THE SUCCESS RATE OF BUSINESS PLANS AT SELECTED FINANCIAL INSTITUTIONS

by

Sello Maphosa

Mini-dissertation submitted in partial fulfilment of the requirements for the degree **Masters of Business Administration** at the **North-West University**

Study leader: Prof. R.A. Lotriet

Potchefstroom

November 2008

DECLARATION

I declare that this research report is my own, unaided work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Potchefstroom campus of the North-West University. It has never been submitted before for any degree or examination in this or any university.

Sello Maphosa

On this 21st day of November 2008

DEDICATION

To my mother, Martha Nomzwakhe Maphosa

To the world you were my mother,

To me you were the world.

I cherish all my moments with you!!!

ACKNOWLEDGEMENTS

My appreciation and sincere gratitude go to:

- First and most importantly, to the Almighty God. All things are possible in Him
- My supervisor, Professor R.A. Lotriet, for his patience, guidance and support throughout the process
- To the A-team: My wife Zandile, sons Rorisang and Relebogile, and Ausi Dimakatso. Thanks for your patience, support and encouragement
- To Linda Snyman, for assisting with the editing
- To my friends and study group, for all the support during the MBA programme
- To the interviewees, for their valuable time and insights, without which this research report would not have been possible
- To Ms Bisschoff, for the language, technical and typographical editing

ABSTRACT

The purpose of this research was to determine the success rate of business plan proposals submitted at selected financial institutions. In the context of this study, selected financial institutions refer to the four main retail banks of South Africa, namely ABSA, First National Bank, Standard Bank and Nedbank.

Face-to-face in-depth interviews were conducted with eleven small business owners from each bank, bringing the total of small business owners interviewed to 44. The interviews were guided by a set of closed-ended and open-ended questions eliciting information from small business owners as to how they draft or develop their business plans. Open-ended questions allowed the respondents to express their opinions and assisted the researcher to seek clarification on the reasons or motivations behind the responses.

The research found that the business plans submitted to financial institutions were ineffective as they fell short of elements that should be included in a business plan. This finding was based solely on the small businesses sampled. The results indicate that small business owners need to put in more effort to prepare sound business plans. Small business owners need to take greater care and effort to provide financial institutions with what is essentially required when applying for finance.

Good record of accomplishment, good credit record, business expertise or skills, and the availability of collateral and risk capital, are all considered by

small business owners to be essential in order to obtain finance. Conversely, lack of risk capital, lack of collateral and poor cash flow, are considered to be barriers to obtaining finance.

Small business owners need financial institutions to assist them with their skills development. These include mentorship and training services, a tool to create business plans, an enterprise toolkit, and a model for cash flow. Government incentive schemes are unpopular with small businesses, and as a result, small business owners miss other sources of finance.

Financial institutions could do more to improve the situation and to increase the accessibility of finance to the SMME sector. Financial institutions continue to place greater reliance on sound or viable business plans. This is understandable owing to the need to assess repayment ability. Small business owners need to be aware of what information financial institutions require when they assess finance applications. Overall, they should be more prepared when applying for finance.

List of key terms: small business owners, financing, financial institutions, business plan toolkit,

OPSOMMING

Die doel van hierdie studie is om te bepaal wat die sukseskoers van klein besighede is ten opsigte van besigheidsplanvoorleggings aan finansiële instellings. Binne die konteks van hierdie studie word daar na finansiële instellings verwys as die vier grootste handelsbanke, naamlik ABSA, Eerste Nasionale Bank, Standard Bank en Nedbank.

Persoonlike onderhoude is met elf kleinbesigheidseienaars van elke bank gevoer, wat die totaal van respondente op 44 te staan bring. Die onderhoude het bestaan uit 'n stel geslote en oop vrae oor hoe hulle hul besigheidsplanne opgestel het. Oop vrae het die respondente in staat gestel om hul menings te lug en die navorser by te staan om hul response volledig te interpreteer.

Die studie het bevind dat die besigheidsplanne wat aan banke voorgelê word, oneffektief is omdat belangrike tekortkominge daarin voorkom. Hierdie afleiding word suiwer op die beoordeling van die steekproef gemaak. Die resultate het aangetoon dat kleinbesigheidseienaars meer moeite moet doen in die voorbereiding van hul besigheidsplanne. Meer sorg en groter omsigtigheid moet aan die dag gelê word om aan finansiële instellings die geleentheid te gee om die finansieringsaansoek volledig te kan evauleer.

