



Exploring the role of financial capital in SMMEs in Gauteng

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DECLARATION

Student number: 20470398

I, Fusi Khethang Mokoena, Student number 20470398, declare herewith that the mini dissertation entitled

Exploring the role of financial capital in SMMEs in Gauteng

which I herewith submit to the North-West University complied with the requirements set for the degree: Master of Business Administration, is my work, has been text-edited by the requirements and has not been submitted to any other university.

Signature: *Fusi Khethang Mokoena*

Date: 04/02/2025

DEDICATION

This degree is dedicated to the memory of my 3 fathers (my dad and two uncles) who are now in the presence of their Creator and will forever be a part of me. Ntate, Yaya and Rangoane, from you I learned the power of positivity, you always believed in and encouraged me to be the best I could be. I watched you live your lives to the fullest and I wanted to do the same, you loved life and life loved you back. My faith tells me that you are smiling down on this occasion.

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To my Creator, to whom I owe this wonderful gift that is life, I am eternally grateful for all the blessings you have, continue to, and will always shower upon my life. My relationship with you enables life in me. Prayer changes.

To my children; Phetheho, my eldest son and heir, Bokang, son of my strength, Lehakoe, the apple of my eye. All three of you are my sunshine and have unknowingly been the source of my inspiration and motivation to forge ahead even when I could not see my way clear. You bring meaning and purpose to my life. Phetheho and Bokang, my two boys, you have had to tolerate a father who dedicated the first years of your lives to academia. Lehakoe, my baby girl, you arrived right when I decided I was in the final stretch of my academic life. I look at all three of you and after such an eventful academic life, I have the answers to my questions, my life makes sense, my heart is full, and I am content.

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ABSTRACT

Small, Micro, and Medium Enterprises (SMMEs) play a critical role in economic growth and development, yet many struggle to access the financial capital needed for survival and expansion. This study explored the role of financial capital in SMMEs in Gauteng, focusing on the challenges and opportunities related to accessing financial support. Using a qualitative approach within an interpretivist paradigm, semi-structured interviews were conducted with four purposively selected SMME owners from the manufacturing, construction, human resource recruitment, and financial services sectors. Data was analysed thematically using ATLAS.ti to uncover key insights.

The findings reveal that complex statutory requirements, lack of collateral, and risk-averse financial institutions hinder access to financial capital. Compliance with tax regulations, accurate financial record-keeping, and maintaining creditworthiness emerged as vital strategies for overcoming these barriers. Additionally, participants demonstrated resourcefulness by leveraging alternative financing options such as personal credit and supplier financing. Limited access to financial resources was found to significantly impact SMME survival, operations, and growth.

The study concluded by recommending management practices and policy interventions aimed at enhancing access to financial capital. These findings highlight the potential of improved financial support to unlock growth opportunities for SMMEs and contribute to their long-term growth. This research provides actionable insights for policymakers, financial institutions, and SMME stakeholders, emphasising the importance of targeted support to empower this vital sector.

KEY WORDS

Small, Micro, and Medium Enterprises (SMMEs); financial capital; creditworthiness; working capital; expansion capital; tax compliance; company registration; financial records; supplier credit.

DEFINITION OF TERMS

Capital refers to the financial resources or wealth that individuals, businesses, or entities possess and use to invest, generate income, or run their operations. It can include money, assets, or property (Yu & Nilsson, 2019:2415). Hargrave (2022) defines capital as anything that provides value or advantage to its owners, such as a factory and its equipment, intellectual property like patents, or the financial assets of a company or an individual.

Financial capital is referred to by Ross (2022) as anything with monetary value used to pursue future revenue.

Venture capital is a type of private equity financing intended for small businesses and start-up companies that are perceived as having long-term growth potential (Hayes, 2022; Baldrige, 2022).

Collateral is defined by Peterdy (2022) as security in the form of an asset that is pledged by a borrower to a provider of credit. These can be in the form of tangible assets such as property or in the form of cash, investments, or savings

SMME stands for Small Micro and Medium Enterprises. An enterprise is classified as either small, micro, or medium according to two metrics based on its sector namely number of total equivalent paid full-time employees and total turnover (Department of Small Business Development, 2019:110-111).

OECD is the Organisation for Economic Co-operation and Development is an intergovernmental organisation that was founded in 1961 which consists of 38 members.

Credit rationing takes place when applicants of the same category in appearance do not get the same outcome in credit applications, where one is granted access to credit and the other is denied access. (OECD, 2022).

LIST OF ABBREVIATIONS

CIPC	Companies and Intellectual Property Commission
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
FSCA	Financial Sector Conduct Authority
FSRA	Financial Sector Regulation Act 9 of 2017
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
NCA	National Credit Act 34 Of 2005
NEF	National Empowerment Fund
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
SARS	South African Revenue Service
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Financing Agency
SMME	Small Medium Micro Enterprise
VAT	Value-Added Tax

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CHAPTER 1 INTRODUCTION AND BACKGROUND

1.1 Introduction

Small Micro Medium Enterprises (SMMEs) play a crucial role in the economic landscape, contributing significantly to innovation, employment, and overall economic development (World Bank Group, 2018:11). Financial capital, in the context of SMMEs, refers to the funds necessary for their operations, investment in assets, and overall sustenance (Ross, 2022). It encompasses both equity capital, representing ownership interests, and debt capital, acquired through borrowing. The effective allocation and utilisation of financial resources are pivotal for their survival and growth (World Bank Group, 2018:12). In a dynamic business environment within Gauteng, the role of financial capital is critical, therefore understanding the role which financial capital plays in the functioning and growth of SMMEs is imperative. Gauteng, as the country's economic hub, is home to a diverse array of SMMEs operating in various sectors (Ross,2022). This chapter sets the scene and introduces a broader study regarding the role of financial capital in SMMEs in Gauteng. Chapter 1 covered the background of the study, problem statement, research objectives, significance of the study, scope of study, research design and methodology.

1.2 Background of the study

SMMEs form the backbone of economic activity in many nations, particularly in emerging economies where they drive growth, innovation, and poverty alleviation (Adonis, 2022). Globally, SMMEs dominate the business landscape, accounting for approximately 90% of enterprises and contributing over 50% of employment opportunities worldwide (The World Bank, 2024). The importance of SMMEs transcends local economies, playing a pivotal role in the expansion of the global economy by fostering entrepreneurship, reducing income inequality, and promoting regional development. In developed economies, SMMEs are key players in innovation and supply chain diversification, while in developing countries, they serve as critical drivers of socioeconomic transformation by providing access to goods, services, and employment in underserved communities (Fatoki, 2024:922). Recognizing their substantial impact, international organizations such as the United Nations and the World Bank emphasize policies to enhance SMME

competitiveness, access to finance, and integration into global value chains, underscoring their essential role in achieving sustainable economic growth worldwide (Fatoki, 2024:922).

In South Africa, SMMEs contribute over 41% to the Gross Domestic Product (GDP) and employ more than 87% of the workforce (OECD, 2022). Fatoki (2024:922) further attested that 70% to 80% of SMMEs in South Africa fail within the first five years of existence. Finmark Trust Annual Report (2022:8) highlights that SMMEs contribute significantly to the country's employment, making their existence integral to economic success. With their estimated R3.1 trillion turnover, SMMEs still face challenges, with only 37% considered formal, leading to limited access to funding and financial exclusion (Hargrave, 2022). Among the estimated 2.6 million SMMEs, more than 84% are micro-enterprises and provide between one and ten jobs, almost 15% are small enterprises that employ 11 to 50 employees and under 1% are medium enterprises that employ 51 to 250 employees. (Finmark Trust Annual Report, 2022: 7-8). This highlights the critical role that SMMEs play in employment generation, particularly in emerging economies.

Kesper (2000:1) states that SMMEs grow in numbers and not in size and that more SMMEs are survivalists than those that have the potential to be job creators. According to current estimates, SMMEs account for 40% of South Africa's GDP (Shava, 2024:404). The majority of SMMEs in South Africa (54%) are informal micro-enterprises. Merely 37% of SMMEs in South Africa are officially registered with the Companies and Intellectual Property Commission (CIPC) and/or other government registration channels, such as local governments, and only 30% are registered with the South African Revenue Service (SARS) as taxpayers. Nonetheless, with a GDP contribution of more than R2.9 trillion, SMMEs that are legally registered play a vital role in the economy accounting for 87% of job opportunities, of which 20% are owners of these SMMEs (Republic of South Africa, 2023:11)

The term capital refers to numerous concepts in finance (OECD, 2022). Capital entails anything that grants value or benefit to its holder, it may be in the form of cash that is put to work, and it is therefore an essential element of the day-to-day operations of a business and facilitates growth (Hargrave, 2022). Also, other forms of capital are fixed, physical

and human to name a few (Wallstreetmojo Team, 2023). Financial capital refers to something that has monetary value and can be employed in generating revenue. It refers to a company's buying power, be it in the form of cash, credit or other forms of financing and is required to produce income (OECD, 2022). It is the lifeblood of a company as well as its most significant asset as it is used to procure other forms of capital. It can therefore be argued that capital grants value to a business (Ross, 2022).

In the realm of finance, capital takes various forms, including cash and capital to finance fixed assets, and human resources (Hargrave, 2022; Wallstreetmojo Team, 2023; Ross, 2022). Nobes (2015:421) defines financial capital as the pool of money that an organisation has access to through financing, such as debt, equity, or grants. It represents the total value of a company's financial resources, including cash, equipment, buildings, and other tangible and intangible assets. Financial capital is a crucial aspect of a company's overall capital structure and plays a key role in determining its financial health and ability to generate profits (Hayes, 2022). It is estimated that 2.6 million SMMEs exist in South Africa and of these, only an estimated 37% are considered formal. FinMark Trust (2020:10) shows from a survey that only 37% operate as formal enterprises. This informality is a contributor to the lack of access to funding and financial exclusion from formal financial services.

1.3 Problem Statement

FinMark Trust (2020:7) estimates that SMMEs have an estimated turnover of around R3.1 trillion. However, despite this sizeable contribution to growth by SMMEs, South Africa still has one of the lowest rates of successful SMMEs (OECD, 2022). According to OECD (2022), despite the recognised need for financial capital in the growth and sustainability of SMMEs, credit rationing remains a persistent hindrance to their expansion. The financing gap, indicating restricted access to funding, is exacerbated by financial institutions' reluctance to provide financing to start-ups and young companies without collateral, potentially forfeiting the benefits of high-return businesses (Baldrige, 2022). Banks, often risk-averse, require collateral for extending credit to SMMEs, which can be tangible assets or cash (Peterdy, 2022). Alternatively, venture capital, a form of private equity financing, serves as an alternative funding source for SMMEs, although access

remains limited (Hayes, 2022; Baldrige, 2022). This study explored the role of financial capital in SMMEs in Gauteng.

In many OECD countries, SMME financing is seen as an attractive business line, yet small businesses face more stringent credit restrictions, higher investigation costs, and a lack of information on financing sources, reducing their likelihood of complying with loan requirements (OECD, 2022). In South Africa, Johnson and Reed (2023:181) attested that the challenge of limited access to funding for SMMEs is emphasised by compelling statistics and research findings. According to the SARB Report (2023:68), approximately 80% of SMMEs face difficulties in accessing adequate funding. The South African Reserve Bank's data reveals that only 30% of SMME loan applications are approved, highlighting a substantial gap between demand and approval rates. Consequently, numerous SMMEs struggle to secure formal sector financing, impeding their ability to deploy funds productively (Wallstreetmojo Team, 2023). The financing gap is described as the lack of access to financing faced by enterprises (Jordaan & Coetzee, 2021:373). Given this assumption, many SMMEs cannot gain access to financing from the formal sector, financing which could be put to productive use. This has led to the need to explore the prevalence of this gap and its role in the performance of SMMEs.

1.4 Research Objectives

The following objectives were formulated for the study:

1.4.1 Primary Objective

The primary objective of this study was to explore the role of financial capital in SMMEs in Gauteng province to better understand the challenges and opportunities related to financial support for these enterprises.

1.4.2 Secondary Objectives

To achieve the primary objective, the following secondary objectives were formulated for this study.

1. To gain an understanding of the statutory requirements for SMMEs to access financing.
2. To explore the different forms of financing available to SMMEs at the different stages of their lifecycle.
3. To explore the factors that contribute to the ability or inability of SMMEs in Gauteng to access financial capital.
4. To recommend management practices that enhance SMMEs' ability to access financial capital.

1.5 Research Questions

1.5.1 Primary Research Question

What is the role of financial capital in SMMEs in Gauteng?

1.5.2 Secondary Research Questions

1. What are the statutory requirements for SMMEs to access financing?
2. What are the different forms of financing available to SMMEs at the different stages in their lifecycle?
3. What are the reasons that SMMEs in Gauteng are able or not able to access financial capital?
4. What management practices can enhance SMMEs' ability to access financial capital?

1.6 Significance of the Study

The significance of this study was emphasised by its commitment to advancing the understanding of the role of financial capital within SMMEs in Gauteng. Thus, through exploring factors such as the availability, challenges, and role of financial resources, the research aimed to unravel the intricate financial dynamics shaping these enterprises. This study's potential to offer nuanced insights held paramount importance as it could pave the way for enhancing financial strategies tailored specifically for SMMEs in Gauteng. By gaining a comprehensive understanding of the financial intricacies in this vibrant

economic hub, the research positioned itself to provide valuable recommendations and interventions that foster resilience and sustainability among SMMEs. The aim was to contribute substantively to the broader economic prosperity of the province, aligning with the imperative of bolstering the vital SMME sector in Gauteng.

1.7 Scope of Study

The scope of the study was to explore the role of financial capital in SMMEs in Gauteng. The scope also encompassed a tour of the factors impeding SMMEs in Gauteng from accessing financial capital. The study concentrated the exploration into the dynamics of financial capital, statutory requirements for accessing financial capital and management practices that could enhance SMMEs' ability to access financial capital within the context of SMMEs operating in Gauteng.

1.7.1 Field of Study

The field of the study was financial management focusing on the availability of financial capital in SMMEs.

1.7.2 Sector

SMMEs in the construction, human resource recruitment, financial services, and manufacturing sectors in Gauteng.

1.7.3 Geographical Demarcation

The study focused on SMMEs in Gauteng.

1.8 Research Design and Methodology

The study comprised a literature review and a qualitative investigation.

1.8.1 Literature Review

A literature review is an exhaustive summary of research that has been previously done on a topic (Bloomsburg, 2023). For the literature review to give insight into the subject

matter, the source from which information is drawn should be broad and wide. A substantial amount of literature review was undertaken in the form of academic journals, peer-reviewed articles, and published textbooks, all of which were available through Google Scholar, EBSCOhost, and online libraries. Librarians at the North-West University were consulted to assist in finding credible academic sources that were beneficial towards this study. The literature review was conducted to gain an understanding of the role of financial capital in SMMEs.

1.8.2 Qualitative Investigation

A qualitative investigation is based on observed and measured experiences or events rather than theory (PennState, 2023). A qualitative investigation study adds to existing knowledge and adds value to the research (Chetty, 2019:9).

Interviews were conducted and consisted of open-ended questions that allowed interviewees to give insights into their own experiences as these gave more elaborate information. SMME owners were best suited to give insight into their own experiences and had an interest in knowing about the importance of raising capital.

This section introduces the research paradigm, research approach and methodological choice, research methodology, research strategy, time horizon, population and sampling, data collection, data analysis and ethical considerations.

1.8.2.1 Research Paradigm

A research paradigm is a viewpoint that leads a research investigation (Guba & Lincoln, 1994). Saunders *et al.*, (2019:244) identify two key paradigms, positivism and interpretivism. A positivist paradigm focuses on pure data and facts. However, an interpretivism paradigm contemplates cultural and circumstantial differences to name a few and endeavours to include insights collected from research (Alharahsheh & Pius, 2020:40). This study followed an interpretivism paradigm as it sought to explore the role of financial capital in SMMEs in Gauteng.

1.8.2.2 Research Approach and Methodological Choice

A research approach is a broad method that guides the conduct of research (Saunders *et al.*, 2019:245). A research approach can either be inductive or deductive (Alharahsheh & Pius, 2020:40). An inductive research approach moves from the particular to the general in making observations and formulating concepts and theories based on the observations, unlike a deductive approach that moves from the general to the particular, starting from a theory and developing a hypothesis (Creswell, 2018:137). An inductive approach was undertaken in this study where qualitative data was collected using semi-structured virtual interviews of business owners of selected SMMEs in Gauteng.

1.8.2.3 Research Methodology

Research methodology is a planned way to solve a research problem (Kumar, 2020:93). A researcher may decide to follow either a qualitative or quantitative research methodology. Quantitative research methodology involves the measurement of the data collected during the study (Creswell, 2018:138). The data is analysed for relationships that verify the measurements (Saunders *et al.*, 2019:246). However, a qualitative research methodology is used to understand people's beliefs, viewpoints and experiences and does not use numerical data or statistics (Flick, 2018:528). Furthermore, qualitative research involves naturalistic observation in real-world settings in the context of SMMEs. This study followed a qualitative approach to explore the role of financial capital in SMMEs in Gauteng.

1.8.2.4 Research Strategy

A research strategy is a method used to collect research data. In line with qualitative research, research strategies are case studies, interviews, focus groups and action research (Saunders *et al.*, 2019:243). The study adopted interviews as a research strategy.

Easwaramoorthy (2016) describes an interview as a conversation for collecting information involving the interviewer who asks questions and the interviewee who answers them. They can be structured, semi-structured or unstructured. A structured

interview follows a standard, predetermined order of questions in which the interviewee should choose an answer from a list of options (Saunders *et al.*, 2019:243). A semi-structured interview uses predetermined questions, but the interviewee can answer in their own words, and the interviewer can ask follow-up questions for clarity. Semi-structured interviews can gather a depth of information (Melnikovas, 2019:30). Unstructured interviews have no standard or predetermined questions or answers. This kind of interview is more spontaneous (Saunders *et al.*, 2019:243).

The adoption of a virtual MS Teams semi-structured interviews-based research strategy was justified by its capacity to provide a direct and authentic understanding of the challenges and opportunities faced by SMMEs in managing and accessing financial capital. The depth and richness of information derived from interviews offered a comprehensive view of the financial dynamics within SMMEs and by engaging directly with the individuals involved in the financial decision-making processes of these enterprises, the interviews strategy provided a platform for uncovering context-specific roles of financial capital in Gauteng's SMMEs.

1.8.2.5 Time Horizon

Melnikovas (2019:30) defines time horizon as the time frame of the research. This can either be cross-sectional which implies short-term or a point in time or longitudinal which is over a longer period. A cross-sectional design was used for this study as this is often more time and cost-effective compared to longitudinal designs. The design allows researchers to collect data from a diverse sample at a single time point, reducing the resources required for follow-up assessments (Saunders *et al.*, 2019:257).

1.8.2.6 Target Population and Sampling

A target population is the entire group the researcher is interested in basing their research and analysis on (Creswell, 2018:140). Flick (2018:540) further stated that the target population refers to the entire group of individuals or elements to which a researcher intends to generalise the findings of a study. Thus, it represents the broader group on which the researcher wants to conclude. The target population for this study was SMMEs in Gauteng where owners were targeted.

1.8.2.6.1 Selection of participants (sampling)

Sampling is the process of selecting a subset of individuals or elements from a larger population to conduct a study (Flick, 2018:541). The goal of sampling is to gather data from a representative subset that can be used to make inferences or draw conclusions about the entire population. There are two sampling strategies namely, probability which covers simple random sampling, cluster sampling, stratified sampling and non-probability which includes purposive sampling, convenience and snowball sampling (Creswell, 2018:152). In this study, non-probability sampling was used to select the participants. The strategy was executed using a purposive sampling technique which is dependent on the judgement of the researcher and based on a variation of criteria which may include familiarity of the topic, knowledge of the participant and time constraints. The non-probability sampling was chosen as it allows for the inclusion of participants relevant to the study's context (Saunders *et al.*, 2019).

According to Creswell (2018:141), a sample size refers to the number of individuals, elements, or observations included in a research study. It is a critical aspect of research design and determines the subset of the population from which data was collected. The researcher selected a sample of 4 participants for the study. According to Flick (2018:542), the advantages of purposive sampling include time and cost efficiency, the care that would have been taken to select the sample and the fact that it offers a wide range of techniques that can be used particularly in qualitative research designs.

1.8.2.6.2 Collection of data

Data collection is the eliciting of views and perceptions from the participants in an qualitative investigation study (Flick, 2018:544; Kumar, 2020:99). Hox and Boeijie (2005:593) distinguish between primary and secondary data as follows; primary data is original and collected for the specific research question while secondary data is that which was collected earlier and now being used again for another study.

As Saunders *et al.* (2019) suggest, qualitative research credibility is enhanced through the use of multiple data collection techniques, providing a comprehensive and nuanced understanding of the research phenomenon. In this study, semi-structured interviews

served as the primary method for data collection, guided by an interview schedule with open-ended questions designed to capture detailed insights into participants' experiences and perspectives. Additionally, field notes were taken to record contextual information, non-verbal cues, and observations that were not captured through verbal responses, offering a richer understanding of the research setting. Reflective journals were maintained throughout the study to document personal insights, reflections, and any potential researcher biases, further ensuring the validity of the data collected.

