. Johannesburg: Small Business Development Corporation.

Bell, C. 1990. Interaction between institutional credit agencies in rural India. The world bank economic review. 4(3): 297-327.

Berthoud, R. & Hinton, T. 1989. Credit union in United Kingdom. London: Pinter Publishers.

Booysen, M. 1992. The influence of the external environment on the internal environment of small businesses. Sebokeng: (Thesis (Ph.D) - Vista).

Brigham, E. F. & Gapenski, L. C. 1990. Intermidiate financial management. Florida: Dryden.

Burns, P. & Dewhurst, J. 1989. Small business and entrepreneurship. London: MacMillan.

Bryman, A. & Cramer, D. 1990. Quantitative data analysis for social scientists. New York: Routledge.

Cates, W. M. 1985. A practical guide to educational research. New Jersey: Prentice-Hall.

Chisnall, P. M. 1992. Marketing research. London: McGraw-Hill.

Churchill, G. A. 1992. Basic marketing research. Fort Worth: Dryden.

Cole, R. H. 1984. Consumer and commercial credit management. Illinois: Irwin.

Collier, P. A., Cooke, T. E. & Glynn, J. J. 1988. Financial and treasury management. London: Heinemann.

Correia, C., Flynn, D., Uliana, E. & Wormald, M. 1989. Financialmanagement. Cape Town: Juta.

De Coning, C. 1986. The formal business sector in Greater Soweto. Development Southern Africa. 13(4), Nov.

Dillon, W. R., Madden, T. J. & Firtle, N. H. 1990. Marketing research in a marketing environment (2nd ed). Boston: Irwin.

Du Plessis, A. P. & Levin, M. 1989. Socio-economic study of Gampo. Report no 13. Port Elizabeth: Employment research unit, Vista University.

Du Toit, C. M. 1990. Fundamental business economics. Durban: Butterworths.

Emory, C. W. & Cooper, D. R. 1991. Business research methods (4th ed.). Boston: Irwin.

Gitman, L. G. 1982. Principle of managerial finance. New York: Harper & Row.

Gitman, L. G. 1987. Basic managerial finance. New York: Harper & Row.

Falkena, H. B., Fourie, L. J. & Kok, W. J. 1987. The mechanics of the South African financial system (2nd ed.). Johannesburg: Amagi.

Fraenkel, J. R. & Wallen, N. E. 1990. How to design and evaluate research in education. New York: MacGraw-Hill.

Hoff, K. & Stglitz, J. E. 1990. Introduction: information and credit markets - puzzles and policy perspectives. The World Bank review. 4(3), Sept.

Holmes, S. & Nicolls, D. 1988. An analysis of the use of accounting information by Australian small business. Journal of small business. 15(2), April.

Joy, O. M. 1983. Introduction to financial management. Illinois: Irwin.

Keown, A. J., Scott, D. F., Martin, J. D. & Petty, J. W. 1985. Basic financial management (3rd ed.). New Jersey: Prentice-Hall.

Kerlinger, F. N. 1986. Foundations of behavioral research (3rd ed.). Forth Worth: Holt, Rinehart & Winston.

Kinnear, T. C. & Taylor, J. R. 1987. Marketing research: An applied approach (3rd ed.). New York: MacGraw-Hill.

Kress, G. 1988. Marketing research (3rd ed.). New Jersey: Prentice-Hall.

Krige, D. G. 1988. The prospects for informal small business in Kwa-Mashu. Development Southern Africa. 5(2), May.

Lambrechts, I. J. 1990. Financial management. Pretoria: Van Schaik.

Lukhele, A. K. 1990. Stokvels in South Africa. Johannesburg: Amagi.

Marx, F. W. & Churr, E. G. 1985. Fundamentals of business economics. Pretoria: Haum.

Mears, R. R. 1991. Migration and urbanization: a comparative study. Soweto: (Thesis (Ph.D) - Vista).

Megginson, L. C., Scott, C. R., Trueblood, L. R. & Megginson, W. L. 1988. Successful small business management (5th ed.). Texas: Bussiness publications.

Mills, K. 1986. A Handbook of credit management for commerce and industry. Sandton: Credit publications.

Morfett, M. P. 1985. The informal venture capital market. Johannesburg: (Dissertation (MBA) - University of the Witwatersrand).