'n Goeie prestasierekord, kredietrekord, besigheidskundigheid of -vaardighede en die beskikbaarheid van kollateraal en risikokapitaal word gesamentlik oorweeg wanneer kleinbesigheidseienaars aansoek doen vir

finansiering. Die gebrek aan risikokapitaal, en 'n gebrek aan kollateraal en swak kontantvloei is almal hindernisse om finansiering te bekom.

Kleinbesigheidseienaars het finansiële instellings nodig om hul te help om hul vaardighede te verbeter. Dit sluit mentorskap en opleidingsdienste in, ook 'n metode om besigheidsplanne te skep, 'n ondernemingsinstrument en 'n model vir kontantvloei. Regeringsinsentieweskemas is nie gewild by klein besighede nie; gevolglik het eienaars nie ander finansieringsopsies nie.

Finansiële insellings kan meer doen om die situasie te verbeter en toegang tot finansiering aan die kleinbesigheidsektor makliker te maak. Finansiële instellings sal voortgaan om te beklemtoon hoe belangrik volledige besigheidsplanne is omdat dit die kliënt se vermoë om die voorgenome lening te delg, uiteensit. Kleinbesigheidseienaars moet bewus wees van watter inligting banke benodig om hul aansoeke te assesseer. Kortom, hulle moet slaggereed wees met hul besigheidsplanne wanneer hul bank toe gaan vir finansiering.

Lys van sleutelbegrippe: Kleinbesigheideienaars, finansiering, finansiële instellings, besigheidsplanhulpmiddele

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

LIST OF ABBREVIATIONS

ANC:	African National Congress
BBBEE:	Broad-Based Black Economic Empowerment
BMR:	Bureau of Market Research
CEO:	Chief Executive Officer
CIPRO:	Companies and Intellectual Property Registration Office
CPPP:	Community Public Private Partnership
CSIR:	Centre for Scientific Industrial Research
DBSA:	Development Bank of South Africa
DTI:	Department of Trade and Industry
FASA:	Franchise Association of South Africa
FICA:	Financial Intelligence Act
GDP:	Gross Domestic Product
GNB:	General Notarial Bond
GEM:	Global Enterprise Monitor
IDC:	Independent Development Corporation
ILO:	International Labour Organisation
ISBDS:	Integrated Small Business Development Strategy
NAFCOC:	National African Chamber of Commerce
NEF:	National Empowerment Fund
NPI:	National Productivity Institute
NSBAC:	National Small Business Advisory Council
NSBC:	National Small Business Council
RFIs:	Retail Finance Intermediaries

SABS: South African Bureau of Standards

SACOB: South African Chamber of Business

SARS: South African Revenue Services

SBDC: Small Business Development Corporation

SBP: Small Business Project

SEDA: Small Enterprise Development Agency

SMEDP: Small and Medium Enterprise Development Programme

SMME: Small, Micro and Medium Enterprises

SNB: Special Notarial Bond

STATS-SA: Statistics South Africa

TEA: Total Early-Staged Entrepreneurial Activity

UYF: Umsobomvu Youth Fund

VAT: Value Added Tax

CHAPTER 1

INTRODUCTION AND SCOPE OF STUDY

1.1 CONTEXT OF STUDY

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (SA, 1995) notes the worldwide recognition of the important role of the small business sector in the economic and social development of a country. This also applies to South Africa, where the small business sector has been previously neglected.

The small business sector plays a number of roles. Firstly, there is enough evidence that the labour absorption capacity of the small business sector is high. The average capital cost per job created is usually lower than in big business. Secondly, in light of South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is regarded as an important force. It is significant in generating employment and equitable income distribution, activating competition, and enhancing productivity and technical change. Through all of this, it stimulates economic development.

Thirdly, taking into account the very large micro-enterprise segment of the small business sector as well as those struggling in survivalist activities, the small business sector's crucial role becomes evident. It supports people's efforts to meet basic needs. It also sustains marginalised groups during the fundamental phase of structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are inadequate.

Experience has shown that in the past, black people have been able to make far greater progress in the micro-and small business segments of the economy than in medium-sized and larger businesses. Therefore, the SMME (small, micro and medium enterprise) sector has, notwithstanding all its impediments, proven a significant vehicle for Broad-Based Black Economic Empowerment (Manuel, 1995).