The use of the techniques—interviews, field notes, reflective journals, and secondary data—ensures a robust and comprehensive dataset, which strengthens the overall findings on the factors playing a role in SMMEs' access to financial capital (Saunders *et al.*, 2019; Creswell, 2021). This section sets the stage for the detailed methodology discussed in Chapter 3.

1.8.2.6.3 Interview schedule

An interview schedule consisting of a set of predetermined open-ended questions was developed to guide the researcher during the interviews conducted. The participants were guided and encouraged to share their experiences and views regarding the role of financial capital in their businesses.

In qualitative research, data collection instruments are tools used to gather rich, detailed information about participants' experiences, perspectives, and contexts. The key instruments include interviews, focus groups, observations, and document analysis. Interviews, in particular, allow researchers to explore participants' viewpoints in-depth, and they can be conducted in structured, semi-structured, or unstructured formats (Saunders *et al.*, 2019:178). Structured interviews follow a set list of questions, while unstructured interviews are more conversational and flexible (Creswell, 2021:199). Also, semi-structured interviews strike a balance between these, with guiding questions that also allow for probing based on participants' responses, making them ideal for both focused and spontaneous insights.

For this study, semi-structured interviews were selected to address the research objectives effectively. The interview schedule began with introductory questions to

establish rapport, followed by questions on the interviewee's demographics and business background. These initial questions provided essential context. The next set of questions focused on statutory requirements for funding, aligning with the first research objective, while the last section was aimed at objective three which was to explore the factors that contribute to the ability or inability of the SMME to access financial capital. This part was where most of the data and perception of the interviewee were obtained as there were no generic answers to these questions.

The interviews were conducted virtually via Microsoft Teams. Interviews lasted approximately 30 minutes each. This structure facilitated a thorough and nuanced understanding of each participant's perspective.

1.8.2.7 Fieldwork Notes and Reflective journal

The researcher recorded all interviews with the consent of each participant and used handwritten notes to support the recordings. This assisted with the transcription for analysis purposes. The observation was noted during the interviews, especially regarding the tone of voice from the interviewees. This indicated whether to continue the same path of questioning to get more information or to move on to a different line of questions.

1.8.2.8 Role of Researcher

Patton (2002) refers to the quality of qualitative data collection as centred around the authenticity of the data. The authenticity of the data considers the sampling approach and selection of participants to aid in the research questions being answered. It considers data triangulation which refers to the use of multiple sources of data to arrive at a broad view of the study (Saunders *et al.*, 2019:182). It also considers amongst various other factors the bias and the personal views and experiences of the researcher and the need to disclose the facts as well as to reduce the risks of inappropriate influence on the data to be collected (Sargeant, 2012). The author was a researcher in a field that they may have been a subject of, as an SMME owner themselves.

1.8.2.9 Data Analysis and Interpretation

Saunders *et al.*, (2019:260) attested that data analysis is a crucial step in the research process that involves transforming raw data into meaningful insights, patterns, and conclusions. In line with the adopted qualitative research approach, data analysis was conducted through thematic analysis using Atlas.ti. A thematic analysis is a qualitative research method used to identify, analyse, and report patterns or themes within a dataset (Saunders *et al.*, 2019:261). This technique was adopted as it allowed for in-depth exploration of the data, which enabled the researcher to uncover and understand the nuances and complexities of participants' experiences regarding the role of financial capital in SMMEs.

Atlas.ti is a computer-assisted qualitative data analysis software (CAQDAS) that provides tools for organising, analysing, and visualising qualitative data (Lochmiller, 2021:2030). Atlas.ti was chosen because it facilitates systematic coding and organisation of qualitative data, allowing researchers to efficiently manage large volumes of text, audio, video, or image data (Kumar, 2020:103).

1.8.2.10 Credibility and Trustworthiness

Reliability and validity, especially as far as the research instruments are concerned, are crucial aspects of quantitative research. In qualitative research, the researcher is the data-gathering instrument. Thus, it seems when qualitative researchers speak of 'validity and reliability', they are usually referring to research that is credible and trustworthy. According to Lincoln and Guba (1985:991) credibility, applicability, dependability, and conformability.

It is generally accepted that engaging multiple methods of data collection, such as observation, interviews, and document analyses, leads to trustworthiness. In addition, involving several investigators or peer researchers to assist with the interpretations of data could enhance trustworthiness.

2 Ethical Considerations

Ethical considerations refer to the principles and practices that guide researchers and other professionals in ensuring the moral integrity, respect, and well-being of individuals involved in a study or affected by its outcomes (Maree, 2017:135; Flick, 2018:543; Kumar, 2020:142). Ethical Considerations were detailed in Chapter 3.

1.9 Contribution of the Study

- **Theoretical Contribution**

This research sought to contribute to the existing body of knowledge about financing within SMMEs. It aided in providing information on the statutory requirements to access financing and the different forms of financing available at the different stages of the lifecycle of the SMME. It shed light on the factors that contribute to the ability or inability of SMMEs to access financing and recommended management practices that enhance the chances of SMMEs accessing financing in the future.

- **Practical Contribution**

The research shed light on the SMME sector, including business owners and of these SMMEs particularly as they relate to the finance part of these SMMEs. It raised awareness as to the importance of formalising not only the business but its financial records. It informed users of this information of the various forms of finance available and the requirements for access.

1.10 Limitations of the Study

The main limitation of this study was the geographical demarcation. With the time and resources available for this research it was impractical to collect data from different parts of the country. The study was conducted in Gauteng with a maximum of four participants. We can therefore not extrapolate the findings of this study to the rest of the SMME population both in Gauteng and the rest of South Africa. There is the possibility of participants being unwilling to participate in the study for reasons within or beyond their control. The research was explorative, and the qualitative data to be obtained and

analysed is subject to interpretation and therefore may contain bias. Department of Small Business Development, (2019:110-111) sets the turnover ceiling of enterprises qualifying to be SMMEs depending on the sector at R210 million or less. Companies that exceed this threshold cannot participate. These companies could have provided information on how they managed to grow to these levels and what role financial capital played on their way to evident growth.

1.11 Chapter Layout

The study is structured as below:

1.11.1 Chapter 1: Introduction

Chapter 1 provided an introduction to the study, detailing the research context, objectives, and questions. It sets the foundation for the research by explaining the significance of exploring financial capital in SMMEs in Gauteng. This chapter also introduces the research problem and outlines the study's scope, establishing the framework for the subsequent chapters.

2 Chapter 2: Literature Review

Chapter 2 offered an in-depth literature review that explores the theoretical and qualitative investigation foundations of the role of financial capital in SMMEs. The chapter reviews key theories, models, and past research findings to highlight the existing knowledge on the challenges and opportunities faced by SMMEs in accessing and managing financial resources. This chapter sets the stage for identifying gaps in the literature that the current study aims to address.

3 Chapter 3: Research Design and Methodology

Chapter 3 outlines the research design and methodology employed in the study. It describes the qualitative approach adopted, including the rationale for choosing this method, and explains the data collection techniques used; such as semi-structured interviews, field notes, reflective journals, and secondary data. The chapter also provides

an overview of the data analysis process, detailing how the thematic analysis was applied to ensure rigour and credibility.

4 Chapter 4: Results and Analysis

Chapter 4 presents the findings from the qualitative investigation research, focusing on the analysis of data gathered through interviews and other techniques. It interprets the results of the research questions, identifying key themes and patterns in the participants' responses. The chapter offers insights into the factors playing a role in SMMEs' access to financial capital, comparing and contrasting these findings with existing literature.

5 Chapter 5: Conclusions and Recommendations

Chapter 5 concludes the study by summarising the key findings, drawing conclusions based on the analysis, and offering recommendations for SMMEs, policymakers, and future research. This chapter reflects on the implications of the study's findings for the broader context of financial capital and SMME development in Gauteng and suggests areas for further investigation to build on the research outcomes.

1.12 Conclusion

Chapter 1 has provided a comprehensive introduction to the study by establishing the context, outlining the research problem, and presenting the research objectives and questions. The chapter began by highlighting the importance of financial capital for SMMEs in Gauteng, emphasising the challenges and opportunities these enterprises face in accessing and utilising financial resources. The significance of the study was clearly articulated, stressing the need for a deeper understanding of how financial capital influences the growth and sustainability of SMMEs in this region.

In addition, this chapter introduced the research design, explaining the qualitative approach adopted for the study. The rationale for choosing a qualitative methodology was rooted in the desire to gain rich, in-depth insights into the experiences and perspectives of SMME owners and managers, thereby contributing to a more nuanced understanding of the financial challenges SMMEs encounter. The chapter also outlined the research

objectives, which aim to explore the role of financial capital in SMMEs, focusing on the various factors that impact their ability to access and manage funding.

Furthermore, the research questions were presented, guiding the direction of the study and ensuring alignment with the research objectives. The chapter concluded with an overview of the structure of the dissertation, outlining the content of the subsequent chapters. Overall, Chapter 1 set the stage for the research by providing a solid foundation for understanding the importance of financial capital to SMMEs and establishing the methodological framework that will be employed throughout the study. The next chapter delved into the literature review and explored existing research and theories that informed and contextualised the study's findings.

CHAPTER 2 LITERATURE REVIEW.

2.1 Introduction

Chapter 2 reviewed the existing literature on the role of financial capital in SMMEs as the primary objective. The chapter addressed the conceptualisation of SMMEs, the role of SMMEs in the South African economy, legislations and statutory requirements for access to financing, the role of financial capital in SMMEs, the business lifecycle and financing at the different stages of the lifecycle, the different sources of financing and the factors that contribute to the ability or inability of SMMEs to access to financing.

This chapter began with an exploration of SMMEs in South Africa, referencing the National Small Business Act 102 of 1996 (NSBA) and classifying SMMEs according to various metrics across different industries. It then explored the significant role that SMMEs play in the South African economy, highlighting their development over time and growth in size.

The review continued with an analysis of the business lifecycle, from startup to maturity, and emphasised the various sources of financing available throughout this progression. A critical focus was placed on the role of financial capital within SMMEs and aligned with the primary objective of this study. This section was followed by a discussion of the various financing sources accessible to SMMEs. Additionally, the chapter included an analysis of the relevant legislation governing SMMEs, along with a review of the statutory requirements necessary for securing financing.

The chapter then touched on the factors that enhance or inhibit access to financing by SMMEs followed by a conclusion.

2.2 Small Medium and Micro Enterprises in South Africa

The term Small and Medium-sized enterprises is commonly utilised globally and corresponds to the South African designation SMME, as conceptualised by the Department of Trade and Industry (DTI) (Department of Small Business Development, 2019:113). Given that multiple definitions of SMMEs are used internationally, there is no

single, accepted definition. Against such a background, institutions and agencies frequently apply three criteria, namely, the number of employees, the yearly turnover (sales), and the value of assets, even if SMMEs vary in terms of size, industry, and company characteristics (Jordaan & Coetzee, 2021:376). In the South African context, the definition is rooted in independent policies aligned with the National Small Business Act 102 of 1996, which serves as a framework for state entities to support SMMEs in South Africa (DTI, 2018).

2.2.1 The Classification of SMMEs in South Africa

The National Small Business Amendment Act of South Africa (No.26 of 2003) (NSB Act) outlines specific distinctions among Small, Medium, and Micro enterprises and simplifies these SMME categories in Table 2.1, providing a clear delineation of each category.

Table 2.1: The DSBD definition of small businesses

Sectors about Standard Industrial Classification (SIC).	Size of Enterprise	Full-time Paid Employees	Total Turnover	Total Gross Value (Fixed Property Excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	20	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing, Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0.50m

Sectors about Standard Industrial Classification (SIC).	Size of Enterprise	Full-time Paid Employees	Total Turnover	Total Gross Value (Fixed Property Excluded)
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Adapted from the Department of Small Business Development (2019).

Table 2.1 outlines the classifications of small businesses in South Africa as per the Department of Small Business Development (2019). It provides a breakdown of various

sectors according to the Standard Industrial Classification (SIC), detailing the size of enterprises based on the number of full-time paid employees, total turnover, and total gross value (excluding fixed property).

2.3 The role of SMMEs in the South African economy

The global recognition of SMMEs is gaining momentum due to their significant contributions to job creation, social development, and economic expansion (Rungani & Potgieter, 2018:1). SMMEs in South Africa have been acknowledged as the key factor in easing some of the nation's economic difficulties (Bvuma & Marnewick, 2020:1). Small businesses make up most of the business landscape in South Africa because they play a major role in the economic development of the nation, providing 36% of Gross Domestic Product (GDP) and 60% of job opportunities (Herrington *et al.*, 2017:8).

SEDA (2023:14) articulated that as of 2023, the latest statistics indicate that SMMEs in South Africa have a significant role in job creation. Also, SEDA (2023:14) further pointed out that SMMEs accounted for approximately 47% of all employment in the country, which translated to about 8.5 million jobs showing a decline from the 9.31 million jobs reported in the second quarter of 2022 (SEDA, 2023:14). According to Bhengu (2024), SMMEs contributed 40% to South Africa's GDP. At the beginning of 2024, SMMEs created more than 50% of the labour force (Wijnberg, 2024:36). The South African government recognises SMMEs' significance, to the point where a new Ministry of Small Business Development was founded at the beginning of 2014 with a mission to facilitate the growth and development of SMMEs (Dhanah,2017:19). Therefore, it is sufficing to state that SMMEs play a pivotal role in driving economic development through various key aspects, particularly in job creation, as they generate employment at the local level in an emerging economy such as South Africa.

In Gauteng, the economic hub of South Africa, SMMEs play a pivotal role in both employment and economic growth (Bvuma and Marnewick, 2020:6). These enterprises contribute significantly to job creation, accounting for 55% of the workforce in the province (Stats SA, 2023). Bvuma and Marnewick (2020:5) further highlighted that government-

supported SMMEs in Gauteng province alone created nearly 150,000 jobs in a single year, showcasing the potential of SMMEs to bolster the South African economy.

Generally, beyond urban centres, SMMEs play a transformative role in rural areas and townships. The enterprises become cornerstones of local economic development, providing not only goods and services but also contributing to community growth and improved living standards (Malefane, 2013:673). The resilience and adaptability of SMMEs are particularly evident in the regions, where they become pillars of self-sufficiency and agents of positive change (Ross, 2022). SMME presence is instrumental in promoting economic activities in both rural and urban areas, supporting a more balanced and inclusive economic growth. In this regard, SMMEs also play a crucial role in wealth distribution by providing opportunities for entrepreneurship and business ownership (Bvuma & Marnewick, 2020:1). In essence, SMMEs in South Africa are not just economic entities but dynamic contributors to community development, social transformation, and economic empowerment. Bvuma and Marnewick (2020:4) classify SMMEs as, survivalist, micro, very small, small and medium enterprises. Their differences are tabulated below.

Table 2.2: SMME Classifications

Classification	Definition
Survivalist Enterprise	This category generates revenue well below established standards or minimum living standard measure levels. It comprises informal businesses such as vendors, hawkers, and subsistence farmers within the micro-enterprise segment (Ekobi, 2019:46).
Micro Enterprise	Revenue is capped at R150,000 per annum, many of these businesses, such as tuck shops, taxis, and home-based enterprises, are often not legally registered and employ fewer than five workers (DSBD, 2019:111).
Very Small Enterprise	Employ between 10 and 20 employees, a turnover of between R200 000 and R500 000 depending on the industry (DSBD,2019:111).

Classification	Definition
Small Enterprise	These enterprises have a maximum of 50 employees, and a turnover of between R2m and R25m (DSBD, 2019:111). Enterprises in this category are well-recognized and exhibit sophisticated business operations (Bvuma and Marnewick, 2020:4)
Medium Enterprise	These enterprises employ a maximum of 200 workers with a turnover not exceeding R50m (DSBD,2019:111).

Source: Bvuma and Marnewick (2020:4).

Table 2.2 presents the classifications of SMMEs according to Bvuma and Marnewick (2020:4). It outlines various categories, ranging from survivalist enterprises, which operate below minimum living standards, to medium enterprises, which employ up to 200 workers and have a turnover of up to R50 million. Each classification is defined by specific criteria regarding revenue, employee count, and formal recognition within the business landscape.

2.4 Legislation and Statutory Requirements for Access to Financing

Formality is a crucial segmentation component in the financing of SMMEs in South Africa (DTI, 2018). The legislation and statutes regulate how SMMEs have incorporated themselves into the credit information system, especially concerning their size. (Finmark Trust, 2021). Thus, large businesses usually have a tax number, a business bank account, bigger yearly turnovers, a license or permit to conduct business and all of the above. These are frequently the conditions that commercial institutions set to finance SMMEs, and as a result, formal firms are added to the official credit information system (Peziza, 2023:17).

Jordaan and Coetzee (2021:376) add that possessing a bank account that is set aside for business use, being able to access a large range of financial services and products that support the operations of the business, and routinely utilising these services and goods as well as accessing credit lines and affordable loans from reliable financial institutions aid in the ability of the SMME to gain access to more financing. The concept

of financial accessibility is defined by uniform standards, both domestically in South Africa and globally (Tshabalala, 2021:12). There are various legislations and statutory requirements governing and regulating access to financial capital in South Africa. Thus, access to financing in Africa is intricately woven into a complex web of statutory requirements and regulatory frameworks that are meticulously designed to uphold principles of transparency, fairness, and the protection of both financial institutions and consumers (Allen, Gu & Jagtiani, 2021:13-14).

The different laws and regulations that may govern SMMEs are elaborated below.

2.4.1 National Credit Act (NCA) 34 of 2005

The National Credit Act 34 Of 2005 (NCA) stands as a cornerstone in South Africa's regulatory framework, providing a comprehensive and robust set of guidelines governing credit transactions within the country (Tshabalala, 2021:1). Section 3 of the NCA sets out the purpose of the Act as that of the advancement of South Africans' social and economic well-being, the promotion of an equitable, open, competitive, sustainable, accountable, effective, and easily accessible credit market and industry, and consumer protection. Section 3 (a) emphasises the encouragement and creation of a credit market that is open to all South Africans, especially to those who have traditionally been denied access to credit in situations where the market is sustainable. All South Africans including juristic persons as the Act sets out in its application.

Sections 3 (c) and (d), rightfully impose a responsibility on both the credit provider and the consumer by encouraging consumers to borrow responsibly, stay out of debt, and pay their bills; and (ii) preventing credit providers from giving out credit carelessly and consumers from breaking their contracts. This helps to ensure that consumers have equitable and non-discriminatory access to consumer credit (Jordaan, 2021:103). Also, it is worth noting that s41(a)(i) read with s7(1)(a) excludes a juristic person whose annual turnover or asset value, at the time the agreement is concluded, meets or surpasses the threshold value, as does the total annual turnover or asset value of all related juristic persons, of R1million. Thus, SMMEs can either fall into the category of natural persons

in the event they are sole proprietors, or juristic persons in the event they are a legal non-human entity.

More so, Section 6 provided for requirements that do not apply to juristic persons, which would apply to registered SMMEs. Section 62 deals with the important topic of this study, being the right to reasons for refusal of credit. This empowered and educated SMME owners to foster financial conduct that enabled them to access credit in the future. In essence, the National Credit Act serves as a pivotal regulatory instrument, fostering a credit environment characterised by fairness, transparency, and responsible conduct (Thusi, 2022:11).

3 The Companies Act 71 of 2008

Section 7 of the Companies Act 71 of 2008 plays a crucial role in encouraging entrepreneurship and enterprise in South Africa by establishing a comprehensive regulatory framework for companies. The Act aims to create an environment conducive to business growth while ensuring that regulations are in place to protect investors and maintain market integrity. Chapter 2, Part B of the Act governs the formation and administration of companies, outlining the necessary steps for incorporation and operational compliance.

Parts D and E of the Act specifically address the financial aspects of companies, focusing on capitalisation and the registration of securities. These sections are vital for understanding how companies can secure funding to finance their operations and expansions. The Act provides various methods for raising capital, such as issuing shares, obtaining loans, or utilising other financial instruments. The regulations aim to balance facilitating access to capital for companies while safeguarding the interests of investors and creditors. Therefore, by allowing companies to issue different classes of shares, the Act enables them to attract diverse investors while ensuring that the rights and interests of existing shareholders are protected.

Furthermore, the Act imposes stringent financial reporting requirements. Companies must prepare and disclose accurate financial statements, ensuring transparency and accountability. These guidelines not only empower investors to make informed decisions

but also foster trust in the financial markets by promoting ethical management practices. The comprehensive framework established by the Act governs the internal operations of companies and their financial interactions with investors, creditors, and the broader financial community, thereby enhancing the overall integrity of the business environment in South Africa.

4 The Financial Sector Regulation Act (FSRA) 9 of 2017

The Financial Sector Regulation Act (FSRA) 9 of 2017 aims to create a stable financial system that serves the interests of financial clients while supporting sustainable economic growth in South Africa. In this regard, Section 7(1) outlines the goals of the Act, which include establishing a regulatory and supervisory framework to ensure the efficiency and integrity of the financial system, promoting financial stability, and protecting the interests of financial customers. The FSRA represents a significant shift in South Africa's financial regulatory landscape, transitioning towards the Twin Peaks model, which was introduced following an evaluation of the financial regulatory system that began in 2007 (Godwin, 2017:152).