Moyer, R. C., MacGuigan, J. R. & Kretlow, W. J. 1988. Contemporaryfinancial management. St Paul: West.

Nel, P. A., Rädel, F. E. & Loubser, M. 1990. Researching the South African

market. Pretoria: University of South Africa.

Neveu, P. R. 1989. Fundamentals of managerial finance (3rd ed.). Cincinnati: South-Western.

Parasuraman, A. 1990. Marketing research. Texas: Adison-Wesley.

Pickle, H. B. & Abrahamson, R. L. 1986. Small business management (4th ed.). New York: Wiley.

Potgieter, J. F. 1993. Identifying factors inhibiting establishment and continuance of small businesses. (Paper read at the 6th annual conference of the International Council for Small Business - Southern Africa, May).

Radder, G. 1988. The financing and financial structure of black small business in Port Elizabeth. Port Elizabeth (Dissertation (MCom.- Vista).

Reekie, W. D. & Lingard, G. S. 1986. Elements of South African business finance. Johannesburg: MacMillan.

Ross, S. A. & Westerfield, R. W. 1988. Corporate finance. Missouri: Time Mirror/Mosby.

Saenger, E. 1991. An investigation into future oriented approach to financial reporting in South Africa. Pretoria: (Thesis (Ph.D) - UNISA).

Scarborough, N. M. & Zimmerer, T. W. 1984. Effective small business management. Ohio: Merril.

Schwenke, J. 1992. Venture capital: an implementation strategy for Southern Africa. (Paper read at the 5th annual conference of the International Council for Small Business - Southern Africa, May).

Scott-Wilson, P. & Mailoane, M . 1990. Development in the informal sector. Dynamica-Bulletin. 32, Pretoria.

Siamwalla, A. Pinthong, C., Poapongsakorn, N., Satsanguan, P., Nettayarak, P., Mingmaneenakin, W. & Tubpun, Y. 1990. The Thai rural credit system: public subsidies, private information and segmented markets. The World Bank review. 4(3), Sept.

Sommer, R. & Sommer, B. 1986. A practical guide to behavioral research: tools and techniques (2nd ed.). New York: Oxford.

Steinhoff, D. & Burgess, J. F. 1986. Small business management fundamentals (4th ed.). New York: MacGraw-Hill.

Struwig, F. W. 1991. Entrepreneurship: a strategy for managing change and innovation. Port Elizabeth: (Thesis (Ph.D) - Vista).

Struwig, F. W. 1992. The informal money market: a pilot survey on stokvels. (Paper read at the seminar for financial academics, Johannesburg. Unpublished).

Sunter, C. 1993a. Pretoria will provide and other myths. Cape Town: Tafelberg.

Sunter, C. 1993b. Interviewed on South African Broadcasting Corporation program: Agenda. Johannesburg, October.

Szilagyi, A. D. 1981. Management and performance. California: Goodyear.

Tooteliam, D. H., & Gaedeke, R. M. 1985. Small business management (2nd ed.). Illinois: Scott-Foreman.

Van Horne, J. C. 1986. Fundamentals of financial management (6th ed.). New Jersey: Prentice-Hall.

Van Niekerk, W. P. 1988. Contemporary management. Durban: Butterworth.

Van Rensburg, J. J. 1993. Private communication: Johannesburg.

Vosloo, W. B. 1989(a). Invisible assets. Johannesburg: Small Business Development Corporation.

Vosloo, W. B. 1989(b). Small business in the face of the future South Africa. (Paper read at The Institute of Management Consultants of Southern Africa's Man of the year award - 7 March, 1989).

Vosloo, W. B. 1989(c). The funding of black businesses by the development corporation. (Address at NAFCOC Conference. Middelburg, April).

Vosloo, W. B. 1989(d). The peculiar problems encountered by development corporation in funding black businesses. (Address at NAFCOC conference - April.

Walizer, M. H. & Wienir, P. L. 1978. Research methods and analysis: searching for relationships. New York: Harper & Row.

Weiers, R. M. 1988. Marketing research. New Jersey: Prentice Hall.

Weston, J. F. & Brigham, E. F. 1981. Managerial finance (7th ed.). Illinois: Dryden.

Weston, J. F. & Brigham, E. F. 1990. Essentials of managerial finance (9th ed.). Illinois: Dryden.