According to Soundy (2000:67), on a micro level, for financial institutions to gain leverage of acquiring tendered government banking business, they have to promote the funding of small business. They have to also provide acceptable levels of service and mentoring programmes to ensure the success of these businesses. On a macro level, their financial assistance should be regarded as contributing to the South African economy.

Traditionally, financial institutions have not been active in providing finance in the small business sector, due to the high risk associated with the small business sector (Boyle, 2007:5). Another element to consider is that new small business owners have no history of running a successful business. However, according to First National Bank (2008), financial institutions have realised that small business offers an opportunity to expand the market, rather than trying to attract existing, already banked customers. Several elements spur the interest that financial institutions exhibit in the small business market. Firstly, the policy environment in South Africa favours small business in terms of both procurement and small business development. Therefore, opportunities for funding tend to come from the small business segment. Secondly, small businesses are the large corporate customers of the future. Therefore, if a financial institution does not attract them as customers when they are small, it may struggle to gain their business when they are larger.

1.2 PROBLEM STATEMENT

Business owners use a formal business plan to obtain business finance from lending agencies. A business plan is thus an important tool for obtaining business funding from financial institutions. A business plan is often the first impression a financial institution will get of a business. It is therefore important that small business owners prepare effective business plans. An effective business plan provides a detailed blueprint for the activities needed to finance the business, develop the product, market the business, and manage the new business (Megginson et al., 2006:118).

1.3 RESEARCH OBJECTIVES

The primary objective of this study is to establish the success rate of business plan proposals at selected financial institutions from the perspective of small businesses. The study attempts to determine whether small business owners submit effective and properly prepared business plans to financial institutions when they apply for business finance.

A number of secondary objectives are closely linked to the primary objective. These objectives are as follows:

The first secondary objective: This refers to determining the main reasons that small business owners view as important when they seek to obtain finance from a financial institution. It also refers to the main barriers in obtaining finance.

The second secondary objective: This refers to determining the services that small businesses need from financial institutions to develop their business skills.

The third secondary objective: This refers to determining whether small business owners are aware of government incentive schemes where they can apply for finance.

1.4 LIMITATIONS

The study was limited to small business in the greater Johannesburg area. No attempt was made to contact small business outside this area. Therefore, the study is limited to the opinions of small business owners of Johannesburg and focuses on the four main retail banks in South Africa (Standard Bank, Nedbank, First National Bank and ABSA).

The study was limited to small business as defined by the National Business Act of 1996 (SA, 1996). The small businesses are those who employ between one and two hundred people and report an annual turnover of less than R5 million. The small businesses selected were registered or engaged in the formal sector. The National Business Act of 1996 defines four categories of small business prevalent in South Africa. These categories are: survivalist, micro, small and medium. Survivalist and micro businesses are excluded from this study.

The aim of the study was to investigate the success rate of business plans submitted to financial institutions for business funding. The questionnaire was directed only to the business owners. Therefore only the point of view of small business owners is considered in this study. Financial institutions were reluctant to take part, citing bank-client confidentiality clauses even when the researcher gave an assurance that information given will be treated confidentially.

The study focused on a small target population. Some small business owners declined to take part. Some respondents did not provide all the necessary information required or refused to answer some questions during the interviews.

Despite all the limitations, the researcher obtained a response rate of 73%. This is based on the 44 respondents from a target population of 60. All the four financial institutions were equally represented (11 from each financial institution).

1.5 SIGNIFICANCE OF THE STUDY

The study is important to both small business owners and financial institutions. The study will motivate small business owners to submit effective business plans to ensure that they succeed in obtaining business finance. Financial institutions on the other hand will be motivated to focus their resources adequately in order to build relationships with small business. This will mean that they will grow their market share given the importance of the small business sector in the South African economy.

The small business sector offers financial institutions an opportunity to expand their market share. Financial institutions need to obtain, keep and grow customers. In view of the competitive nature of the industry, they need to create strategies that build long-term relationships.

1.6 ASSUMPTIONS

The assumption made in this study was that the respondents had the necessary skills and expertise to respond on any issue that has to do with a business plan.

1.7 LAYOUT OF THE STUDY

Chapter 1 gives some background on the SMME sector, introduces the problem statement and describes the primary and secondary objectives.

Chapter 2 discusses the role of the SMME sector in the economy.