The FSRA established two main regulatory bodies: the Prudential Authority and the Financial Sector Conduct Authority (FSCA). The Prudential Authority is primarily responsible for overseeing the safety and soundness of regulated financial institutions, ensuring that they adhere to prudential regulations while the FSCA's main duty is to protect financial consumers by monitoring market behaviour and ensuring compliance with financial sector regulations (Moodley, 2018:13-14).

Specifically, Section 34 of the FSRA outlines the Prudential Authority's functions, which include regulating financial institutions that offer securities services and financial products. This oversight is critical for maintaining confidence among investors and promoting long-term competition within the financial services industry, ultimately benefiting SMMEs seeking financing. The Prudential Authority's role in ensuring that banks maintain adequate capital reserves can affect the availability of loans for SMMEs.

Conversely, Section 56 delineates the FSCA's responsibilities, including regulating the behaviour of financial institutions and fostering competition in financial services. This

oversight is particularly relevant for SMMEs, as it aims to create a more inclusive financial ecosystem where small businesses can access credit and other financial products more easily. The FSCA's initiatives, such as financial literacy programs and the promotion of alternative financing options, empower SMMEs to navigate the financial landscape effectively and improve their chances of securing funding.

Compliance with these regulations demonstrates the financial responsibility of SMMEs, enhances credibility and builds investor or lender confidence in the SMME.

2.5 The Role of Financial Capital in SMMEs

Numerous studies have been extensively conducted on how the availability of financial resources influences the success of SMMEs and there is a significant vacuum in research on the relationship between company performance and the financial assistance offered by the public and private sectors (Rungani & Potgieter, 2018:1; Rathogwa & Msimango-Galawe, 2023:). Evidence indicates that most SMMEs fail because they are unable to obtain financing, with 70%-80% of SMMEs failing in their first five years of existence (Ngonisa *et al.*, 2023:1). Other studies have indicated that SMMEs need access to financing to grow and compete (Rathogwa & Msimango-Galawe, 2023:3). However, laws have been passed in South Africa to support the expansion and stability of SMMEs and to tackle the difficulties they face (Nkonge, 2013:200). Thus, South Africa's low ratio of SMME financing relative to overall private sector financing is out of the norm (Ngonisa *et al.*, 2023:1).

Rungani and Potgieter (2018:1) elaborate that over 85% of SMMEs struggle to survive during their first few years of operation. Ahinful *et al.*, (2021:17) state that SMMEs who are fortunate enough to live past their failure period, enhance their performance over time, gain experience and market intelligence, their level of expertise regarding managing market and operational uncertainty increases and by networking with suppliers, consumers, and financiers, these SMMEs can improve their financing prospects. Phillip (2022) further opines that the growth of SMMEs depends heavily on finance; without it, many businesses are unable to advance along their growth continuum.

Utami and Alamanos (2022:1-2) describe the Resource-Based Theory (RBT) as an emphasis on how a business's performance and growth are significantly affected by its resources and capabilities, as opposed to external factors, highlighting the value of a company's assets and competencies. In this perspective, businesses need resources and competencies that are distinct and difficult for rivals to imitate to maintain sustainable competitiveness including cash on hand, manufacturing machinery, brand recognition, technological know-how, marketing skills, and management aptitude (Rungani & Potgieter, 2018:5). The capacity of a firm to effectively manage, use, and increase its resources is referred to as its capabilities (Geoffrey & Christos, 2015:321). The performance of a company is affected by financial capital. Access to financial capital is a vital tool that is required to accomplish a company's goals, including performance and growth, as well as the accomplishment of development and innovation initiatives (Neneh, Brownhilder & Ngeek, 2016:356). For businesses to achieve their goals, growth, performance, development, and innovation, access to financial capital is a critical resource (Adomako & Danso, 2014:3). For SMMEs to take advantage of growth, invest in new ventures, and attain greater stability in their operations, access to startup capital is still crucial (Abisuga-Oyekunle *et al.*, 2019:6). According to Tjahjadi *et al.*, (2022:87) managing the financial resources of the company has an effect on business performance.

A crucial factor in determining the expansion, sustainability, and viability of SMMEs is financing (Msomi & Olarewaju, 2021:281). SMMEs need to have access to financial capital to buy current and fixed assets because this preserves a company's competitive edge and capitalises on business possibilities. Appeaning (2019:39) states that a lack of physical resources is a major factor in the failure of most SMMEs. Ogujiuba *et al.*, (2023:15) opined that funding enables early-stage businesses to thrive timeously. Furthermore, authorities should implement steps to close the financial gap so that entrepreneurs may more easily access financing, as firms largely depend on financial resources for investment, expansion, and growth. However, given the role of financial capital in SMMEs, it is imperative to understand the sources of finance for SMMEs.

2.6 Sources of Financing

A study by Egu and Chiloane-Tsoka (2023:93) revealed that 44% of SMMEs seek funding of up to R250,000, while 73% seek amounts up to R1 million, with 29% specifically seeking funding between R250,000 and R1 million. In contrast, The Banking Association of South Africa (2021:1) highlighted that financiers typically offer funding ranging from R250,000 to R5 million, indicating a notable mismatch between the supply and demand for funding.

According to the Banking Association of South Africa (2021:2), businesses can opt for various types of financing, primarily classified into debt and equity financing. Thus, debt financing involves borrowing funds that must be repaid with interest and include options such as bank loans and credit facilities (Egu & Chiloane-Tsoka, 2023:1). Also, equity financing, on the other hand, involves raising capital by selling shares or seeking investments, allowing investors to gain ownership stakes in the business (Kato & Chiloane-Tsoka, 2024:1).

More so, the examples of financing options that SMMEs can utilise include:

Table 2.3: Types of Funding

SOURCE OF FUNDING	DESCRIPTION OF FUNDING
Microloans	Organisations such as the Small Enterprise Finance Agency (SEFA) provide microloans designed specifically for SMMEs, often featuring more favourable terms than traditional bank loans (The Banking Association of South Africa, 2021:2).
Angel Investors	These are affluent individuals who invest their capital in startups in exchange for equity, offering not only financial support but also mentorship and networking opportunities (Egu and Chiloane-Tsoka, 2023:2).

Crowdfunding	Platforms like Thundafund and Kickstarter enable SMMEs to raise funds from a large number of individuals, making it particularly suitable for product-based businesses that can effectively market their ideas (Egu and Chiloane-Tsoka, 2023:2).
Government Grants and Subsidies	Various government initiatives, including those from the Department of Small Business Development, offer grants or subsidies aimed at promoting entrepreneurship and supporting SMMEs (Egu and Chiloane-Tsoka, 2023:2).
Cooperative Financing	SMMEs can also form cooperatives to pool resources and access funding collectively, enabling them to leverage shared financial support and enhance their bargaining power (Egu and Chiloane-Tsoka, 2023:2).

Source Egu and Chiloane-Tsoka (2023:2).

As depicted above, various funding options such as microloans, angel investors, crowdfunding, government grants, and cooperative financing provide valuable opportunities for SMMEs to secure the capital needed for growth and development (Egu & Chiloane-Tsoka, 2023:2). These funding avenues offer flexibility, financial support, and access to resources, each catering to different stages of an SMME's lifecycle and business model (Egu & Chiloane-Tsoka, 2023:2). However, despite their vast potential, SMMEs in South Africa often encounter considerable obstacles in obtaining sustainable financing, as traditional banking institutions are typically hesitant to provide loans, even though the advantages and drawbacks of financing SMMEs are well-documented (Peziza, 2023:24). These challenges, alongside issues related to human capital and technology access, hinder their growth and realization of full potential (Egu & Chiloane-Tsoka, 2023:1; Kato & Chiloane-Tsoka, 2024:1). Ultimately, the viability and success of SMMEs depend on their ability to secure consistent funding during the crucial early stages of expansion (Kindström *et al.*, 2024:702).

From their capital structure components, SMMEs can choose between debt and equity finance to secure funding (Sakala and Hapompwe, 2023:332), as will be discussed.

2.6.1 Equity Financing

According to SAVCA (2021:10), venture capital refers to funding that investors give to companies in the early stages of development and startups that they think have significant long-term growth potential. The deals above are mostly financed by equity. Also, venture capital serves as a vital source of finance for startups that are unable to access capital markets (Sharma,2021:42)

Sophocleous (2019:31) also attested that acquiring financing from venture capital firms has numerous advantages. Initially, venture capital does not need repayments from the owners during the loan term. Additionally, the money raises the company's net asset worth, increasing its viability for debt financing or potential investors. Thus, for SMEs that prefer not to take on debt financing, private equity financing is another option (Sakala & Hapompwe, 2023:332). A private equity firm buys shares in another company in a private equity transaction, these shares are not traded publicly but held in private hands (Sakala & Hapompwe, 2023:332)

Since the 18th century, private equity has played a significant role in the advancement of western civilizations (Nicholas, 2019:85). An asset type known as 'private equity' is where investors buy the illiquid equity (or equity-like) instruments of businesses that are currently in operation (Nicholas, 2019:85). Private equity funds, at times referred to as investor groups or private investment funds have an important place in economies and capital markets (Shell *et al.*,2024:1-3)

Against such a background, to generate high-risk-adjusted financial returns when the investment matures, private equity investors frequently hold onto these assets for three to seven years (Nicholas, 2019:85). In this regard, using a 'capital plus's strategy, private equity funds assist the companies in their portfolios with crucial funding while also assisting in the development of managerial competency, enhanced market focus and penetration, strengthened governance, and growth management (Sakala & Hapompwe, 2023:333).

3 Debt Financing

Debt financing serves as a crucial source of funding for SMMEs in South Africa; however, accessing this financing can be challenging (Ngonisa *et al.*, 2023:3-4). The Banking Association of South Africa report (2018) highlighted that the country's low ratio of SMME financing compared to overall private sector financing is concerning. Lending to the private sector has decreased by more than 45% between 2000 and 2020, indicating a shrinking support system for SMMEs (Sakala & Hapompwe, 2023:333). Additionally, competition among banks can enhance financing accessibility, as research shows that lower bank rivalry correlates with diminished access to financing (Ngonisa *et al.*, 2023:3-4).

SMMEs can explore various types of debt financing, including short-term and long-term loans (Sakala & Hapompwe, 2023:333). For instance, a small retail business may use a short-term loan from a bank, such as ABSA or FNB, to cover immediate expenses like inventory purchases, with repayment terms ranging from a few months to a year (Ngonisa *et al.*, 2023:3-4). In contrast, long-term loans are intended for significant investments like equipment purchases or facility expansions. An example of this could be a manufacturing SMME that secures a long-term loan from Standard Bank to buy machinery, with repayment terms extending beyond one year. While banks offer both types of loans, SMMEs often face stringent qualification criteria, particularly for long-term loans, where solid business plans and financial stability are necessary (Ngonisa *et al.*, 2023:3-4).

➤ Alternative Funding Sources

Beyond traditional bank loans, SMMEs can access alternative funding sources, such as government grants (Saah & Musvoto, 2020:415). For example, the Department of Small Business Development in South Africa provides grants for entrepreneurs in sectors like technology and green energy (SEDA, 2023). Another example is the Small Enterprise Finance Agency (SEFA), which offers microloans tailored for SMMEs that may not qualify for traditional financing due to size or credit history, providing more accessible terms and conditions (SEDA, 2023).

➤ Equity Financing Options

Furthermore, angel investors and venture capital firms present opportunities for SMMEs to secure funding in exchange for equity stakes (Saah & Musvoto, 2020:415). For instance, a tech startup may attract funding from a venture capital firm like 4Di Capital, which specialises in technology-driven businesses, offering not just capital but also mentorship and industry connections (Egu & Chiloane-Tsoka, 2023:2). Crowdfunding platforms, such as Thundafund and Kickstarter, also allow SMMEs to raise funds by pooling small contributions from many individuals.

4 Government Support

In South Africa, several government departments and institutions are dedicated to supporting SMMEs by providing various financial and non-financial resources. Below is an outline of key institutions and the services they offer.

➤ Department of Trade and Industry (DTI)

The DTI plays a pivotal role in the economic landscape by enhancing the credit exposure of SMMEs (Saah & Musvoto, 2020:415). It focuses on creating a standardized framework for the registration and enforcement of commercially secured loans, thereby improving SMME payback profiles. By doing so, the DTI aims to increase the availability of credit to small businesses, which is essential for fostering their growth and sustainability (Saah & Musvoto, 2020:415). The DTI also collaborates with various stakeholders to implement policies that stimulate entrepreneurship and promote a culture of innovation within the SMME sector, recognizing their critical contribution to job creation and economic development in South Africa (DTI, 2021).

➤ Department of Small Business Development (DSBD)

The Department of Small Business Development (DSBD) was established in 2014, tasked with promoting the development of SMMEs and creating an enabling environment for their growth with a mission that involves directing resources towards achieving a transformed and inclusive economy driven by sustainable SMMEs (DSBD, 2024). To facilitate this, the department has initiated various programs aimed at providing financial assistance, mentorship, and skills development for entrepreneurs. According to Dhana (2017:13), the DSBD has allocated significant funds through Development Finance

Institutions (DFIs) to support small businesses, underlining its commitment to fostering a vibrant SMME sector in South Africa.

➤ **National Empowerment Fund (NEF)**

The National Empowerment Fund (NEF) is instrumental in promoting black economic empowerment by providing financial support to SMMEs, offering business loans ranging from R250,000 to R75 million for equity acquisition, expansion of existing firms, and establishment of new startups across all sectors of the South African economy. By focusing on sectors that historically lacked access to funding, the NEF aims to address economic imbalances and stimulate entrepreneurship among previously disadvantaged communities (NEF, 2024). Additionally, the NEF provides advisory services and capacity-building programs to help businesses succeed in a competitive environment.

➤ **Small Enterprise Financing Agency (SEFA)**

The Small Enterprise Financing Agency (SEFA) serves as a vital source of funding for SMMEs and cooperatives, offering direct loans ranging from R50,000 to R15 million (Egu & Chiloane-Tsoka, 2023:2). SEFA targets various economic sectors and aims to bridge the financing gap for small businesses that struggle to access traditional bank loans. In addition to financial support, SEFA provides business development services, including mentorship and guidance on financial management, helping entrepreneurs navigate the challenges of running a business (SEFA, 2024). This comprehensive approach is designed to enhance the sustainability and growth of small enterprises.

➤ **Industrial Development Corporation (IDC)**

The Industrial Development Corporation (IDC) is a key player in South Africa's economic development strategy (IDC Integrated Report, 2024:7). It provides substantial financial support to industries through master plans and priority sectors. In the 2023–2024 period, the IDC's funding allocation increased by nearly 30% to R41.9 billion, supporting capacity expansions, startups, distressed businesses, and working capital requirements. Notably, funding committed to transformation rose to R22.3 billion, reflecting the IDC's commitment to economic growth and job creation (IDC Integrated Report, 2024:7). The

IDC also plays an advisory role, assisting businesses in developing viable projects and accessing additional funding sources.

➤ **National Youth Development Agency (NYDA)**

The National Youth Development Agency (NYDA) focuses on empowering young entrepreneurs by providing them with access to funding, mentorship, and training (NYDA, 2023). The NYDA offers business loans of up to R200,000, as well as support services such as business plan development and skills training specifically targeting youth-owned businesses. By addressing the unique challenges faced by young entrepreneurs, the NYDA aims to foster a generation of innovative and competitive business leaders in South Africa (NYDA, 2023).

➤ **Small Enterprise Development Agency (SEDA)**

The Small Enterprise Development Agency (SEDA) provides essential non-financial support to SMMEs through various business development services, including mentoring, training, and market access assistance (Egu & Chiloane-Tsoka, 2023:2). SEDA aims to enhance the capacity of small enterprises to grow and compete effectively in the marketplace. By facilitating access to information and resources, SEDA empowers entrepreneurs to make informed decisions and implement best practices in their operations (SEDA, 2023). This support is crucial in addressing the skills gap that often hinders the success of small businesses in South Africa.

➤ **Land Bank**

The Land Bank is dedicated to supporting agricultural enterprises and rural development in South Africa (Land Bank, 2024). It provides financing options for farmers and agribusinesses, offering loans for land acquisition, production inputs, and equipment purchases. The Land Bank plays a crucial role in promoting food security and sustainable agriculture within the SMME sector. Therefore, offering tailored financial products and services, the Land Bank aims to enhance the productivity and profitability of agricultural businesses, contributing to the overall economic growth of the rural economy (Land Bank, 2024).

2.7 The Business lifecycle and financing at the different stages of the lifecycle

The existent bodies of literature clarify that a business goes through several phases throughout its existence, including idea generation, concept development, commercialisation, market penetration, and survival (Mohalajeng & Kroon, 2016:897; Mdaka & Ntema, 2022:354). Sophocleous (2019:22) states that the business lifecycle starts with the startup phase and continues through the growth and stable phases of the business.

Mdaka and Ntema (2022:354) outline five stages as follows below:

Table 2.4: Business Lifecycle and Financing

STAGES	EXPLANATION
STAGE 1	Research Stage- Creation of a business concept and assessment of its need and viability. A small business is founded based on results obtained through fundamental and applied research conducted by the entrepreneur (Carrete and DeFaria, 2019:70).
STAGE 2	Development of a business plan. According to Fisher <i>et al.</i> , (2016:385), planning is essential to development since it focuses all efforts on the technical problems that the entrepreneur defines and leads.
STAGE 3	Setting up the business. At this stage, the entrepreneur is the business. As the business owners strive for a market share to achieve profitable outcomes, this stage, according to Filho <i>et al.</i> , (2017:5), is the beginning of the struggle for consumers and the outcome of the business.
STAGE 4	Test and improve how the business is run. Mohalajeng and Kroon (2016:897) note that at this stage, conceptualised ideas are developed, tested, and implemented. Depending on the outcome, the initial implementation and deployment of ideas may be improved and further developed.
STAGE 5	Company operation, survival, and expansion. The small business may grow in size and profitability during the survival stage, enabling the entrepreneur to receive income without having to commit a significant amount of time or money

(Filho <i>et al.</i> , 2017:5). Fisher <i>et al.</i> , (2016:385) add that the product will have overcome some of its development challenges and reached a certain level of market success.

Mdaka and Ntema (2022:354).

Due to the special qualities of a business in its early phases, such as the absence of collateral, credit history, and high failure risk, debt financing is typically not an option during the start-up stage, and as a business advance through its lifetime, its capital structure is modified to reflect those changes in its financing needs (Abdulsaleh & Worthington, 2013:36). Sophocleous (2019:30) elaborates that in South Africa, it is well-known that internal equity serves as the first source of funding for newly established businesses. Ideally, as the company expands and evolves, it begins to have a solid credit history and the capacity to offer collateral as it sources debt financing.

Jordaan and Coetzee (2021:377) opine that over time, SMMEs' needs and capacities for obtaining financing evolve. Internal funding sources are used in the beginning, but as the company expands and gains experience, there is a greater chance of securing funding from commercial banks. Thus, being in business for several years demonstrates the SMME's ability to survive (Raina and Xu, 2021:86). Total assets, profits, return on investment, and other performance metrics often rise following the startup phase turnover (Nieman, 2019), suggesting an enhancement in the ability of the SMME to access financing in its growth stage (Jordaan & Coetzee, 2021:378).

2.8 Factors that Contribute to the Ability or Inability of SMMEs to Access Financial Capital

The access to financing for SMMEs is enhanced by various factors and as well inhibiting factors varying across industries (Egu & Chiloane-Tsoka, 2023:1; Kato & Chiloane-Tsoka, 2024:1).

2.8.1 Factors that Contribute to the Ability of SMMEs to Access Financial Capital

Despite the challenges, several factors can enhance access to financing for SMMEs as discussed below.

2.8.1.1 Educational Background

In the study Egu and Chiloane-Tsoka (2023), it was highlighted that one such factor is the educational background of the entrepreneur. A plethora of studies have shown that graduates are more likely to secure financing compared to non-graduates, as they are better equipped to present financial data and business strategies to potential lenders and investors (Irwin & Scott, 2010:15; Egu & Chiloane-Tsoka, 2023). This suggests that education plays a significant role in improving the ability of business owners to meet the administrative and regulatory requirements necessary for obtaining financing. Additionally, Raina and Xu (2019) emphasise that well-educated entrepreneurs are more likely to navigate complex credit systems, thus increasing their chances of securing funding.

2.8.1.2 Legal Structure of an SMME

Moreover, the legal structure of an SMME can also influence its ability to access finance. SMMEs with limited liability structures, such as private companies or franchises, tend to have a better chance of obtaining loans from commercial banks due to their ability to present audited financial reports (Raina & Xu, 2019). These types of entities are viewed as less risky by financial institutions compared to sole proprietorships or partnerships, which face unlimited liability and often lack independently audited financial statements (Mahloana, 2019). Hence, adopting a corporate structure that includes independent financial oversight can significantly enhance an SMME's ability to secure financing.