Chapter 3 discusses the business plan in detail. As the business plan forms the basis of the study, Chapter 3 sets out the background literature on business plan development.

Chapter 4 describes the research methodology that was used in sampling the population. The research results and findings are also presented, analysed and interpreted in this chapter.

Chapter 5 presents the conclusions and recommendations of this research study. Further areas of research related to this study are suggested in this chapter.

CHAPTER 2

THE ROLE OF THE SMME IN THE ECONOMY

2.1 INTRODUCTION

This chapter begins with the discussion of the small, medium and micro enterprise (SMME) sector in South Africa in section 2.2. The development and objectives of the SMME sector post 1994 are discussed and linked to employment. Section 2.3 to section 2.5 covers the various definitions of small business. The economic significance of the SMME sector is discussed in section 2.6, followed by the discussion of key challenges facing this sector in section 2.7. The government mechanisms to support the SMME sector is reviewed in section 2.8, and section 2.9 looks at various government incentive schemes for the SMME sector. Section 2.10 gives a summary of the chapter.

2.2 THE SMME SECTOR IN SOUTH AFRICA

This study will use the terms "small businesses" and "SMMEs" interchangeably. The different types of small businesses (conventionally summarised as SMMEs or small, medium and micro enterprises in both the formal and informal sector) play a significant role in the South African economy. SMMEs represent an important vehicle to address the challenges of job creation, economic growth, poverty alleviation, Broad-Based Black Economic Empowerment (BBBEE) and the reduction of income and wealth inequalities in South Africa. SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways throughout the world. Within South Africa's appropriately enabling environment, SMMEs can follow the example and make a mark on the economy.

The stimulation of the SMMEs must be considered as part of an integrated strategy to take the economy onto a higher level, one in which the economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes. The small business sector is commonly referred to as the "engine room" for real economic growth in South Africa.

The Integrated Small Business Development Strategy (ISBDS) presents the way forward for the SMME sector in South Africa from 2004 to 2014. The ISBDS is the government's national strategy for the development and promotion of the SMME business sector and it is the result of a thorough process of review, consultation, research and refinement. This process has built upon the successes of the government in macro economic development and small business promotion, while responding to the concerns raised by stakeholders within government, the private sector (especially the small business sector), organised labour and civil society. The SMME sector has played an important role in South Africa's economic growth and development. The ISBDS was formally adopted by Parliament in 1995 (SA, 2003b). The strategy established several important objectives for the development of the SMME sector over a ten year period.

Over the period of 2004-2014, the ISBDS shall pursue the following objectives (SA, 2003a):

- Increase the contribution of SMME sector to the growth of the South African economy.
- Create an enabling environment for SMMEs, which will level the playing field between large and small businesses, reduce the disparities between urban and rural businesses, and be conducive to entrepreneurship.
- Create sustainable long-term jobs for women and men in the SMME sector.
- Ensure that previously disadvantaged individuals, women, people with disabilities, and the youth are equitably represented in the SMME sector.

- Increase the competitiveness of the SMME sector so that it is better able to take advantage of opportunities emerging in national and international markets.
- Improve communication between government and international markets.

To achieve these objectives, the South African government has established institutions and programmes designed to improve the access of the SMME sector to critical resources including finances, infrastructure, training and counselling, information, markets and technology. The official policy of the government is therefore to enhance the capability of the SMME sector in the economy.

There are more than 12 million people in South Africa that are actively involved in the SMME sector (Olivier, 1998:9). Employment is closely linked to the state of the economy, but in South Africa there is a low absorption rate of labour (percentage of employed population of working age) in the formal sector of the economy. By the end of March 2007, the labour absorption rate was 41, 9 percent. (SA, 2007:47).

Table 2.1: Employment in the formal and informal sector, March 2001 to March 2007

SECTOR	Mar 2001 in '000	Mar 2002 in '000	Mar 2003 in '000	Mar 2004 in '000	Mar 2005 in '000	Mar 2005 in '000	Mar 2007 in '000
Formal (excluding agriculture)	6 808	7 097	7 228	7 483	7 750	8 059	8 423
Informal (excluding agriculture)	2 840	1 824	1 830	1 766	2 071	2 190	2 131
Unspecified sector	208	81	74	37	67	34	83
Domestic workers	843	877	884	847	850	850	936
Agriculture	1 577	1 739	1 288	1 258	1 170	1 318	1 075
TOTAL EMPLOYMENT	12 275	11 617	11 304	11 392	11 907	12 451	12 648
Formal (excluding agriculture)	55.5	61.1	63.9	65.7	65.1	64.7	66.6
Informal (excluding agriculture)	23. 1	15.7	16.2	15.5	17.4	17.6	16.9
Unspecified sector	1. 7	0.7	0.7	0.3	0.6	0.3	0.7
Domestic workers	6.9	7.5	7.8	7.4	7.1	6.8	7.4
Agriculture	12.8	15.0	11.4	11.0	9.8	10.6	8.5
TOTAL EMPLOYMENT	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(Source: SA, 2007)

From Table 2.1 it can be derived that:

- The formal sector (excluding agriculture) accounts for the largest share of employment in the South African economy.
- In March 2007, employment in the formal sector was 8 423 000 or 66,6% of total employment, whereas informal sector employment was 2 131 000 (16,9%) and domestic work accounted for 936 000 jobs (7,4%).

Table 2.2: Key indicators and corresponding March 2007 estimates

Labour Market Indicators		Estimate for March 2007
	Levels	**Thousand**
A	Employed[1]	12 648
B	Unemployed (official definition)[2]	4 336
C	Labour force[3] = a+b	16 984
D	Not in the labour force*[4]	13 211
E	Population of working age[5] = c+d	30 195
F	Discouraged work-seekers[6]	3 503
	Rates (percentages)	Percentages
G	Unemployment rate[7] = b/c x100	25,5
H	Labour force participation rate[8] = c/e x 100	56,2
I	Labour absorption rate[9] = a/e * 100	41,9

* Not economically active. (See: Appendix A)

(Source: SA, 2007)

When there is little or no growth in the economy, fewer employment opportunities are available. The success of other leading countries such as the United States, Japan and England has proven that the only growth sector in the economy is the SMME sector; primarily driven by entrepreneurs. The SMME sector creates entrepreneurial activity in economies. Potential entrepreneurs can enter the economy through small business ventures because they require relatively little finance and other resources (Nieman, 2006:10). According to the Global Entrepreneurship Monitor (GEM) Report of 2007, there is a lack of enough entrepreneurial spirit in South Africa (SEDA, 2007).

The primary measure of entrepreneurship that GEM uses is the Total Early-Stage Entrepreneurial Activity (TEA) index, which measures the percentage of individuals between the ages of 18 and 64 that are involved in starting a new business. According to the TEA index, South Africa's position in the GEM rankings has deteriorated over time despite improved macro-economic conditions in the country. In contrast, employees of large businesses are often retrenched, or become unemployed or self-employed. They may also become employed by new SMMEs that are formed when some activities of large business are contracted out. Therefore, it is important that governments worldwide promote small businesses as a strategy to address the level of unemployment.

2.3 DEFINITION OF SMALL BUSINESS

2.3.1 Introduction

The South African government has recognised its important role in fostering an enabling environment for the creation and growth of the SMME sector. A standard definition of the small business in the various sectors of the economy is important. This would help to measure the size and significance of the small business sector in any economy by making comparisons, assessments and forecasts about the small business sector (Lucas, 1992:2).

According to the Bureau of Market Research (Lucas, 1992:5), bodies such as the following would draw on a satisfactory definition:

- The South African Revenue Services, which can declare small business tax holidays to promote growth;
- Financial institutions, development corporations and others in the public and private sectors that need a point of departure for fixing interest rates, establishing criteria for granting loans and promoting small business development;
- Commerce and industry for evaluating untapped markets and fostering small business;
- Small businesses themselves, for assessing their relative strength in the economy and lobbying on their own behalf; and
- Statistics South Africa for identifying small business in its databases.

In the following section, the definition of small business is discussed from a foreign point of view.

2.3.2 Foreign perspectives on the definition of small business

The definition of a "small business" differs from one country to the next. The Americans define small businesses according to their size and turnover, including the number of the people they employ. In other parts of the world, domestic considerations shape what is actually meant by "small business". Therefore, as a result of the above, what may be defined as a small business in the United States may be defined as a big business in the economies of other countries and vice versa (Negota, 1990:1).