2.8.1.3 Business Networks

More so, business networks are posited as another factor that contributes to the ability of SMMEs to access financial capital is the strength of their business networks (Raina & Xu, 2019). Networking provides SMMEs with access to a wider range of financing

opportunities, including venture capital, angel investors, and even informal lending circles. Also, Shane and Cable (2018) propounded strong networks can enhance credibility and trust with potential investors and financial institutions, facilitating the flow of essential information about financing options and improving the likelihood of securing funds. This support network enables business owners to gain valuable advice, build partnerships, and even acquire guarantees, all of which contribute to a stronger financial profile and better access to capital.

2.8.1.4 Technology and Financial Management Tools

Also, the use of technology and financial management tools is a critical factor in improving SMME access to funding (Raina & Xu, 2019). Digital platforms that track financial health, project cash flows, and manage accounting are increasingly being recognized by lenders as indicators of a business's operational maturity and reliability. As Nkundabanyanga *et al.* (2020) highlighted, SMMEs that leverage these tools are more likely to meet the financial reporting and transparency standards required by financial institutions. Additionally, the adoption of technology signals to lenders that a business is forward-thinking and adaptive to industry advancements, which may make it more appealing for investment.

2.8.1.5 Government Support Programs

Sophocleous (2019:22) propounded that government support programs and policies play a vital role in enhancing SMME access to finance. Initiatives such as grants, low-interest loans, and credit guarantees are often designed to support small businesses, especially in underserved sectors. In Gauteng, government-backed programs like the Gauteng Enterprise Propeller provide resources and financial support tailored to SMMEs, reducing the financial risk for both entrepreneurs and lenders (Mukherjee, 2021). These programs provide direct financial assistance and offer training and advisory services, helping SMMEs meet lender requirements and develop financial literacy skills that improve their ability to secure and manage capital effectively.

3 Factors that Contribute to the Inability of SMMEs to Access Financial Capital

While several factors can enhance access to finance, several factors inhibit SMMEs from securing financing.

2.8.2.1 High Level of Risk Aversion

One major factor is the high level of risk aversion displayed by financial institutions toward SMMEs, particularly start-ups and smaller firms. The Banking Association of South Africa (2021:1) identifies this strong risk aversion as a critical barrier, with commercial banks often citing reasons such as poor income predictability, inadequate credit histories, and the absence of collateral, particularly in the early stages of a business (Asah *et al.*, 2021:5). Furthermore, Jordaan and Coetzee (2021:375) note that information asymmetry, where SMMEs cannot provide adequate information to lenders, is a primary reason for loan rejections.

2.8.2.2 Regulatory Environment

Additionally, the regulatory environment, particularly the National Credit Act, has made it challenging for financial institutions to lend to SMMEs (Egu & Chiloane-Tsoka, 2023:1; Kato & Chiloane-Tsoka, 2024:1). The Act's emphasis on preventing reckless lending, combined with issues such as government late payments, further exacerbates the problem by making SMMEs appear as unreliable loan candidates (The Banking Association of South Africa, 2021:1). The lack of tangible assets that can be used as collateral, improper accounting practices, and an inability to provide comprehensive business plans are also cited as reasons for SMME loan rejections (Herrington & Kew, 2018:76). These factors collectively inhibit SMMEs from accessing the financing they need for growth and expansion.

2.8.2.3 Limited Financial Literacy

Herrington and Kew (2018:76) propounded that a critical factor contributing to the inability of SMMEs to access financial capital in Gauteng is the limited financial literacy of many entrepreneurs. In this regard, entrepreneurs who lack a solid understanding of financial

management, including budgeting, cash flow analysis, and financial forecasting, often struggle to present convincing business cases to lenders. This deficiency in financial acumen can result in poorly structured financial statements and business plans, which fail to meet the expectations of financial institutions (Asah *et al.*, 2021:5). As noted by various studies, financial literacy is essential for SMMEs to navigate the complex loan application process and demonstrate their business's viability to potential investors or lenders (Mahloana, 2019; Herrington & Kew, 2018:79).

2.8.2.4 Limited Availability of Alternative Financing Options

Also, the limited availability of alternative financing options hinders SMMEs in Gauteng (Asah *et al.*, 2021:5). Traditional financing options such as bank loans remain the primary means for accessing capital, yet many SMMEs do not qualify due to the stringent requirements. While venture capital and angel investors could serve as potential alternatives, they are often out of reach for most small businesses due to their selective nature and the high-risk profile associated with start-ups (The Banking Association of South Africa, 2021:1). Crowdfunding has also gained traction but is still a relatively new and underutilised method in South Africa. The lack of diverse and accessible funding avenues, coupled with the reluctance of financial institutions to lend to high-risk ventures, severely limits the financing options available to SMMEs (Kato & Chiloane-Tsoka, 2024:3).

2.9 Conclusion

Chapter 2 provided an overview of the crucial role that financial capital plays in the sustainability and growth of SMMEs in South Africa. By utilising the National Small Business Act 102 of 1996 (NSBA) as a framework, the chapter categorised SMMEs according to various metrics, highlighting their diversity across different industries and their significant contributions to the national economy. The exploration of the business lifecycle revealed the challenges SMMEs encounter at each stage, from startup to maturity, underscoring the necessity of tailored financing solutions. By identifying the various sources of finance available, the chapter emphasised that financial capital was

foundational for SMMEs to grow and maintain a competitive advantage in an increasingly complex economic landscape.

Additionally, the discussion surrounding the legal and statutory frameworks governing SMMEs highlighted the regulatory challenges these enterprises face in securing financial resources. By reviewing pertinent legislation and the requirements for financing, the chapter shed light on the barriers that inhibit access to essential funding. These insights not only emphasised the importance of understanding the financial landscape but also illustrated the need for strategic navigation of the legislative environment to optimise funding opportunities for these businesses. Overall, this chapter laid a critical foundation for further exploration into effective strategies that SMMEs can employ to enhance their financial viability, ultimately fostering a more robust ecosystem for entrepreneurship in South Africa.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The previous chapter reviewed the existing literature regarding the role of financial capital in SMMEs operating in Gauteng. This chapter provided insights into how the study was conducted and the rationale for the research methods employed. It outlined the overall research process, including an explanation and description of the research design, data-gathering instruments, participant selection, and considerations regarding credibility, trustworthiness and ethics. Additionally, the chapter describes the specific context of SMMEs in Gauteng, where the data was collected. It emphasises the significance of qualitative research in understanding the financial dynamics within the SMME sector.

Creswell (2016:17) refers to research methodology as a strategy that enables a study to systematically achieve its goals and tackle the research questions by applying appropriate research methods and techniques. Mardiana (2020:2) describes research methodology as the overall approach pursued by a researcher in carrying out a research project and advancing from qualitative investigation research findings into inferences concerning facts. This study explored the role of financial capital in SMMEs in Gauteng.

The study employed an interpretive paradigm to explore participants' lived experiences and perceptions regarding financial capital, allowing for a rich understanding of the complex dynamics involved in SMME financing. The qualitative research approach was deemed suitable for this study as it provided the flexibility to gather in-depth insights from entrepreneurs through semi-structured interviews. The research design incorporated exploratory elements to facilitate a comprehensive study of the nuances related to financial capital in SMMEs.

3.2 Research Process

Saunders *et al.* (2019:241) provide a comprehensive framework for constructing a sound and justifiable research methodology called the 'research onion.' This model is structured in layers, each representing a crucial aspect of the research process.

The first layer of the research onion encompasses philosophical stances such as positivism, interpretivism, and pragmatism, which influence the way researchers approach their studies. Following this philosophical grounding, the researcher moves inward to define the methodological approach that aligns with their research objectives. These approaches are deductive, inductive and abductive. The third layer focuses on the research design and strategy, which can be experiments, surveys, case studies, action research, design science research, grounded theory, ethnography or archival research. The fourth layer speaks to research choice, which can be a mono, multi or mixed method. This is followed by the time horizon which can be cross-sectional or longitudinal. Finally, the inner layers emphasise data collection analysis techniques, which are critical for interpreting the results effectively (Saunders *et al.*, 2019:241). By understanding these interconnected stages of the research cycle, the research onion provides a detailed framework that highlights the importance of each component in the overall research methodology, ensuring that the study is systematically structured and justifiable.

In the context of this study, the research onion guided the methodological choices, enabling the exploration of the intricate dynamics associated with financial resources and their role in SMMEs. The study leveraged qualitative methods to gain rich insights from participants, focusing on their experiences, challenges, and perceptions regarding financial capital.

3.3 Research Paradigm

A research paradigm is a set of beliefs and practices that guide researchers in their approach to understanding and investigating reality; encompassing the ontological, epistemological, and methodological assumptions that inform the research process, shaping how researchers frame their questions, choose methods, and interpret findings (Rehman and Alharthi, 2016:51). Creswell & Poth (2016:13) refer to a paradigm as a philosophical assumption or worldview. Mohajan (2018:2) states that it is employed to explore people's actions, viewpoints, emotions, and experiences, as well as the fundamental elements of human existence. Mardiana (2020:2) explains the research paradigm in the context of the research onion as the outermost layer and the beginning of the research process that was followed by the approach that matches the paradigm.

Mohajan (2018:2) identifies three paradigms within qualitative research namely, interpretivist, positivist and critical paradigms. Also, Rehman and Alharthi (2016:53-57) concur that these are the three major paradigms and go on to describe them as follows:

Positivism assumes reality exists independently of people, assuming a realist, objective and factual position (Mohajan, 2018:2). In contrast, interpretivism denies the idea that there is a single, verifiable reality that exists apart from our senses. Interpretivists hold that reality and truth are manufactured, not discovered, that various realities are socially constructed and that reality is subjective (Rehman & Alharti, 2016:53-57). Critical theory accepts that there is a reality, but it has been moulded by social systems that are the result of interactions between cultural, political, ethnic, gender, and religious elements (Mohajan, 2018:2). It is subjective and is of the view that no subject can be studied without the researcher's influence. It is critical of positivist and interpretative methods alike (Mohajan, 2018:2).

This study adopted the interpretivism paradigm to understand the world from an individual's perspective by relying on subjective first-hand knowledge. Interpretive methods collect information based on participants' subjective perspectives (Mohajan, 2018:2). Given the diverse interpretations the SMME owners may assign to their experiences, the interpretivism paradigm was chosen to comprehend the role of financial capital in SMMEs from the point of view of the entrepreneur. The focus was to gain an understanding of the role of financial capital in SMMEs and the challenges and opportunities they face in accessing it. This paradigm employed methods that prioritised the interpretation of subjective experiences, as is the case with the different SMME owners, through interviews, allowing for a deeper insight into the unique contexts and perspectives of SMME owners.

3.4 Research Approach

The choice of research approach is influenced by the nature of the research questions and the study topic (Mohajan, 2018:7). Two primary research approaches are commonly employed namely, the deductive approach which collects quantitative data, and the inductive which collects qualitative data (Rehman & Alharthi, 2016:56).

According to Mardiana (2020:2), the research approach to be followed should match the paradigm chosen. A deductive research approach starts with the formulation of a theoretical statement or hypothesis by the researcher based on preexisting information or theory (Mohajan, 2018:7). The research procedure then puts this theory to the test and depending on the investigation's findings, the hypothesis is either validated or disproved after data collection and analysis (Rehman & Alharthi, 2016:56). Contrarily, an inductive approach is not influenced by prevailing theories or beliefs, but rather by the researcher's interaction with the evidence. Data is analysed to produce in-depth insights, and a theory that reflects the events or lived experiences by the researcher's interpretations, personal experience, and continued engagement with the data (Creswell & Poth, 2016:19). More so, quantitative research generates real facts and numerical data. Its goal is to apply statistical, computational, and mathematical techniques to establish a cause-and-effect relationship between two variables. Since the research can be carefully and accurately measured, it is also known as qualitative investigation research (Ahmad *et al.*, 2019:2829). The merits of quantitative methods include the ability to generalise findings to a broader context and the potential for objective measurement of variables (Davies & Fisher, 2018:23). However, it may not capture the depth of understanding needed for complex human behaviours and motivations.

On the other hand, the merits of qualitative research are that it is primarily exploratory, delving into underlying reasons, opinions, and motivations to uncover trends in thought and opinions (Creswell & Poth, 2016:42). It emphasises the subjective experiences of participants and aims to provide rich, detailed insights into their perspectives (Mohajan, 2018:23). Qualitative methods often utilise interviews, focus groups, and observations to gather in-depth data, allowing for a comprehensive understanding of behaviours and perceptions within specific contexts (Saunders *et al.*, 2019: 783).

The inductive research approach is affirmed for its ability to explore underlying motivations, provide rich insights into participants' subjective experiences, and uncover trends through in-depth data collection methods to capture complex social phenomena in natural settings (Creswell & Poth, 2016:42). The approach enabled flexibility in data collection and offered a deep understanding of behaviours, attitudes, and perceptions within specific contexts (Saunders *et al.*, 2019: 783).

A deductive research approach is commonly linked to a quantitative research method, while an inductive research approach would be typically associated with a qualitative research method (Mardiana, 2020:3). In this study, the inductive approach was applicable, as it allowed the researcher to gather rich qualitative data from SMME owners to derive insights about the role of financial capital in their businesses. The main thrust was to understand participants' perceptions and behaviours in their natural environment without experimental manipulation.

3.5 Research Design and Methodology

Research design is a structured framework that outlines the overall strategy for conducting a study to achieve specific research objectives (Creswell & Poth, 2016:5). It encompasses all the steps and methodologies employed throughout the research process, ensuring a coherent approach to data collection and analysis, interpretation and reporting (Creswell & Poth, 2016:5). According to Indu and Vidhukumar (2020:64) research design is a systematic plan to investigate a scientific subject, it is meant to give a suitable foundation for a research project. Asenahabi (2019:76) describes research design as a strategy that a researcher has decided upon before the start of data collecting to accomplish the study objectives; transforming a research problem into data for analysis to produce pertinent answers to research questions is the fundamental function of research design.

Explanatory research aims to help us uncover a problem that hasn't been fully investigated before to provide a better understanding, instead of providing complete proof. (Ansari *et al.*, 2022:1134). Second, a descriptive study looks for information to systematically explain a population, situation, or item, addressing the what, when, where, and how issues related to the research subject other than the why. With this method, the researcher merely takes into account what has been alleged or is happening; no variables are manipulated, and no modifications are subject to the researcher's application or control. Instead, the variables are simply seen, noted, and quantified (Ansari *et al.*, 2022:1133).

Finally, exploratory research is employed to shed light on research problems and gain a deeper understanding of a phenomenon. The researcher attempts to produce information and make a discovery (Creswell & Poth, 2016:5). It requires the researcher to examine numerous sources, such as published secondary data, data from other surveys, observations of research items, and opinions on a phenomenon. Exploratory research frequently employs techniques such as formal qualitative research using in-depth interviews (Thomas and Lawal, 2020:79–80). This study followed an exploratory research design as it sought to explore the role of financial capital in SMMEs through the experiences of others through semi-structured interviews.

Furthermore, research methodology can be qualitative or quantitative, with quantitative designs including experimental, descriptive and analytical designs while qualitative can include participant observation, interviews and group discussions (Indu & Vidhukumar, 2020:64-65). Cook and Cook (2016:3) classify research designs mainly as descriptive, experimental and relational as being quantitative on the one hand and further describing qualitative designs as ground theory, ethnographies and exploratory case studies. Turhan (2019:124) adds phenomenology to qualitative research designs. Phenomenology is intrigued by human consciousness as a means of comprehending social reality, and how one 'thinks about experiences, and is a principal theoretical school of thinking within the interpretive paradigm and qualitative research approach (Leavy, 2017:129). In phenomenology, understanding is first attained by thinking back on one's own experiences. Subsequently, in-depth discussions and interviews are conducted with participants to elicit firsthand accounts of phenomena (Gabrielian, 1999:187).

3.6 Research Strategy

Research strategy refers to the systematic plan that guides researchers in addressing their research questions, linking objectives to suitable methods, and integrating theoretical frameworks to inform the study (Creswell & Poth, 2016:69; Saunders *et al.*, 2019:244). It serves as a comprehensive roadmap for collecting and analysing data, ensuring that the research design accurately reflects the inquiry's essence (Creswell, 2021:351). Research strategies are plans or schemes that are used to conduct the process of finding and evaluating information (Malhotra, 2017:172).

This study followed in-depth interviews as a strategy. This strategy focuses on exploring the meanings individuals attach to their experiences, typically employing qualitative methods to gain insights into complex social phenomena (Saunders *et al.*, 2019:246). This strategy recognised the importance of context and the subjective nature of human behaviour, making it particularly suitable for exploring the intricate dynamics of financial capital within SMMEs. Also, by emphasising participants' perspectives, in-depth interviews allowed for a richer understanding of how financial resources play a role in decision-making, operational strategies, and ultimately, the success of these enterprises.

In this study, to effectively implement this strategy, the study utilised semi-structured interviews as the primary data collection method. This strategy facilitated open dialogue between the researcher and participants, allowing for in-depth discussions that uncovered participants' thoughts, feelings, and experiences (Creswell & Poth, 2016:69). The use of semi-structured interviews allowed the provision of the flexibility to explore emerging themes while ensuring that key topics are addressed, thus leading to a comprehensive understanding of the subject matter. Therefore, by executing this strategy through semi-structured interviews, the study captured rich, nuanced data, contributing valuable insights into how financial capital influences SMMEs' operations and performance.

3.7 Research Choices

Research choices refer to the decisions made by researchers regarding the methodological framework that best aligns with their research objectives and questions (Creswell & Poth, 2016:69; Saunders *et al.*, 2019:242). This fourth layer of the 'research onion' aids researchers in determining whether to utilise a single approach, incorporate a blend of methods, or employ multiple techniques to address their research aims effectively (Saunders *et al.*, 2019:242). The three primary research choices are mono-method, mixed-method, and multi-method research options. Mono-method involves utilising a single approach, either qualitative or quantitative; mixed-method combines both qualitative and quantitative techniques; and multi-method entails employing multiple qualitative or multiple quantitative methods (Crabtree & Miller, 2023:325).

In this study, the mono-method approach was chosen, focusing solely on qualitative research techniques. The rationale for selecting a mono-method approach lies in its ability to provide a concentrated and in-depth understanding of the research topic. Thus, by using a single qualitative method, the study ensures clarity and coherence in data collection and analysis, allowing for a more nuanced exploration of participants' perspectives regarding the role of financial capital in SMMEs in Gauteng. This approach reduces complexity, enhancing the overall rigour of the research by allowing the researcher to dedicate full attention to qualitative data (Creswell, 2021:366). This method is essential for understanding the complex social dynamics and contextual factors playing a role in SMMEs in Gauteng. Furthermore, a singular approach enhances the objectivity of the research by minimizing potential biases associated with combining different methodologies, thus ensuring that the findings accurately reflect the participants' voices and experiences.

3.8 Time Horizons

A time horizon refers to the duration over which data collection and analysis are conducted, shaping the research design and methodology (Creswell & Poth, 2016:72; Saunders *et al.*, 2019:245). Time horizons are categorised into two main types: cross-sectional and longitudinal. Cross-sectional studies focus on collecting data at a single point in time, while longitudinal studies involve gathering data over an extended period, allowing researchers to observe changes and trends within the same group or context (Saunders *et al.*, 2019:255).

For this study, a cross-sectional time horizon was adopted. Cross-sectional studies are efficient for capturing a snapshot of the research problem at a particular moment, making them ideal for studies with limited time frames (Nassaji, 2020:431). This approach enabled the researcher to gather diverse perspectives from SMMEs in Gauteng regarding financial capital without requiring long-term monitoring.

The cross-sectional time horizon aligns well with the study's exploratory nature. As Creswell and Poth (2016:71) point out, cross-sectional designs are particularly suitable

for descriptive and exploratory research, where the objective is to gain a comprehensive understanding of the subject within a limited timeframe.

3.8.1 Target Population and Sampling

The target population is defined as the comprehensive collection of elements that define the research phenomenon, which can take the form of organisations, individuals, or infrastructure (Creswell, 2021:367). For this study, the population consisted of SMME owners in Gauteng in the construction, human resource recruitment, manufacturing and financial services sectors. This choice was deliberate, as these SMMEs possess extensive knowledge regarding financial capital and its role in SMMEs.

3.8.1.1 Sampling and Sample Selection

Sampling refers to the process of selecting a subset of individuals or units from a larger population to make inferences about the entire group (Creswell & Poth, 2016:127; Saunders *et al.*, 2019:255). In research, the goal is to choose a sample that accurately represents the broader population to ensure valid and reliable conclusions. There are two primary sampling strategies: probability sampling and non-probability sampling (Creswell, 2021:368). Probability sampling involves random selection, giving each member of the population an equal chance of being chosen, while non-probability sampling relies on non-random methods, often based on the researcher's judgment (Saunders *et al.*, 2019:255). Probability sampling is typically applied in quantitative studies to achieve statistical representativeness, whereas non-probability sampling is more common in qualitative research, which focuses on exploring specific cases in depth (Brennen, 2021:164).

Probability sampling techniques include simple random sampling, stratified sampling, cluster sampling, and systematic sampling (Brennen, 2021:164). These approaches ensure that the sample is representative and minimises selection bias, which is ideal for quantitative research where generalisability is crucial. In contrast, non-probability sampling methods, such as purposive sampling, snowball sampling, convenience sampling, and quota sampling, allow for the selection of participants based on specific criteria that are aligned with the study's focus (Mohajan, 2018:43). While non-probability

sampling does not aim for statistical generalisation, it is well-suited for in-depth qualitative studies where detailed insights from a targeted group are more important than achieving representativeness (Saunders *et al.*, 2019:256).

In this study, non-probability sampling was adopted, specifically purposive sampling, due to its alignment with the qualitative and exploratory nature of the research. Purposive sampling enabled the researcher to intentionally select participants based on the participant's familiarity with the topic, knowledge of the participant and time constraints. This approach was ideal for exploring the role of financial capital in SMMEs in Gauteng, as it allowed the researcher to identify entrepreneurs from key sectors such as construction, manufacturing, human resources, and financial services who had faced challenges in accessing financial capital. The selection was based on the researcher's prior familiarity with some of these entrepreneurs, ensuring access to individuals who could provide rich, detailed insights, which was essential given the study's time constraints.

3.8.1.2 Sample Size

Sample size refers to the number of participants chosen from a larger population for inclusion in a study (Creswell & Poth, 2016:127; Saunders *et al.*, 2019:255). In qualitative research, the goal is to gain in-depth insights and reach data saturation, where no new information or themes are emerging from additional data collection (Creswell, 2021:432). While Creswell (2021:432) recommends a sample size of 10 to 25 participants for qualitative studies, this number may vary depending on the scope of the study and the availability of time and resources. For example, in studies examining the impact of financial capital on small businesses, researchers like Hameed (2020:5) have used sample sizes ranging from 6 to 12 participants, as this number allows for an in-depth exploration of individual experiences and insights while ensuring data saturation is reached.

For this study, a sample size of 4 participants was selected from SMMEs in Gauteng. This number was deemed suitable to provide a rich and diverse range of perspectives on the role of financial capital in these enterprises while ensuring that data saturation could

be achieved within the study's timeframe. The selection of 4 participants allowed for a comprehensive exploration of challenges and opportunities faced by SMMEs in accessing financial capital, while also enabling the researcher to conduct in-depth, semi-structured interviews with each participant. This sample size strikes a balance between depth of analysis and manageability within the constraints of the study, mirroring the rationale behind sample sizes in similar studies.

4 Data Collection Methods

Data collection refers to the systematic process of gathering information from various sources to address research questions or test hypotheses (Creswell & Poth, 2016:147). The choice of data collection methods depends on the research strategy and objectives. For qualitative research, data collection often involves gathering in-depth insights into participants' perceptions, while quantitative research focuses on measurable data (Mohajan, 2018:44). The common data collection methods include surveys, observations, questionnaires, and interviews (Hameed, 2020:2). Given the inductive and exploratory nature of this study, semi-structured interviews were chosen as the primary method for data collection.

However, Saunders *et al.*, (2019) articulated that in qualitative research, credibility is achieved by employing multiple data collection techniques to provide a comprehensive and nuanced understanding of the phenomenon being studied. In this study, semi-structured interviews were the primary method of data collection, guided by an interview schedule with open-ended questions. These questions were designed to elicit detailed responses, offering insights into participants' experiences and perspectives. In addition to interviews, field notes were taken to capture contextual information, non-verbal cues, and observations that could not be gathered through verbal communication alone. Field notes helped broaden the data set and offered a deeper understanding of the research context.

More so, reflective journals were also maintained throughout the study, allowing the researcher to document personal insights, feelings, and reflections on the research process. This helped identify any potential researcher biases or shifts in perspective

during the study. The use of these techniques, interviews, field notes, reflective journals, and secondary data, ensured a richer, more credible dataset. Thus, by triangulating different sources and types of data, the study's findings are more robust and comprehensive, providing a well-rounded view of the factors influencing SMMEs' access to financial capital (Saunders *et al.*, 2019; Creswell, 2021:398).

Interviews are a form of data collection that involves direct interaction between the researcher and participants, allowing for the exchange of detailed information and insights (Hameed, 2020:2). In qualitative research, interviews are particularly effective in uncovering participants' perspectives, motivations, and experiences. Interviews can range from highly structured to unstructured formats, depending on the level of control the researcher wishes to exert (Creswell, 2018:19). For this study, semi-structured interviews were selected as they provided flexibility to explore specific themes while allowing participants the freedom to express their views in detail

The semi-structured interviews were conducted using an interview guide with predetermined open-ended questions to maintain focus while allowing for spontaneous dialogue. The interviews were conducted virtually on Microsoft TEAMS, lasting between 20 to 30 minutes each, and were conducted in English. Before the interviews, participants' consent was obtained, and each session was digitally recorded and transcribed for analysis. This method was appropriate for capturing the nuances of participants' experiences regarding financial capital in SMMEs, providing in-depth qualitative data that could not be captured through purely quantitative methods. The semi-structured interviews also allowed for the exploration of new ideas that emerged during the discussions, offering richer insights into the research topic.

The interview guide addressed three parts. The first part was centred around the background of the SMME and its owner, which included demographics, education, an understanding of financial capital and the financial performance of the SMME. The second part focused on the SMMEs' compliance with some of the statutory requirements for access to financial capital. The third part was about the factors that contribute to the ability and inability of SMMEs to access financial capital, which included their experiences with financial capital.

5 Data Analysis

Data analysis refers to the process of systematically examining, cleaning, transforming, and interpreting collected data to draw meaningful conclusions and insights (Saunders *et al.*, 2019:256). In qualitative research, data analysis techniques typically involve identifying patterns, themes, and meanings from the data. Common methods used in qualitative analysis include thematic analysis, narrative analysis, grounded theory, content analysis, discourse analysis, and framework analysis (Hameed, 2020:4). Thematic analysis was chosen for this study due to its ability to explore underlying patterns and themes within the data. Atlas Ti software was utilised to assist with the coding and organisation of themes, helping to uncover insights and patterns within the interview data.

3.8.3.1 Thematic Analysis

Thematic analysis is a qualitative method that involves identifying, analysing, and reporting patterns or themes within data (Braun & Clarke, 2006). This method enables the researcher to delve into rich, complex datasets and systematically uncover recurring themes that help explain the phenomenon under study. Themes are essentially patterns of meaning that emerge from the data, which can then be organised and interpreted about the research questions (Mohajan, 2018:46). Thematic analysis involves several key steps: familiarisation with the data, coding, identifying themes, reviewing themes, defining themes, and writing up (Crabtree & Miller, 2023:322). This method was chosen because it allows for flexibility in interpreting the depth of the participants' responses, which is crucial for an inductive and exploratory study.

In conducting thematic analysis, the study followed Braun and Clarke's (2017) framework with the steps below:

Table 3.1: Thematic Analysis Process

Steps	Explanation	Application
	The researcher immerses themselves in the data to gain	Using Microsoft TEAMS, the researcher first transcribed the

Steps	Explanation	Application
Step 1 Familiarisation with Data	an understanding of its content (Braun & Clarke, 2006).	recorded interviews that were conducted using Microsoft TEAMS, to text and thereafter supported these transcriptions with field notes journaled during the interviews. In some instances, the researcher had to listen again to the recordings to get a better understanding of the data collected. This process enabled the researchers to familiarise themselves with the data collected.
Step 2 Generating Initial Codes	Data is arranged at a precise, granular level (Kiger & Varpio, 2020:5)	The researcher identified and labelled relevant features of the data; this is called codes. The sections that covered the participants' experiences with financial capital were given focus. Atlas.ti was used to aid with the generation of the various codes. Examples of the codes that were generated include company background and financial capital.
Step 3 Searching for Themes	The codes identified are examined and grouped into recurring patterns called themes (Braun & Clarke, 2006)	Through Atlas.ti the codes identified were grouped into broader themes through quotations, these were recurring patterns that were useful in answering the research questions formulated in Chapter 1. The

Steps	Explanation	Application
		<p>identified patterns were the themes for the research study. The themes that stood out were education and experience linked to the code company background. Banks, other financial institutions, working capital and expansion capital were linked with the financial capital code.</p>
<p>Step 4 Reviewing Themes</p>	<p>The themes were refined by reviewing them against the data, ensuring that they were meaningful and aligned with the data (Braun & Clarke, 2006)</p>	<p>The themes were refined by reviewing them against the data, ensuring that they were meaningful and aligned with the research objectives. The themes mentioned above were not the only themes identified. Nevertheless, the themes were reviewed against the data collected which were at this stage transcribed and along with the handwritten notes, an in-depth review was possible. This review sought to identify the themes such as bank facilities and other financial institutions that would shed light on one of the objectives that dealt with sources of financing at the different stages of the SMME lifecycle.</p>
<p>Step 5 Defining and</p>	<p>Themes are defined and described so that they reflect</p>	<p>The study clearly defined each theme and gave it labels as well</p>

Steps	Explanation	Application
Naming Themes	the essence of the research questions (Braun & Clarke, 2006)	as reasons why finance applications are being declined under the financial capital code and experience in industry under the code company background.
Step 6 Writing the Report	Findings analysis is organised and a report is generated (Braun & Clarke, 2006)	By reading through the contents of the themes such as bank facilities and financial institutions under the financial capital code, along with the transcriptions from the interviews, the researcher was able to organise the information into meaningful data on the role of financial capital in SMMEs. This included a discovery of how resourceful SMME owners can be by leveraging different credit facilities with different financing institutions at times in their capacity to finance their businesses.

Braun and Clarke (2012).

3.8.3.2 Rationale for Adopting Thematic Analysis

Thematic analysis is a strong yet adaptable technique for examining qualitative data and can be applied to a range of paradigmatic or epistemological stances and is a suitable analytical technique for attempting to comprehend experiences, ideas, or actions throughout a data collection (Kiger & Varpio, 2020:1). Thematic analysis is comparatively flexible and easy to understand and used in contrast to many other qualitative techniques. because the analysis can be entirely inductive and does not necessitate the application

of theory (Nowell *et al.*,2017). Thematic analysis was justified for this study because it allowed the researcher to systematically explore the role of financial capital in SMMEs in Gauteng. This study followed an inductive research approach thereby the use of thematic analysis was justified. It facilitated the interpretation of nuanced participant responses, thereby offering deeper insights into the challenges and opportunities faced by these businesses. Furthermore, the thematic analysis' flexibility allowed for the discovery of unanticipated themes, enriching the overall understanding of the role of financial capital in SMMEs. The novelty of thematic analysis allowed the researcher to catch on to an analysis tool with the time constraints that would not have permitted extensive training on a complex analysis tool

3.8.3.3 Codes and Themes

Boyatzis (1998:63) defined a code as the most fundamental segment, or element, of the raw data or information that can be evaluated in a meaningful way regarding the phenomenon and must be sufficiently distinct and well-defined to avoid overlapping with other codes and to make sense when used in conjunction with a broader coding framework or template. Coding, the initial genuinely analytical stage of the procedure, aids in the granular, targeted organisation of data (Kiger & Varpio, 2020:5).

The researcher began by developing codes using Atlas.ti, from the data that had been transcribed from the interviews, the interviews were virtual on Microsoft TEAMS and the transcriptions were done on the same platform. The main codes were company background and financial capital. The company background would speak to the objective that deals with statutory requirements to be met to access financing.

A theme is an implicit concept that unifies a collection of recurring concepts, it helps researchers to respond to the research question (Ryan & Bernard, 2003). Themes are created by analysing, combining, comparing, and even graphically mapping the relationships between codes. Since themes are specifically extracted from the coded data in inductive analyses, the themes found will be more closely related to the original data and representative of the full dataset (Braun & Clarke, 2006). Themes are identified through a fundamentally active and interpretive process. Significant connections between

data items and answers to important research questions will be provided by important themes (Kiger & Varpio, 2020:6).

From the code, company background, education and experience in industry were developed as the main themes. Financial background developed more themes such as banking facilities and other institutions, working capital and expansion capital as well as ability and inability to access financial capital. These themes spoke to the objectives, that explored the different forms of financing at the different lifecycle of the SMME and the factors that contribute to the ability or inability of SMMEs to access financing. The theme, financial manager and financial statements spoke to the objective of understanding the statutory requirement to be met for access to financing by SMMEs which emphasised the importance of maintaining financial records.

6 Trustworthiness of the Findings

In qualitative research, trustworthiness refers to the degree to which the findings accurately represent the participants' experiences and can be considered reliable and valid (Creswell & Poth, 2016:182). Unlike quantitative research, qualitative research places less emphasis on generalisability, acknowledging that everyone's reality is shaped by unique, historical contexts. Ensuring trustworthiness is essential to uphold the authenticity and credibility of the research process. Trustworthiness is generally underpinned by four key pillars: dependability, transferability, credibility, and confirmability (Crabtree & Miller, 2023:322). These pillars guide researchers in producing findings that are rigorous, reliable, and reflective of participants' true experiences.

3.8.4.1 Dependability

Dependability refers to the consistency of the research process and whether the findings would be stable over time if the study were replicated (Shenton, 2004). In this study, dependability was ensured by implementing a thorough and transparent research design. This included detailed documentation of the research strategy, methods, and analytical processes. The research followed the Research Onion approach by Saunders *et al.* (2019), ensuring a structured progression from philosophy to methodology. Additionally, the study's use of inductive reasoning, qualitative data collection, and descriptive

research methods ensured that the data was systematically gathered and interpreted. A comprehensive audit trail was maintained to allow others to evaluate the dependability of the research.

3.8.4.2 Transferability

Transferability is concerned with the applicability of the research findings to other contexts or groups, similar to external validity in quantitative research (Creswell, 2021:459). While qualitative studies focus on in-depth exploration within a specific context, the extent to which findings can be transferred to other settings depends on the richness of the descriptions provided (Lemon & Hayes, 2020:604). To ensure transferability, this study provided detailed accounts of the research design, sample selection, and data collection procedures, enabling other researchers to determine the relevance of the findings in different contexts. Thick descriptions of participant experiences and the context of SMMEs in Gauteng were provided, which enhanced the possibility of transferring the insights to other sectors or regions where financial capital access is a challenge.

3.8.4.3 Credibility

Credibility, akin to internal validity, assesses whether the findings genuinely represent the perspectives and realities of the participants (Lemon & Hayes, 2020:604). Ensuring credibility in this study involved multiple measures, including data triangulation. By gathering data from multiple sources and integrating various viewpoints, the researcher was able to cross-check the findings for consistency. The use of semi-structured interviews allowed participants to freely express their experiences, and a thorough transcription process helped ensure the accuracy of the data. Moreover, member checking was employed, where participants reviewed the findings to confirm their authenticity. This further strengthened the study's credibility by ensuring the findings aligned with participants' lived experiences.

3.8.4.4 Confirmability

Confirmability addresses the extent to which the research findings are shaped by the participants rather than the researcher's biases or preconceived notions (Saunders *et al.*,

2019:259). To ensure confirmability, the researcher-maintained reflexivity throughout the study, acknowledging their assumptions and how these might influence the research process. An external audit trail was also established by keeping detailed records of all research activities, from data collection to analysis, allowing others to scrutinise the objectivity of the process. The use of Atlas.Ti for coding and theme identification ensured that the analysis was grounded in the data itself, rather than in the researcher's subjective interpretations. This helped in maintaining a clear distinction between participant perspectives and the researcher's influence.

3.9 Elimination of Bias

Eliminating bias refers to the process of minimising any distortions or prejudices that may affect the research outcomes, ensuring that the findings are as objective and accurate as possible (Creswell & Poth, 2016:186). Bias can arise from various sources, such as the researcher's preconceived notions, participant behaviour, or even the study's methodology (Saunders *et al.*, 2019:260). In qualitative research, eliminating or reducing bias is crucial to enhancing the credibility, reliability, and validity of the findings.

In this study, several measures were implemented to minimise bias. First, reflexivity was practised by the researcher, where continuous self-awareness was maintained regarding potential influences on the data collection and analysis process. The researcher made a conscious effort to avoid imposing personal views on the participants' responses. Second, member checking was used to verify the accuracy of the interpretations by allowing participants to review the transcriptions and confirm that their views were accurately represented (Saunders *et al.*, 2019:260). Third, data triangulation was applied by cross-verifying the information from multiple sources, which helped ensure that the findings were not biased by a single viewpoint. Lastly, semi-structured interviews were employed, allowing participants to express their views freely while the researcher remained neutral, guiding the conversation without leading the participants toward particular responses.

These measures collectively contributed to reducing bias and enhancing the credibility and objectivity of the study's findings.

3.10 Ethical Considerations

Ethical considerations in research play a pivotal role in protecting the rights, privacy, and dignity of participants, ensuring that the study adheres to moral principles throughout its execution (Creswell & Poth, 2016:287; Saunders *et al.*, 2019:302). Ethics, derived from the Greek word 'ethos', signifies societal rules rooted in moral integrity and accountability (Miles, Huberman & Saldaña, 2018:19). Scientific ethics serve as a framework for distinguishing between right and wrong in research (Mohajan, 2018:25). In this study, the researcher adhered to several ethical principles to safeguard participants and ensure the study's credibility. The ethical considerations and standards followed in this study are discussed below:

3.10.1 Ensure Protection of Sensitive Data

The protection of sensitive data is an essential ethical consideration in research, as it ensures that personal, proprietary, or restricted information is safeguarded against misuse or unauthorized access (Mohajan, 2018:25). Sensitive data includes identifiable information that can be used to trace or harm individuals, such as personal identifiers, financial records, or health-related information (Miles, Huberman & Saldaña, 2018:19). According to UCT Libraries (2022), sensitive data also encompasses proprietary data, which is internally generated and may have commercial value, and restricted or confidential data, which is subject to legal or contractual protections. To protect sensitive data in this study, all identifiable information was anonymised or pseudonymized, and strict access controls were implemented to ensure that only authorized personnel had access to the data. Additionally, any proprietary or restricted data was handled in compliance with intellectual property laws, and proper consent was obtained from relevant parties before collecting or sharing such information. These protective measures helped minimise the risk of harm and ensure the ethical handling of sensitive data throughout the research process.

3.10.2 Protection from Harm

The protection of participants from harm is a critical ethical principle in research, ensuring that their well-being is prioritized throughout the study (Mohajan, 2018:25). In this

research, participants were treated with respect, and their rights and dignity were upheld at all times. The researcher engaged with participants honestly, providing clear information about the study's purpose, procedures, and potential risks. If participants experienced emotional or psychological distress, the researcher was prepared to offer debriefing sessions to address any concerns. If necessary, the researcher would have referred participants to a qualified professional for further support. These steps ensured that participants were protected from harm, and their involvement in the study did not result in any adverse effects.

4 Protection of Personal Information Act (POPI ACT)

The researcher endeavoured to treat all information obtained in any way or form as confidential and did not divulge such to anyone. The POPI Act prescribes the need to protect personal information and the right of access to that information. In all endeavours of this research, the researcher conducted themselves in a manner that respected and upheld not only the Act but the spirit of the Act.

Access to participants and the scheduling of the interviews was done in compliance with the POPI Act. The researcher requested consent before engaging in research that required participation from others. A consent form was sent out to the potential interviewees.

5 Ensure Informed Consent

The consent form outlined the following:

- Description of the research its purpose, and title of the study.
- The fact that basic background information about the interviewee would be asked as part of the interview.
- The estimated time of the interview would not be more than thirty minutes.
- The interviewees' right to end their participation at any time during the interview, should they feel uncomfortable in any way.

- The fact that the interview would be voice recorded but that their personal information would not be recorded, that the recording would be kept confidential and that the interviewee's identity would be concealed.
- The fact that participation in the study would be completely voluntary and that a copy of the final report of the interview would be made available to the interviewee on request.

6 Ensure Anonymity and Confidentiality

Creswell (2021:403) propounded that ensuring anonymity and confidentiality is a critical ethical consideration in qualitative research. Anonymity refers to the protection of participants' identities, ensuring that personal details or responses cannot be traced back to them (Mohajan, 2018:25). This was achieved by removing identifying information from the data, such as names, locations, or any other unique identifiers. Confidentiality involves safeguarding the information participants provide, ensuring it is only accessible to those directly involved in the research process and not shared without consent (Saunders *et al.*, 2019:302). In this study, anonymity and confidentiality were ensured by using pseudonyms for participants and storing data in secure, password-protected systems. Additionally, any findings presented were aggregated or anonymized to prevent the identification of individual responses. These measures helped maintain the integrity of the research process, build trust with participants, and protect their privacy and rights.

7 Ensure Permission is Obtained

Saunders *et al.*, (2019:304) argued that ensuring permission is obtained is a crucial step in the research process, particularly in studies involving human participants, organisational access, or sensitive data. This step involves seeking formal consent from relevant authorities, institutions, or individuals before proceeding with data collection (Creswell, 2021:403). In the context of this study, obtaining permission included acquiring approval from the ethical review ethics committee, to ensure that the research meets ethical standards and protects participants' rights and confidentiality. Additionally, permission from relevant organisations, business owners, or other stakeholders was obtained to ensure that the research was conducted smoothly and in compliance with

organisational policies and regulations. This process protects the integrity of the study and ensures compliance with legal and ethical requirements.