The search for a definition of a "small business" goes back many years. In 1971, the report of the Committee of Inquiry on Small Business under John Bolton in the United Kingdom systematically investigated various ways of defining a small business. The committee realised that a small business could not be satisfactorily defined in terms of employment, turnover, output or any other arbitrary single quantity. The committee agreed to settle on an economic definition of a small business, highlighting characteristics, which significantly differentiate the performance and problems of the small business from those of a large business (Ganguly, 1985:3).

The Bolton Committee (Ganguly, 1985:7) defined (economic definition) businesses as "small" if they conformed to the following three criteria:

- They had a relatively small share of the market that they supplied;
- They were managed by their owners or partial owners in a personalised way, and not through the medium of a formalised management structure; and
- They were independent and did not form part of a larger enterprise.

The European Commission (Ganguly, 1985:11) have found this definition appropriate only on the criterion of measuring the number of employees. Rather than categorising businesses as either small or large, the European Commission disaggregates businesses into three differing categories:

- Micro enterprises – those with fewer than ten employees;
- Small enterprises – those with between ten and ninety nine employees;
- Medium sized enterprises – those with at least one hundred employees but less than five hundred employees.

This definition is recognised to have advantages over the Bolton definition in that it:

- Overcomes the complexity of having to update a range of differing criteria;
- Allows for a further subdivision of categories rather than using the single generalised term "small business"; and
- Uses only the measure of employment as criterion, as it applies to all countries and allows for international comparisons (Boer, 1997:1).

According to Boer (1997:2), it is principally for the last two reasons that many analysts and researchers have adopted the European Commission's definition. Ganguly (1985:12) contends that each country has its own official definition of small business.

In the following section, the concept is discussed from a South African point of view.

2.3.3 Definition of small business in South Africa

There is little agreement in South Africa on what constitutes a small business. According to research performed by Gape (2007:3), virtually every country has its own criteria, which vary from qualitative economic criteria such as independent ownership and management, to quantitative, statistical criteria, such as the number of employees, annual turnover and sales, and total assets. The element of qualitative criteria cannot be measured, whilst those of quantitative criteria can be measured (Marx et al., 1998:728).

In the following section, small business in South Africa is outlined according to different business sectors and organisations.

2.3.3.1 The Bureau of Market Research

A study was conducted in 1992 by the Bureau of Market Research at the University of South Africa into the definition of small business enterprise in South Africa (Lucas, 1992:6). According to this study, a business is defined small if it meets at least one qualitative criterion and two quantitative criteria, such as:

i. The qualitative criterion is that the business must be privately and independently owned, managed and controlled, and may have more than one branch or unit.
ii. The two (of three obligatory) quantitative criteria are as follows:
   - The business has a total annual turnover of less than R2,5 million.
   - The business comprises a total asset value of less R2 million (property and buildings excluded).
   - The business consists of fewer than 50 full time employees.

2.3.3.2 The National Small Business Act of 1996

In terms of the National Small Business Act, 1996, the qualitative criteria of defining small business are:

- Independent private ownership and management of business;
- Limited extent activities;
- Local functioning; and
- Simple organisational structure.

2.3.3.3 A comprehensive definition of small business

According to Cronje et al. (2004:495), a more comprehensive definition of small and medium enterprises in South Africa is any business with one or more of the following features:

- Fewer than 200 employees;
- An annual turnover of less than R5 million;
- Capital assets of less than R2 million; and
- Direct involvement of owners in management.

The small business is one of those phenomena, which, through its existence everywhere and its frequent appearance in the public eye, means different things to different people in different places. Any subject that provokes variations of meaning and interpretation is one in need of clarification and therefore worthwhile researching (Hertz, 1982:3).

2.4 SMALL BUSINESS STRUCTURES DEFINED ACCORDING TO THE INTEGRATED SMALL BUSINESS DEVELOPMENT STRATEGY (ISBDS)

The Integrated Small Business Development Strategy recognises the definitions adopted by the National Small Business Act (SA, 1996). These class-size definitions are divided into "small", "medium" and "micro" enterprises (SMMEs).

2.4.1 Micro-enterprises

Micro enterprises are the smallest enterprises in the small business sector and exist in both formal and informal economies. Micro-enterprises do not usually qualify for VAT registration because of their size. Micro-enterprises make use of informal accounting and operation procedures and their compliance with labour legislation is weak. Another distinct feature of micro-enterprises is that they are exempted from BBBEE codes of best practise requirements. The vast majority of micro enterprises have black ownership. Most metal-workers, furniture makers, spaza-shops, home-based enterprises and mini-taxis belong to the micro-enterprise category. In addition, there may also be artisans and professionals who operate micro enterprises, but they form a relatively small proportion in this class size (SA, 2003a:44).