8 Ensuring Privacy

In collecting data consideration was given to the POPI Act. People's right to privacy, confidentiality, and anonymity as well as other ethical considerations were borne in mind. The data gathered was not sensitive. This research involved the concern of business owners wanting to make a success of their businesses and did not pertain to personal matters. The data collected was not personal and it was prudent to not mention the names of people or their organisations to protect their identities. Recordings were not shared with third parties and data was not published. All data was stored safely and securely and is accessed by only the researcher and the research supervisor and will be destroyed after five years.

8.10.1 Ethical Clearance

The research proposal was submitted to the scientific committee of the North-West University's Business School for assessment of the feasibility of the study. An ethical clearance application was submitted to the EMSREC committee of the North-West University for ethical clearance and permission was obtained. This study was rated a medium-risk study. Only once an ethics number had been obtained did the qualitative investigation study commence.

The research paradigm served as a safeguard and reduced the risk of bias to an acceptable level. The researcher acted with honesty and integrity in all the research conducted and always endeavoured to put the ideas and feedback from the participants and the data collected over the bias of his own opinion.

3.11 Conclusion

The chapter provided an overview of the research design and methodology employed in this study, aiming to ascertain the role of financial capital in SMMEs in Gauteng. This chapter has provided an in-depth overview of the research design and methodology

adopted for this study. The methodological approach was carefully selected to address the study's key objectives, with particular attention given to the exploration of the statutory requirements for accessing finance, the various types of financial capital available at different stages of an SMME's lifecycle, and the factors influencing the ability or inability of SMMEs to secure such capital. Through a discussion of the research design, which was structured around a research onion model, this chapter has highlighted the importance of aligning the chosen methods with the research objectives to ensure relevant and meaningful outcomes.

More so, a significant focus of this chapter was on justifying the selection of qualitative research, recognizing its flexibility and depth in capturing participants' experiences and insights. Data collection instruments, specifically interviews, were chosen to provide rich, detailed responses from key stakeholders within the SMME sector, and the rationale for their use was explored thoroughly. Thematic analysis was selected as the most appropriate data analysis technique, with a detailed explanation provided on the process of identifying, coding, and interpreting the data to uncover key themes. The chapter also ensured the protection of participants through ethical considerations, such as maintaining anonymity, and confidentiality, and protecting sensitive data, ensuring that the study adhered to research ethics and integrity. The insights presented in this chapter lay the groundwork for the subsequent chapter, which delves into the analysis, interpretation, and discussion of the findings, further advancing the understanding of the challenges and opportunities faced by SMMEs in accessing financial capital in Gauteng.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

The previous chapter discussed the research design and methodology, with a qualitative approach being followed. An exploratory research design was followed through semi-structured interviews. SMME owners from the construction, manufacturing, human resource recruitment and financial services sectors were interviewed to collect the data. Thereafter thematic analysis was used for inductive reasoning (Kiger & Varpio, 2020:3). This chapter addressed three objectives as follows:

First, the statutory requirements for SMMEs in accessing financing for their entities and it furthermore explored the legal and regulatory requirements for access to financial capital. This section highlighted the challenges associated with compliance and the role of these requirements on SMMEs' ability to access the necessary funding. Secondly, the different types of financing at the different stages of the lifecycle of the SMMEs were explored. It was established that various financing options are available to SMMEs at the different stages of their lifecycle, from stages such as development, start-up, growth, and maturity. This section identified trends in financing as well as gaps in financial support that play a role in the growth of SMMEs. Lastly, factors that contribute to the ability or inability of SMMEs to access financial capital and also explored the barriers and facilitators playing a role in SMMEs' ability or inability to secure funding. It considered internal factors such as the business structure and financial management, as well as external elements such as economic conditions and lender requirements.

Chapter 4 begins with a discussion of the data collection process. The thematic analysis process followed is also explained as it was employed for inductive reasoning to analyse the obtained results and findings on the role that financial capital plays in SMMEs in Gauteng. Braun and Clarke's (2006) framework on thematic analysis was employed for the data analysis. The foundation of this section was key themes derived from codes that shed light on the study's objectives to provide a coherent and focused exploration of the findings. The themes included statutory requirements for accessing financing, the forms

of financing available during the SMME's lifecycle, as well as the factors that contribute to the ability or inability of these businesses to secure financial capital.

The results and findings section were divided into two sections, demographic details of the participants to provide context for the findings and the second section is the results about the participants' experience in industry. In addition, a comprehensive discussion ensued on the themes and codes developed by Atlas.ti. The themes and codes were linked to the objectives of the study. The chapter also discussed the limitations encountered in the processes.

4.2 Data Collection Process

The study used virtual semi-structured interviews as the primary data collection method to obtain detailed insights from participants. The interviews followed an interview schedule that featured a combination of open-ended and semi-structured questions, enabling flexibility during the interview where the participants could express their views on the subject, while ensuring the research objectives were addressed, by not diverting too far from the questions at hand. The interview guide was divided into three sections: the first section focused on demographic details and financial background of the SMME and its owner, the second section on statutory requirements for accessing funding, the third section on the different forms of financing available to SMMEs and the factors contributing to the ability or inability of SMMEs to access financial capital. The interviews were recorded with participants' consent and transcribed on Microsoft TEAMS. Data analysis involved systematically organising the transcripts, coding them using Atlas.ti for thematic analysis, and securely storing the data to uphold confidentiality and ethical compliance. The study targeted and conducted four interviews.

4.3 Thematic Analysis

Thematic analysis is a qualitative technique that entails finding, examining, and summarising patterns or themes in data (Braun & Clarke, 2006). By using this approach, the researcher explored intricate, rich information and methodically found recurrent patterns that contributed to the exploration of the role of financial capital in SMMEs in

Gauteng. Themes are essentially patterns of meaning that emerge from the data, which can then be organised and interpreted about the research questions (Mohajan, 2018:46).

4.3.1 Thematic Analysis Application

The thematic analysis was conducted using Braun and Clarke's (2006) framework which was detailed in Chapter 3 following the six systematic steps.

First, familiarisation with the data was achieved by listening to the interview recordings and thoroughly reading the transcripts to gain a comprehensive understanding of the content. Second, initial codes were generated by identifying and labelling key features in the data that were relevant to the research questions. Third, these codes were grouped into broader categories during the search for themes phase, highlighting recurring patterns and relationships in the data to develop themes. Fourth, the themes were reviewed against the dataset during the reviewing themes stage to ensure they accurately reflected the participants' responses and aligned with the study's objectives. Fifth, in the defining and naming themes step, each theme was clearly defined and given a descriptive label that encapsulated its essence. Lastly, the writing of the report phase involved organising the findings into a coherent narrative, providing detailed descriptions of each theme and their relevance to the study (Braun & Clarke, 2006).

4.4 Results and Discussions

The results and findings are discussed below.

4.4.1 Demographic Information

The demographic information was the starting point of the interview, the purpose of this section was to get a better understanding of each participant being interviewed. This section asked questions such as the participant's educational background and the number of years of experience in the business or industry. The information that was obtained is individually illustrated in Table 4.1 below;

Table 4.1: Educational and Industry Background

Participants	Qualification	Industry
Participant 1	B-Tech Mechanical Engineering	Manufacturing
Participant 2	B-Tech Internal Auditing	Construction
Participant 3	Master of Business Administration	Human Resource Management
Participant 4	Master of Business Administration	Financial Services

Source: Author,2024.

As shown in Table 4.1, two participants held B-Tech degrees and the other two are Master’s degrees holders. Participant 1 held a B-Tech degree in Mechanical Engineering which may be considered an education discipline relevant to the manufacturing industry. However, Participant 2 holds a B-Tech in Internal Auditing, a financial education discipline, which can be argued to not be relevant to construction operations but on the other can be argued to be relevant to the financial management of any business. The Master of Business Administration degree holders can be argued as pivotal to the strategy, governance, and high-level financial policy management of any business. According to Saunders *et al.* (2019), the credibility of qualitative research is enhanced when participants possess the expertise or background relevant to the research topic, ensuring that their responses are informed and reliable. This demonstrates that the findings were elicited from highly educated participants assumed to be credible and to understand the questions regarding the role of financial capital in SMMEs. This alignment with their academic and professional expertise supported the trustworthiness of the study’s conclusions (Creswell & Poth, 2018).

However, the industry experience of the participants is shown in Table 4.2 below;

Table 4.2: Industry Experience

Participants	Number of years in business/ industry
Participant 1	6
Participant 2	15
Participant 3	14
Participant 4	7

Source: Author,2024.

As shown in Table 4.2, all participants had more than 5 years' worth of experience in business. According to Rathogwa and Msimango-Galawe (2023:3), 70%-80% of SMMEs fail in their first five years of existence. Against that background, the industry experience shows that the SMMEs have survived longer, giving them the capacity to understand the challenges and hurdles met during operations. This aligns with Ahinful *et al.*, (2021:17) who stated that SMMEs who are fortunate enough to live past their failure period, enhance their performance over time, and gain experience and market intelligence. In this regard, their level of expertise regarding managing market and operational uncertainty increases and by networking with suppliers, consumers, and financiers, these SMMEs can improve their financing prospects. This is an indication that the participants interviewed may provide insight from the perspective of someone who has had interaction at one point or another with providers of financing and has perhaps been successful in this quest for financing. This enriched the findings given the synthesis of understanding the role of financial capital in SMMEs in Gauteng (Saunders *et al.*,2019).

4.4.2 Thematic Codes and Themes

In qualitative research, coding consists of procedures that allow gathered data to be put together, categorised, and arranged thematically, offering a structured framework for making meaning (Kiger & Varpio, 2020:2). The pertinent data features were found and labelled; these are called codes (Braun & Clarke, 2006). The focus was given to the discussion of participants' experiences in dealing with financial capital needs in their respective businesses. The different codes were grouped according to patterns of

meanings and recurrence of arguments and themes were generated with the assistance of Atlas.ti. The themes generated were the financial background of the company, statutory requirements, different forms of financing and factors enhancing or inhibiting access to financial capital. Each theme had codes which are shown in Table 4.3 and subsequently discussed.

4.4.2.1 Word Cloud

Once the themes were developed a word frequency was developed. Figure 4.1 below illustrates the word frequency cloud generated by Atlas.ti from the Microsoft TEAMS interview transcripts. The cloud shows words that were mostly used during the interviews based on the transcripts, as the enlarged. The more frequently the word was used the more it fed the development of codes and subthemes. The word 'financial' is the largest in the cloud and was the most frequently used word during the interviews. The next level of words in terms of frequency appears as 'businesses and 'financing', given the study's focus was on SMMEs otherwise affectionately known as small businesses. Financing is a word that is used along with financial. Other words such as 'expansion', 'capital', 'credit' and 'bank' will be synonymous with financial sector vocabulary and justifiably used when discussing the role of financial capital in SMMEs.

Table 4.3: Codes and Themes

<p>Code 1: Financial background of the SMME</p> <p><u>Themes generated</u></p> <ul style="list-style-type: none">• Financial Managers• Bookkeeping• Financial Statements
<p>Code 2: Statutory requirements</p> <p><u>Themes generated</u></p> <ul style="list-style-type: none">• Tax Compliance• Company Registration• Financial Statements and Records
<p>Code 3: Different forms of financing</p> <p><u>Themes generated</u></p> <ul style="list-style-type: none">• Other financial institutions• Bank facilities
<p>Code 4: Factors enhancing or inhibiting access to financial capital</p> <p><u>Themes generated</u></p> <ul style="list-style-type: none">• Creditworthiness• Working capital and expansion capital

Source: Author,2024.

4.4.2.3 Code 1: Financial Background of the SMME

The first code addressed the financial background of the SMME and the participants' understanding of financial capital.

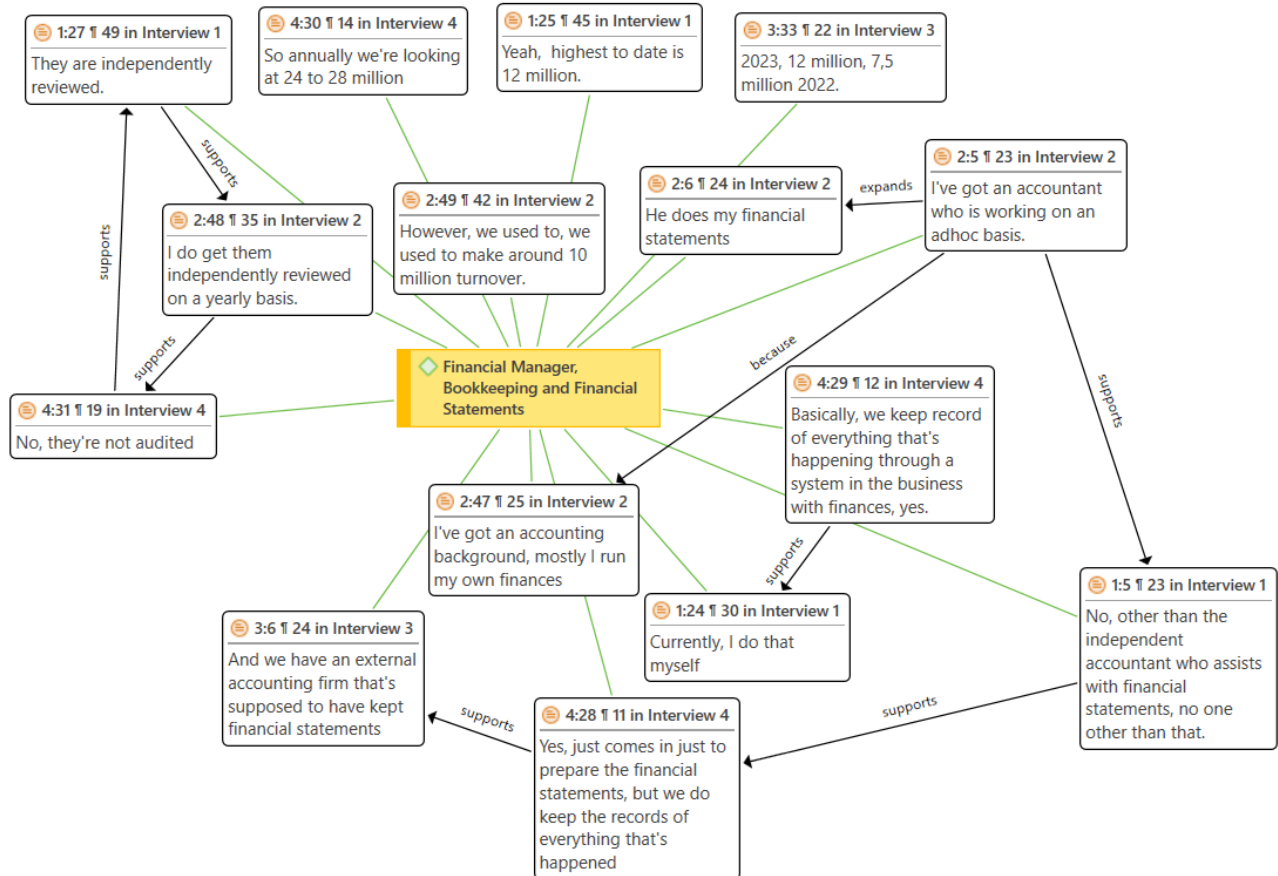


Figure 4.2: Financial background of SMMEs

Source: Atlas.ti

Figure 4.2 above depicts that all the participants at some point mustered a turnover of more than R10 million and all of them had their financial statements prepared by an external accountant however none of the participants indicated that their set of financial statements was audited. Three out of the four participants mentioned that they did not employ a financial manager or financial staff to handle the day-to-day financial affairs of their company, indicating a potential gap in the company's capacity to handle its day-to-day financial operations effectively. One of the participants held a B-Tech degree in Internal Auditing and expressed that they were competent enough to handle the day-to-day financial affairs of their business. The participants demonstrated a strong understanding of financial management, the need for bookkeeping, and the importance of the preparation of financial statements.

On being asked, *“Do you have a financial team or financial manager that you employ?”*

Participant 2 argued that;

“But because I've got an accounting background, mostly I run my finances. I just used my accountant as an external auditor to oversee everything that we have done. But on a day-to-day everything like that on my own.”

Participant 3 also stated that;

“Yeah, an accountant”

More so, the findings depicted in Figure 4.2 reveal critical insights into the financial management practices of the participants' businesses. Despite achieving a turnover exceeding R10 million and having external accountants preparing their financial statements, the lack of audited financial statements and dedicated financial staff suggests potential vulnerabilities in financial oversight and management. The literature highlights that effective financial management is crucial for sustaining business growth and accessing external financing (Fatoki, 2020). The absence of a financial manager in three of the four companies aligns with studies indicating that SMMEs lack the resources or prioritization of formal financial management structures (Abor & Quartey, 2020). However, the presence of a B-Tech-qualified participant in Internal Auditing, competent in managing financial operations, underscores the potential for leveraging individual expertise to mitigate this gap. Additionally, the employment of an in-house accountant by one of the participants reflects a gradual recognition of the importance of structured financial oversight, which could improve decision-making and compliance with statutory and lender requirements (Mahagaonkar, 2018). These findings highlight the need for enhanced financial capacity-building within SMMEs to ensure sustainable growth.

4.4.2.4 Code 2 Statutory requirements for access to funding

The second code addressed the statutory requirements for access to funding. The themes emanating from this code were company registration, tax compliance and financial statements and records. These are discussed below.

Theme 1: Company Registration

The SMMEs were registered with the Companies and Intellectual Property Commission (CIPC) as per the Companies Act and had complied with this statutory requirement. According to the Companies Act, proper registration provides businesses with a distinct legal identity, which is essential for engaging in contractual agreements and building credibility with financial institutions (Republic of South Africa, 2008). The participants demonstrated their understanding of this requirement by completing the necessary steps to register their SMMEs, ensuring that they meet the statutory obligations essential for securing financial capital. Research by Fatoki (2020:9) highlights that compliance with such statutory requirements is often the first hurdle for SMMEs seeking external financing, as it signifies legitimacy and operational accountability. Consequently, the participants' adherence to this requirement reflects their commitment to positioning their businesses within the formal financial and regulatory ecosystem, thereby enhancing their eligibility for various financing options. Therefore, company registration was posited as a fundamental legal requirement to access financing, and the participants completed the necessary steps to comply with the Companies Act and register their SMMEs.

Theme 2: Tax Compliance

The participants affirmed that SMMEs must comply with the tax obligations set forth by the South African Revenue Service (SARS). This included registering for taxes, submitting regular tax returns, and paying applicable taxes such as value-added tax (VAT) and income tax (Tax Administration Act). In South Africa, compliance with tax obligations is often a prerequisite for accessing financing or government support programs. Financial institutions and government support programs often view tax compliance as a key indicator of a business's financial discipline and reliability (Chimucheka & Adebisi, 2020:12).

The understanding of the four participants highlighted a strong commitment to tax compliance among the SMME owners. By being tax compliant, they have enhanced their credibility, financial reputation, and eligibility for financing options. This therefore demonstrates a responsible approach to financial management and a recognition of the

benefits that come with maintaining good tax compliance practices. This adherence enhanced their credibility and improved their financial reputation, which in turn increased their eligibility for various financing options. Tax compliance, thus, serves as an essential tool for building trust with lenders and potential investors, making it a crucial factor in securing the necessary capital for business growth (Aluko, 2022). Therefore, the participants' recognition of these benefits reflects a strategic understanding of how compliance contributes to their broader business objectives, positioning them for future financial opportunities.

Theme 3: Financial Statements and Records

All the participants expressed an understanding that SMMEs seeking financing may be required to provide financial statements and records to potential lenders or investors as a statutory requirement. Thus, maintaining up-to-date financial records was crucial for demonstrating the financial health and viability of the business. The responses from the participants underscored the significance of maintaining accurate financial statements and records for SMMEs seeking financing. The participants recognised that these statements provide a comprehensive view of their business's financial health, stability, and growth potential. By preparing and presenting these statements to potential lenders or investors, they can effectively demonstrate the viability and attractiveness of their SMMEs for financing purposes (Thusi, 2022:8). The emphasis on accuracy and regular updates reflected the participants' commitment to financial transparency and responsible financial management practices essential for building trust and credibility with providers of finance.

On being asked, *“Do you keep financial records or prepare financial statements?”*

Participant 1 said; *“The independent accountant who assists with financial statements, I know he's registered and he issues financial statements, he's registered with the relevant body.”*

Participant 4 responded; *“I used to have somebody who does only uh bookkeeping and however currently only have an accountant who is outsourced and only deals with financial statements. So basically, we give her everything that she needs at the current*

time when she prepares the financial statements. Yes, just comes in to prepare the financial statements, but we do keep the records of everything that's happened. We keep a record of everything that's happening through a system in the business with finances, yes.”

4.4.2.5 Code 3 Different forms of financing

The different forms of financing available to SMMEs were ascertained in the study. The elicited inferences depicted the banking facilities and other financial institutions as the basis for forms of financing available to SMMEs. The themes developed are shown in Table 4.3:

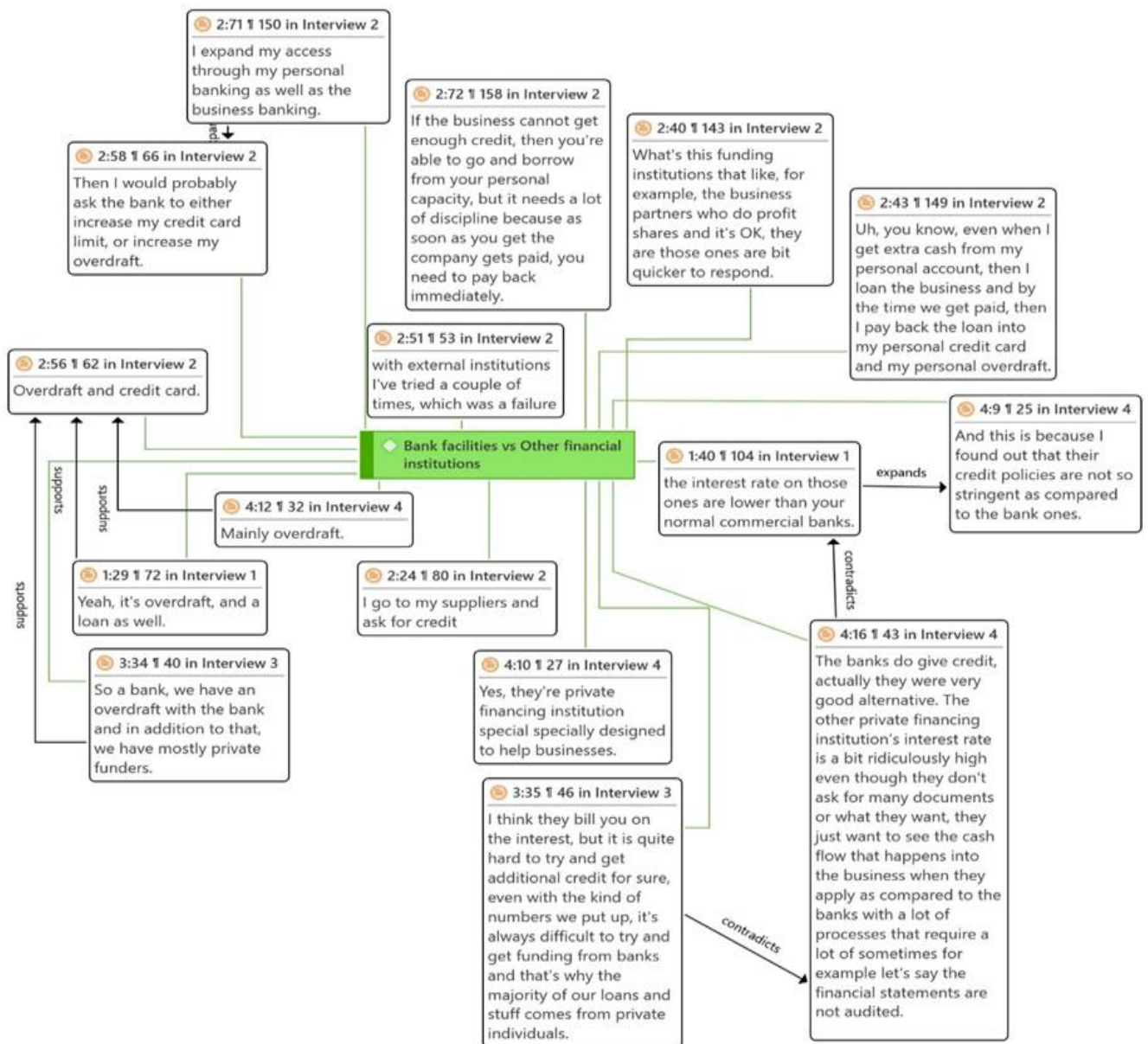


Figure 4.3: Forms of financing

Source: Atlas.ti

The participants affirmed that they were familiar with the traditional credit facilities offered by commercial banks, and all indicated that they either had an overdraft facility, credit card facility or a bank loan. One of the participants stated that they made use of a loan facility from a private financial institution from time to time while another say participant indicated that they had applied for funding from a financial institution other than the traditional commercial banks. The forms of financing are depicted in Figure 4.3:

Theme 4: Banking Institutions

As depicted by the participants in Figure 4.3, commercial banks and other private financial institutions were the main forms of financing available to the SMMs. One of the participants used private funders to augment financial capital. Two participants used facilities from financial institutions other than commercial banks and had contradicting assessments of the cost of this credit. One participant cited that the interest rate from commercial banks is lower, while the other cited them as being higher than those of other financial institutions. It would be imprudent to conclude from this as the cost of credit considers various factors and it would be purely based on an individual's credit profile among many factors.

When asked about the credit facilities they have access to,

Participant 3 expressed frustration as follows: *"I think they bill you on the interest, but it is quite hard to try and get additional credit for sure, even with the kind of numbers we put up, it's always difficult to try and get funding from banks and that's why the majority of our loans and stuff comes from private individuals."*

Participant 4 said: *"OK, basically I make use of a finance house and this is if I want to look at a certain expansion strategy, not running just same branch out use make use of that. And this is because I found out that their credit policies are not so stringent as compared to the bank. Yes, they're a private financing institution specially designed to help businesses. The other private financing institution's interest rate is a bit ridiculously high even though they don't ask for many documents or what they want, they just want to see the cash flow that happens into the business when they apply as compared to the banks with a lot of processes that require a lot of sometimes, for example, let's say the financial statements are not audited."*

It is worth noting that two participants were in disagreement regarding the cost of credit from financial institutions, with one citing lower interest rates from commercial banks and the other perceiving them as higher compared to other financial institutions.

When asked about the cost of credit from commercial banks and other financial institutions,

Participant 4 replied: *The other private financing institution's interest rate is a bit ridiculously high*

Participant 1 replied: *"It's there's a repayment, but the interest rate on those ones is lower than your normal commercial banks."*

Against that background, the responses highlight the varying experiences of SMMEs in accessing financial support from banking institutions and private financial entities. While some participants emphasized the flexibility of private financiers, others noted the higher interest rates associated with these institutions compared to commercial banks. The contradictory views on credit costs reflect the complexities of financing, which depend on individual credit profiles and the specific terms of each institution. These findings underscore the nuanced nature of SMME financing and the need for tailored financial solutions to address their diverse needs effectively.

Theme 5: Other Financial Institutions

The participants' experiences demonstrated the entrepreneurial resourcefulness of SMME owners in exploring various financing avenues. By tapping into trade credit, personal credit facilities, and business partner financing institutions, they diversified their sources of finance and adapted it to their specific business needs.

When asked how they raise the balance of funds they need to finance a project

Participant 2 replied: *"It's either I go to my suppliers and ask for credit or I manage like for example in construction I manage the project in a way that I sort of turn around the cash, the cash that I have, you know I kind of do the cash flow management whereby I ask the client to pay in stages depending whether it's a private client or it's a government client because with private clients is easy. If the business cannot get enough credit, then you're able to go and borrow from your capacity. you know, even when I get extra cash from my account, then I loan the business and by the time we get paid, then I pay back*

the loan into my credit card and my personal. So, it's more like I expand my access through my banking as well as the business banking.”

By and large, the findings emphasise the adaptability and ingenuity of SMME owners in leveraging alternative financial avenues beyond traditional banking. Participants highlighted the use of trade credit, phased client payments, personal credit, and business partner financing to address funding gaps. These strategies reflect the entrepreneurial resilience needed to navigate financial constraints while maintaining operational stability. This adaptive financing approach demonstrates the critical role of resourcefulness in sustaining and expanding SMME operations under varying financial conditions.

4.4.2.6 Code 4: The factors that contribute to the ability or inability of SMMEs to access financial capital

The fourth code addressed the factors enhancing or inhibiting access to financial capital. Participants were asked how they would apply financial capital in their businesses if they had access to what they required. Their responses led to the following themes: working capital and expansion capital as well as credit worthiness.



Figure 4.4: The ability or inability to obtain financing

Source: Atlas.ti

The participants were asked about the factors that enhanced or inhibited their ability to obtain financing. The discussions were discussed in this section. Figure 4.4 illustrates the role of the ability or inability to obtain financing as shown above:

Theme 5: Inability to obtain financing

The lack of access to financial capital was expressed by the participants as a frustration to the business, from slowing growth to a struggle to keep up with payment of monthly overhead costs.

When asked how the inability to obtain financing played a role in their business.

Participant 3 said “ *But when you've been working for so many years and you need just a little bit of investment to move forward from a banking institution that makes that bills you every month, you know, thousands every month and you can't get to even meet with the bank manager and explain and even put together a clear picture of your business and your growth is extremely, first of all demoralising in you know, besides that it slows down our potential growth*”

Participant 4 said, “*At some point, I remember looking for a loan and not being able to get it and this would affect the operations because at that particular point in time, I was looking for the loan because I could see that I was not able going to be able to actually uh pay them employees and when they didn't give me the loan it meant. A delay in payment of salaries. And that's not always good for the business. If you want staff retention. And so, it's, it's slowing down morale*”.

By and large, the inability to secure financing emerged as a significant challenge for participants, directly impacting their business operations and growth potential. Participants expressed frustration with the restrictive processes of financial institutions, which hindered their ability to secure critical investments. This lack of access delayed salary payments and strained employee morale and demoralised business owners and stunted their potential for expansion. These experiences highlight the pressing need for more inclusive and accessible financing solutions to support SMMEs in achieving sustainable growth and operational resilience.

Theme 6: Ability to obtain financing

When asked what role the ability to access financing played or would play in their business,

Participant 1 replied *“Yeah, from an operations side, obviously consistency in terms of production and our deliveries to the customer. Then the expansion, the funding was approved in May so we are still rolling out the expansion project, so chances are that I would only start seeing the impact of that hopefully by mid-November. True evidence of whether the expansion was worth it or not I am not sure cause, typically, you know December companies start closing, and we'll only see the impact maybe next year.”*

Participant 2 said, *“Certainly, equipment that that I need for work, so I would obviously use it for that instead of renting some of the things I would rather have my own, you know, and also if I have the certain type of human capital, they'll be able to assist me to, to expand the business because I will have certain skills that I require and I don't have to be the one who's overlooking everything I could hire qualified people to help me. Umm, getting financing makes operations a bit easier because you've got working capital that you can. I'll be able to be more efficient because sometimes when you don't have the working capital, it can take or delay you a bit when you have to deliver, so it's always best that it's always best to have cash available for any unforeseen circumstances, be their project or whatever*

From the elicited perspectives, the participants' perspectives shed light on the significance of the role of obtaining or not being able to obtain financing for SMMEs. The participants expressed frustration at the inability to access financing despite generating substantial revenue, which hindered potential growth and created a sense of being unheard by the bank. The participants unanimously viewed the lack of capital as a source of frustration for their businesses, leading to challenges such as slow growth and difficulty in paying overhead expenses. The participants expressed a desire for more accessible capital, with one participant having indicated a preference for purchasing machinery instead of renting or leasing it and another emphasising the potential for better business

growth. Therefore, these insights highlighted the critical role of financing in supporting SMMEs' operations, growth, and overall success.

Theme 7: Creditworthiness

The participants should focus on building and maintaining a positive credit history. Paying bills and debts on time, managing credit utilisation effectively, and avoiding defaults or late payments are important. A good credit score enhances the business's creditworthiness and increases the likelihood of obtaining financing at favourable interest rates (Ross, 2022). The participants unanimously agreed on the significance of improving creditworthiness for SMMEs. They emphasised the importance of paying bills and debts on time, managing credit utilisation effectively, and avoiding defaults or late payments. By doing so, they have been able to build and maintain a positive credit history, which enhanced their creditworthiness. This, in turn, increased their likelihood of obtaining financing at favourable interest rates. The participants recognised that a good credit score was a valuable asset that improved the financial standing of their businesses and strengthened their ability to access the necessary funding for growth and operations.

When asked about access to credit facilities,

Participant 2 elaborated as follows: *“So it's always best to keep the personal credit in good standing as well.”*

Theme 8: Working Capital versus Expansion Capital

From the elicited inferences, working capital versus expansion capital was observed. In this regard, the commonality was that more capital is required for expansion and growth than is required for working capital needs. Thus, 60% to 80% of capital is required for expansion and growth, while 20% to 40% of capital is required for operations. It was observed that the capital expenditure would go towards machinery and equipment, technological tools, and enhancement of human resources skills to name a few.

When asked how they would apply to finance between working and expansion capital, Participant 1 said, *“So 40% working capital, and 60% growth and expansion”*

Participant 2 said, *“I’m saying I’m working capital. I’m looking at about 20% and the yeah, and then they and the capital expenditure you’re looking at about 70%, yeah”*

Participant 3 said, *“So let’s call it, 80% would go into investing in our growth and maybe you know 20% we could use to run our operation. Invested so percentage wise to answer your question, maybe probably 80% of our and also, we would invest in a lot of tech tools.”*

Participant 4 said, *“I think the business can take care of its operations unless maybe for example when you experience those declines in revenue given the different kinds of months you know. 80% of it for growth and expansion and only 20% for operations”*

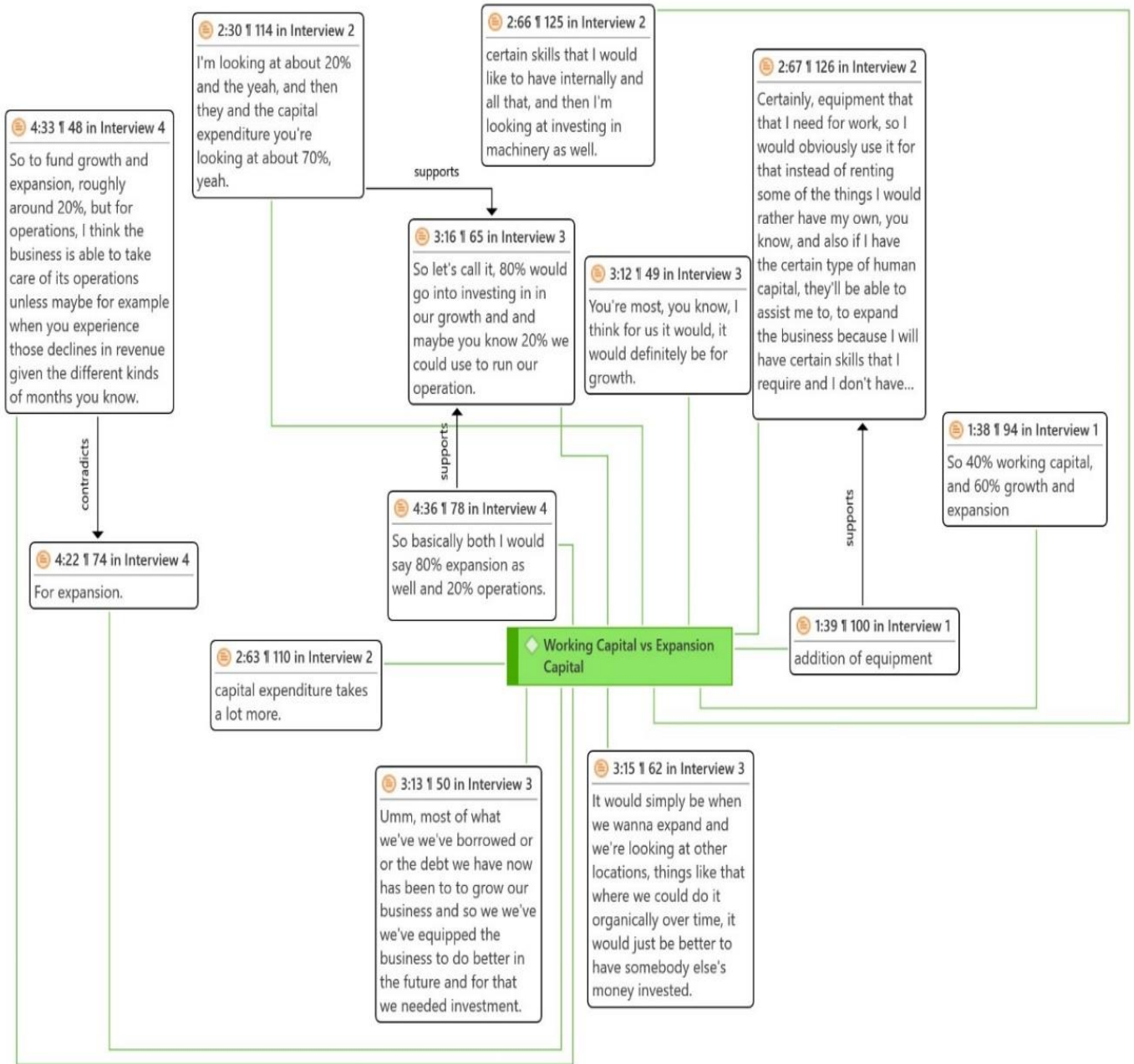


Figure 4.5: Working Capital vs Expansion Capital

Source: Atlas.ti

Figure 4.5 depicts the discussion of working capital vs expansion capital.

4.5 Limitations

This study's primary shortcoming was its geographic demarcation. It was not feasible to gather data from various parts of the country due to the time and resources available for this study. There were no more than four participants that were interviewed in Gauteng. As a result, the results of this study could not be applied to the entire SMME population in Gauteng or the rest of South Africa. Participants may have declined to take part in the study for reasons that were within or outside of their control. Because the study was exploratory, there could have been bias in the qualitative data that was collected and analysed as it was open to interpretation.

Depending on the industry, the Department of Small Business Development (2019:110–111) set the turnover threshold for businesses that qualify as SMMEs at R210 million or less. Businesses that are beyond this limit were excluded from the study. These businesses may have shared details on how they reached these heights and the part that financial capital played in their seeming expansion.

4.6 Conclusion

This chapter provided an analysis of the role of financial capital in SMMEs in Gauteng, offering key insights into the complex financial landscape these businesses navigate. Through the exploration of four central codes, the financial background of the SMME, statutory requirements, different forms of financing and factors enhancing and inhibiting access to financial capital, themes were developed which carried out the discussion on the analysis of the data collected from the interviews with the participants.

The discussion on statutory requirements emphasised the significance of legal and regulatory barriers that SMMEs must overcome, illustrating how these requirements, while necessary, often act as a constraint to accessing financing. The analysis of available financing options underscored the need for more targeted financial products that align with the diverse needs of SMMEs at different stages of their development, from start-up to maturity. Furthermore, the exploration into the factors contributing to access to financial capital revealed both internal and external challenges, such as business

structure, financial management practices, and broader economic conditions, that played a pivotal role in determining a business's ability to secure funding.

The findings of this study underscore the importance of strengthening the financial ecosystem for SMMEs, particularly through policy reforms and the development of tailored financial products that address the specific needs of these businesses. The analysis also highlighted the necessity for improved financial literacy and management within SMMEs to enhance their creditworthiness and ability to leverage available financial capital effectively. Ultimately, this chapter reaffirms that enhancing access to financial capital is crucial for the growth and sustainability of SMMEs, which are key drivers of economic development and job creation in Gauteng and beyond.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The preceding chapter deliberated the results and discussions of the study, and the use of Atlas.ti in adhering to an inductive thematic analysis. The primary objective of this study was to explore the role of financial capital in Small, Micro and Medium Enterprises (SMMEs) in Gauteng province to better understand the challenges and opportunities related to financial support for these enterprises.

Chapter 5 comprises a synopsis of the study and the key findings of the study on which the recommendations are based. In addition, the implications of the study and the areas for future studies are discussed.

5.2 Summary of Findings

The objectives formulated for the current study were accomplished in Chapters 1 to 4. Chapter 2 comprised a review of the literature concerning the role of financial capital in SMMEs. Chapters 3 and 4 described the qualitative investigation sections applicable to this study. In the succeeding section, how the objectives of this study were attained is outlined with specific reference to each chapter.

Chapter 1

In Chapter 1, the background to the study and a summary of the problem statement were provided. FinMark Trust (2020:7) estimates that SMMEs have an estimated turnover of around R3.1 trillion. However, despite this sizeable contribution to growth by SMMEs, South Africa still has one of the lowest successful SMMEs (OECD, 2022). According to OECD (2022), despite the recognised need for financial capital in the growth and sustainability of SMMEs, credit rationing remains a persistent hindrance to their expansion. The financing gap is described as the lack of access to financing faced by enterprises (Jordaan & Coetzee, 2021:373). Given this assumption, many SMMEs cannot gain access to financing from the formal sector, financing which could be put to productive use. This has led to the need to explore the prevalence of this gap and its role in the performance of SMMEs. The primary objective of this study was to explore the role of

financial capital in Small, Micro and Medium Enterprises (SMMEs) in Gauteng province to better understand the challenges and opportunities related to financial support for these enterprises. To address the problem stated and fulfil the primary objective, the secondary objectives were outlined.

Chapter 2

This chapter comprised a literature review on the role of financial capital in SMMEs

The discussion of SMMEs, their classification and their role in the South African economy ensued. The chapter categorised SMMEs across various industries, as framed by the National Small Business Act 102 of 1996 (NSBA), emphasised their diversity and economic significance and detailed the challenges encountered throughout their business lifecycle, from startup to maturity. It highlighted the critical need for tailored financing solutions and identified various funding sources essential for achieving growth and maintaining competitiveness. It was interesting to learn from the literature the vastness of sources of financing available to SMMEs such as equity financing, debt financing and grant funding.

Additionally, the chapter explored the legal and statutory frameworks governing SMMEs, shedding light on the regulatory barriers that limit access to financial resources. When adhered to, these regulatory frameworks can enable SMMEs to be more credible and appealing to the providers of financial capital and enhance their prospects of access to financing. What stood out from the literature review was the role of the National Credit Act (NCA) and the Financial Sector Regulation Act (FSRA) and their role in the credit system. It became apparent that these regulatory frameworks are either ignored or that most of the SMME sector has taken them for granted. These frameworks are pivotal in understanding the credit system and familiarisation with them could go a long way in an SMME gaining an understanding of navigating the financial capital space. A review of relevant theories, models, and past research provided theoretical insights into these challenges and opportunities while it identified significant gaps in existing literature.

The following research objectives formulated in the first chapter were achieved.

Secondary Objectives

- **To gain an understanding of the statutory requirements for SMMEs to access financing.**

The National Credit Act (NCA), Companies Act and Financial Sector Regulation Act (FSRA) were discussed. The NCA shed light on the role of legislation in regulating the credit system to ensure transparency, compliance and responsibility in the credit system. The FSRA in its endeavour to provide stability to the financial system through the twin peaks model established the prudential authority (PA) and the financial sector conduct authority (FSCA) (Godwin, 2017:152). While the FSCA's primary responsibility is to safeguard financial consumers by keeping an eye on market behaviour and guaranteeing adherence to financial sector regulations, the Prudential Authority is primarily in charge of monitoring the safety and soundness of regulated financial institutions and making sure they follow prudential regulations (Moodley, 2018:13–14). The Companies Act set out a regulatory framework for companies and sought to establish a business-friendly atmosphere while guaranteeing that laws are in place to safeguard investors and uphold the integrity of the market.

- **Exploring the different forms of financing available to SMMEs at the different stages of their lifecycle.**

This section addressed the different sources of finance for SMMEs. These ranged from traditional sources of commercial banks' credit facilities, and debt financing, to equity financing including venture capital and private equity to government grants and developmental finance institutions. It became apparent that SMMEs can obtain financing in exchange for equity stakes from venture capital firms and angel investors (Saah & Musvoto, 2020:415). Another takeaway from the literature was that debt financing is usually not an option during the start-up stage of a business due to its unique characteristics, such as the lack of collateral, credit history, and high failure risk of SMMEs. As a business grows over time, its capital structure is adjusted to reflect these changes in financing needs (Abdulsaleh & Worthington, 2013:36). Furthermore, according to Jordaan and Coetzee (2021:377), SMMEs' requirements and financial-gathering capabilities change with time. Initially, finance is obtained from internal sources;

but, as the business grows and acquires experience, the likelihood of obtaining funding from commercial banks increases.

- **Exploring the factors that contribute to the ability and inability of SMMEs to access financing.**

According to Egu and Chiloane-Tsoka (2023), one such element is the entrepreneur's educational background. Numerous studies have demonstrated that graduates are more likely than non-graduates to obtain finance because they are better able to communicate financial information and company plans to possible investors and lenders (Irwin & Scott, 2010:15; Egu & Chiloane-Tsoka, 2023).

Furthermore, it was noted that due to their capacity to provide audited financial reports, SMMEs with limited liability structures such as franchises or private companies generally have a higher probability of receiving loans from commercial banks (Raina & Xu, 2019). Strong networks, according to Shane and Cable (2018), can increase credibility and confidence with financial institutions and possible investors, allowing the flow of crucial information about financing choices and increasing the possibility of obtaining funding. Financial institutions have also found it difficult to lend to SMMEs due to the regulatory environment, especially the National Credit Act (Egu & Chiloane-Tsoka, 2023:1; Kato & Chiloane-Tsoka, 2024:1). The Act's focus on stopping careless lending, along with problems like government late payments, makes SMMEs seem like untrustworthy loan applicants, which makes the situation worse (The Banking Association of South Africa, 2021:1).

Chapter 3

In this chapter, a qualitative investigation to research the role of financial capital in SMMEs in Gauteng was introduced. The chapter provided a summary of the research design and research methodology used. This study employed a qualitative research approach and exploratory research design. The study combined an extensive literature review and a qualitative investigation. The literature review utilised credible academic sources, such as peer-reviewed journals and textbooks, accessed through platforms like Google Scholar, EBSCOhost, and university libraries. This provided foundational insights into the theoretical and contextual underpinnings of financial capital in SMMEs. The qualitative investigation followed an interpretivist paradigm, emphasising the exploration of participants' subjective experiences. Using an inductive research approach and a qualitative methodology, data was collected through four semi-structured interviews with SMME owners, allowing for an in-depth exploration of their perspectives. The research strategy was further reinforced by a cross-sectional time horizon, with purposive non-probability sampling because of the limited time the study had. The study was qualitative and as such data analysis was done by thematic analysis aided by Atlas.ti. Braun and Clark's (2006) framework for thematic analysis was followed in coding the data and developing themes that would be used for the analysis, findings and results in the following chapter. This was followed by a discussion of the trustworthiness of the findings and ethical considerations before the chapter concluded.

Chapter 4

This chapter discussed and demonstrated the qualitative investigation outcomes as well as the findings of this study. The following research objectives, as formulated in the first chapter, were achieved:

- To gain an understanding of the statutory requirements for SMMEs to access financing.
- To explore the different forms of financing available to SMMEs at the different stages of their lifecycle.
- To explore the factors that contribute to the ability or inability of SMMEs in Gauteng to access financial capital.

Data was collected through Microsoft TEAMS, virtual, semi-structured interviews with four participants from the manufacturing, construction, human resource recruitment and financial services sectors. An interview guide was developed and used to conduct the interviews. This was a qualitative study that sought to gain an understanding of the role of financial capital in SMMEs through the experiences of SMME owners. It was therefore imperative that the interviews be semi-structured with open-ended questions that allowed the participants to express their views while not diverting from the topic and questions at hand. The interview guide addressed three parts. The first part was centred around the background of the SMME and its owner, which included demographics, education, an understanding of financial capital and the financial performance of the SMME. The second part focused on the SMMEs compliance with some of the statutory requirements for access to financial capital. The third part was about the factors that contribute to the ability and inability of SMMEs to access financial capital, which included their experiences with financial capital.

A non-probability purposive sampling was carried out to obtain the four participants that were interviewed. This was the best approach given the resources and time constraints the study faced.

The interviews were recorded and transcribed on Microsoft TEAMS. The researcher took notes during the interviews that were used to gain a better understanding of the interview content to be reviewed and analysed. The transcripts were put through Atlas.ti for analysis. Codes were developed that represented research objectives that were formulated in chapter one. Recurring patterns within these codes were identified and themes were developed. Each code had themes that elaborated on the codes. From certain themes, networks were developed that took extracts from the interviews that discussed themes in detail and therefore the participants' responses to questions were recorded and illustrated in figures in Chapter 4.

Overview of the findings.

The demographic information discussed the educational and industry background of the SMME and their owners. Two of the participants held B-Tech degrees while the other two held Master's degrees. These demographics were depicted in table 4.1. The

analysis revealed that Participant 1 held B-Tech in Engineering, a relevant degree in the industry in which they operate. Participant 2 held a B-Tech degree in the field of finance, though not related to construction, it was held that this went a long way in aiding the participant in financial management expertise. Participants 3 and 4 held MBA's of which it was argued that it was relevant to allow the participant to give strategic direction, administration and governance of business.

Chapter 4 focused on the results, findings and discussions derived from the qualitative investigation, with a detailed focus on analysing data collected through the semi-structured interviews. The chapter interpreted the results based on the research questions, systematically identifying key themes and patterns from participants' responses. Demographic details played a role in contextualising research findings, as they provided insights into the participants' backgrounds, such as education and experience, which played a role in their perspectives. This ensured the credibility and reliability of the findings by demonstrating that the data reflected diverse and informed viewpoints relevant to the study's focus (Saunders *et al.*, 2019). The application of thematic analysis was seen in this chapter as the codes and themes developed were discussed.

Table 4.3 depicted codes and themes developed from the transcripts through Atlas.ti. The codes developed were the financial background of the SMME, statutory requirements, and different forms of financing and factors enhancing or inhibiting access to financial capital. From these codes, themes were developed that elaborated on the codes.

Code 1: Financial background of the company

Figure 4.3 showed the responses from the participants. From this, it was established that all the participants at some point mustered a turnover of R10 million and had financial statements prepared. Three of the four participants do not employ a financial team or staff, with one of the participants being confident of their ability to handle their day-to-day financial affairs because of their competence and education in finance. According to the literature, maintaining firm growth and obtaining outside funding depend heavily on efficient financial management (Fatoki, 2020).

Code 2: Statutory requirements for access to funding

The findings emphasised the importance of company registration, tax compliance, and maintaining accurate financial records. These factors are legal obligations and strategic elements that enhance credibility and eligibility for funding opportunities. The participants stressed that tax adherence and financial transparency are pivotal for accessing loans and attracting investors, showcasing the multifaceted nature of statutory compliance in the funding process. The NCA and FSRA were not discussed with the participants. These discussions would have proved interesting and could have shed more light on the SMME owner's understanding of the credit system.

The SMMEs were registered with the Companies and Intellectual Property Commission (CIPC) in accordance with the Companies Act. According to research by Fatoki (2020:9), SMMEs looking for outside funding frequently encounter this initial obstacle since it shows operational accountability and validity. Tax compliance is frequently seen by government assistance programs and financial institutions as a crucial sign of a company's dependability and financial discipline (Chimucheka & Adebisi, 2020:12). Every participant acknowledged that SMMEs looking for funding might be legally obligated to give prospective lenders or investors financial documents and declarations. They can successfully illustrate the feasibility and appeal of their SMMEs for financing reasons by putting together and delivering these statements to possible lenders or investors (Thusi, 2022:8).

Code 3: Different forms of financing

The chapter revealed several critical insights into the role of financial capital in SMMEs. Ngonisa *et al.* (2023:1) opined that SMMEs fail as a result of an inability to access financing and that a substantial number of them fail within the first five years of existence. Ahinful *et al.* (2021:17) elaborated that SMMEs who survive past this failure stage stand a better chance of improving their prospects of obtaining financing, with Phillip (2022) alluding to the opinion that the growth of SMMEs relies on financing. The study highlighted the diverse financing options available to SMMEs, including traditional banking facilities and alternative sources like supplier credit and partner financing, reflecting the

adaptability and resourcefulness of entrepreneurs in navigating financial challenges and leveraging access to personal credit to finance business operations.

All the participants said they had an overdraft facility, credit card facility, or bank loan, and they all confirmed that they were aware of the conventional credit facilities provided by commercial banks. One participant supplemented financial capital with private funders. Two participants had conflicting opinions about the cost of this credit and utilised facilities from financial institutions other than commercial banks. One participant stated that commercial banks offer lower interest rates than other financial institutions, whereas the other participant stated that commercial banks offer greater interest rates. It would be imprudent to draw a conclusion from this because the cost of credit takes into account many variables, and it would only be determined by a person's credit profile.

The experiences of the participants showed how SMME owners can be resourceful and enterprising when looking into different funding options. They expanded their sources of funding and tailored it to their unique business requirements by utilising trade credit, personal credit facilities, and business partner financing institutions.

Code 4: The factors that contribute to the ability or inability of SMMEs to access financial capital

The elements that facilitate or impede access to financial capital were covered by the fourth code. Participants were asked how, assuming they had access to the necessary financial capital, they would use it in their businesses.

Participants described their frustrations with the inability to access financing, ranging from stalling growth to difficulty keeping up with monthly overhead expenditures, as a result of their inability to get financial capital

The participants expressed that the ability to access financing would provide consistency in operations, the ability to purchase equipment as well as the ability to invest in upskilling human capital and investment in technology.

The findings also shed light on the allocation of financial capital if it were readily available to SMMEs. The allocation of financial capital would be between working capital and

expansion capital, with most capital directed toward expansion initiatives according to the participants. Participants reported frustrations with securing financing, which hampered operations and growth, yet demonstrated resourcefulness in finding alternative solutions. Furthermore, the study highlighted building relationships with financial institutions and maintaining creditworthiness, as vital strategies for improving access to financial capital. By fostering trust with financial entities and ensuring sound credit histories, SMMEs can overcome barriers and secure the funding necessary for sustainable growth and success.

5.3 Limitations to the Study

Despite having reached the objectives of the research study undertaken, several limitations were identified throughout the study that may have impacted the scope and generalisability of its findings

- The sample size was relatively small, comprising only four participants from various sectors in Gauteng. While their diverse backgrounds provided valuable insights, the limited sample size restricts the ability to generalise the findings across the broader population of SMMEs in Gauteng and South Africa.
- The study relied primarily on qualitative data through interviews, which may be influenced by the participants' subjective perspectives and experiences. This approach, while rich in detail, lacks the quantitative depth needed to draw statistically significant conclusions.
- The study's geographic focus on Gauteng limits its applicability to other provinces, which may have different economic dynamics, regulatory environments, and challenges for SMMEs. The findings may not fully capture regional variations in access to financial capital.
- Lastly, the research primarily examined the perspectives of SMME owners and did not include the viewpoints of financial institutions, policymakers, or other stakeholders, which could provide a more comprehensive understanding of the challenges and opportunities in SMME financing. These limitations highlighted the need for further research with larger, more diverse samples and mixed methods to strengthen the generalisability and depth of the findings.

5.4 Recommendations and Areas for Further Research

The fourth secondary objective as indicated in Chapter 1 was to recommend management practices that enhance SMMEs' ability to access financial capital. Subsequent to this study, certain recommendations could be made and implemented regarding the role of financial capital in SMMEs. The following recommendations based on this study are made

5.4.1 Formalisation of Juristic Existence

SMMEs should formalise their registration processes, as banks often require it during financing applications. Simultaneously, meticulous management of tax affairs in adherence to South African Revenue Service (SARS) regulations is crucial, considering banks' common demand for proof of tax compliance. SMMEs should strategically prepare comprehensive supporting documentation, such as financial statements showcasing the direct link between financing requests and potential revenue generation, aligning with risk mitigation practices employed by banks.

5.4.2 Active Engagement with Financial Institutions

SMME owners are encouraged to actively engage with banking institutions to gain a comprehensive understanding of the various credit facilities they offer beyond the commonly mentioned overdrafts, credit cards, and loans. While these are familiar options, it's crucial for SMMEs to proactively inquire about additional facilities that might be available to them. The responsibility lies with SMME owners to seek out and explore the diverse range of credit facilities within banks, as these can extend beyond traditional offerings. Furthermore, it is emphasised that SMMEs should not limit their exploration to banking institutions alone; other financial entities provide tailor-made facilities specifically designed for businesses. Despite challenges such as perceived lengthy application processes, one participant highlighted the existence of alternative institutions offering customised facilities, particularly those financing projects under profit-sharing conditions. SMME owners are advised to consider these alternative financial institutions, especially when seeking expansion and growth capital. The key lies in gaining a thorough understanding of the requirements and demonstrating commitment by going the extra

mile to comply, thereby optimising opportunities for tailored financial support. SMME owners should explore the vastness of sources of financing from grant funding to developmental financing. Various institutions provide this financing. A seemingly ignored avenue of financing by SMMEs is equity financing which includes venture capital and private equity. These may be more expensive forms of financing but with the right mix of business viability and risk mitigation measures, this form of financing is a recipe for growing more SMMEs.

5.4.3 Appointment of a Financial Manager or Personnel Responsible for Finance Function

The study reveals that none of the SMMEs interviewed had their financial statements audited, and only one participant had recently hired an accountant for the finance function. It is strongly recommended that SMMEs consider the strategic move of hiring a dedicated financial manager or personnel responsible for day-to-day finances. This individual's primary focus would be on meticulous financial management, allowing the business owner to concentrate on strategic aspects. The financial manager's multifaceted role would include liaising with financial institutions to understand the array of financial products and facilities available, discerning the requirements, and determining the business's financial needs. By proactively planning and structuring the business's financial affairs, the financial manager can create a comprehensive and appealing financial picture for institutions, enhancing the likelihood of securing financial capital. This strategic division of responsibilities can lead to a more effective financial management approach, positioning the business in a favourable light for potential financial support.

5.4.4 Financial Literacy Programs

Recognising the pivotal role of a strong financial foundation in SMME management, it is recommended to implement financial literacy programs tailored for business owners. These programs can enhance their financial acumen, empowering them to make informed and prudent financial decisions crucial for the success of their enterprises.

SMMEs should be encouraged to consider having their financial statements audited, as this could significantly enhance their reliability and credibility. The credibility gained

through auditing may make it easier for SMMEs to access financing, as financial institutions often value audited financial statements when assessing finance applications.

SMME owners should go a step further in understanding the NCA and the FSRA to gain more understanding of the credit system and develop ways to navigate this system to their advantage. This may be a complex undertaking that may require financial and legal aspects to be brought into the business to provide or consult on these services.

5.5 Recommendations for Further Research

The study on the role of financial capital in SMMEs in Gauteng, South Africa, opens up several areas for further research.

- **Access to Financing:** Further research can delve deeper into the specific barriers faced by SMMEs when accessing financial capital. Investigating the challenges and opportunities related to accessing traditional bank financing, alternative financing options and government support programs can provide valuable insights for policymakers and SMME owners.
- **Financial Inclusion:** Exploring the extent of financial inclusion among SMMEs could be an area of focus. This research could examine the availability and accessibility of financial services, such as banking services, loans, and credit, to different segments of SMMEs, including those in underserved communities and sectors.
- **Impact of Financial Capital:** Conducting studies to assess the impact of financial capital on the growth, competitiveness, and sustainability of SMMEs would provide valuable insights. This research could examine how access to financing influences business performance, employment generation, innovation, and overall economic development in the region.
- **Role of Technology:** Investigating the role of technology, such as digital platforms, fintech solutions, and mobile banking, in facilitating access to financial capital for SMMEs would be relevant. This research could explore the adoption and impact of technology-driven financial services on SMMEs' ability to secure financing and improve their financial management practices.

5.6 Contribution to Existing Body of Knowledge

The study contributes to the existing literature by highlighting the experiences and perspectives of SMME owners in Gauteng regarding the role of financial capital. It provides qualitative evidence on the significance of financing for SMME growth and operational efficiency. Through literature review, the study substantiated the theoretical understanding of the crucial importance of financing in fostering the growth and operational efficiency of SMMEs. The insights provided contributed to a more nuanced comprehension of the challenges and opportunities related to financial capital in the context of SMMEs, enriching theoretical frameworks that seek to understand the intricate relationship between financial resources and the success of SMMEs. This understanding served as a valuable resource for scholars and researchers interested in advancing theoretical perspectives related to SMME financing and its implications for business development.

The practical implications for SMMEs in Gauteng highlighted the imperative of prioritising robust relationships with financial institutions. SMMEs should actively engage in regular interactions, attend networking events, and explore the diverse array of financial products and services offered by financial institutions, this net should be cast wider than just banks but other institutions offering financing for businesses. SMMEs should exploit the vastness of grant funding and developmental financing options available to them.

These proactive efforts can significantly enhance the prospects of SMMEs accessing financial capital, establishing trust with financial institutions and creating opportunities for better financing options. By fostering strong relationships, SMMEs can position themselves favourably, in terms of accessing essential financial support and also building long-term partnerships that contribute to the sustained growth and success of their businesses.

5.7 Conclusion

This study explored the role of financial capital in SMMEs in Gauteng, focusing on the challenges and opportunities related to financial access. Key findings were synthesised

across the chapters, providing a comprehensive understanding of the study's objectives and outcomes.

Chapter One introduced the research problem, objectives, and the significance of SMMEs to the global and South African economy. It highlighted the critical challenges faced by SMMEs, including a high failure rate within the first five years of operation. The chapter outlined the research methodology, emphasising a qualitative approach and the use of semi-structured interviews to gather in-depth insights.

Chapter Two reviewed the theoretical and contextual frameworks, focusing on the statutory requirements, financing options, and the role of the inability or ability to access financing in SMMEs. The Companies Act, National Credit Act, and Financial Sector Regulation Act were identified as central in the regulatory environment influencing SMMEs and by extension the financing landscape for SMMEs. The chapter emphasised the diversity of financing sources, including debt and equity. The literature underscored the importance of tailored financial solutions for SMMEs at different stages of their lifecycle.

Chapter Three detailed the research methodology, which followed an interpretivist paradigm and qualitative approach. Semi-structured interviews with four purposively selected SMME owners from diverse sectors provided rich, detailed data. Thematic analysis using Atlas.ti enabled the identification of codes and themes aligned with the study's objectives.

Chapter Four presented the findings, which revealed several critical factors influencing access to financial capital which included statutory requirements. The chapter highlighted reliance on commercial banking avenues while participants demonstrated resilience and adaptability in exploring alternative funding options. The balance between working and expansion capital needs was significant, . The findings also underscored the importance of effective management practices, including maintaining creditworthiness and building strong relationships with financial institutions, to improve access to financial capital.

Addressing barriers to financial access through tailored policy interventions and enhanced management practices can unlock opportunities for SMMEs and contribute to economic development. This study concludes that financial capital is vital for the growth of SMMEs.

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