The term "survivalist" is occasionally used when referring to enterprises within this category. These enterprises generate income below the minimum income standard or the poverty line which is R354 per month per adult equivalent, 1995 value (Frye, 2006:1). Economic activity is directed at providing minimal means to keep the unemployed and their families alive. There are no paid employees and the asset value is minimal. Examples of survivalist enterprises include hawkers, vendors and subsistence farmers.

The National Small Business Act (SA, 1996) uses the term "very small enterprise" to refer to enterprises with less than 10 paid employees. This excludes the mining, electricity, manufacturing and construction sectors, where the limit is 20 employees. The "very small enterprise" operates in the formal economy and has access to modern technology. In employment terms, the Integrated Small Business Development Strategy considers the category known as "micro enterprises" to include self-employed individuals with no employees up to enterprises with ten workers. Falkena et al. (2001:7) estimates micro-enterprise contribution to GDP at 13,25% while Ntsika (2001:14) estimates it at 5,8%. Discussing SMME contribution to GDP is difficult because GDP typically records only formal activities. In addition, most SMMEs are active in the informal sector.

2.4.2 Small enterprises

Small enterprises have significant job creation potential. The majority of business people in this category start or operate their businesses by relying primarily on their own skills, efforts, capital and other resources. This type of enterprise has mostly outgrown direct supervision by the owner and developed a secondary co-ordinating mechanism, which distinguishes it from a micro enterprise. Growth into a medium-scale enterprise requires an accumulation of resources as well as the appropriate incentives for enterprise expansion (SA, 2003a:46).

Fewer black people own and manage small enterprises compared to those in micro enterprises. This is because of lack of skills and access to finance. BBBEE policies are a critical part of programmes in this category. In employment terms, a small enterprise employs from 11 to 50 paid workers. Falkena et al. (2001:7) estimates GDP contribution of small enterprises to be 17,24% while Ntsika puts it at 13,9% (2001:14).

2.4.3 Medium-sized enterprises

The maximum number of employees in the medium-sized enterprise is 100, except for the mining, electricity, manufacturing and construction sectors, where the maximum number of employees is 200 (SA, 2003c:49). Medium-sized enterprises are still owner-manager controlled, but the ownership and management structure is more complex. The characteristics that help distinguish between small and medium-sized enterprises include decentralisation of power to an additional management layer, division of labour and functional differentiation. Black ownership in this class size is considerably less than in others. Falkena et al. (2001:7) estimates the contribution of this category to GDP to be 15,11% and Ntsika (2001:14) puts it at 15,1%.

2.5 CLASSIFICATION OF SMALL BUSINESSES ACCORDING TO THE NATIONAL SMALL BUSINESS ACT OF 1996

The National Small Business Act of 1996 (SA, 1996) classifies small businesses into four main categories: micro, very small, small, medium enterprises. Three parameters are used, namely full-time employees, turnover, and asset value. Table 2.3 shows this classification per industry sector.

Table 2.3: Classification per industry

Sector or sub-sector in accordance with Standard Industrial Classification	Size of classes	The total number of full-time equivalent of paid employees less than:	Total turnover (Rm) Less than:	Total gross asset value (fixed property excluded (Rm) Less than:
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas, Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00

Sector or sub-sector in accordance with Standard Industrial Classification	Size of classes	The total number of full-time equivalent of paid employees less than:	Total turnover (Rm) Less than:	Total gross asset value (fixed property excluded (Rm) Less than:
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and Motor Trade and Repairs Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale trade, Commercial Agents and Allied Services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering and Accommodation	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00

Sector or sub-sector in accordance with Standard Industrial Classification	Size of classes	The total number of full-time equivalent of paid employees less than:	Total turnover (Rm) Less than:	Total gross asset value (fixed property excluded (Rm) Less than:
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

(Source: Schedule 1 to the National Small Business Act (1996) as revised by the National Small Business Amendment Bill: March 2003 (SA, 2003c)).

From the table it can be deduced that the classification of small business is dependent upon the industry sector in which it operates. In rural areas, SMMEs comprise a heterogeneous group of businesses usually operating in the agriculture, communications, services, trade, and manufacturing sectors. Typical examples of such businesses are village handicraft makers, transport, internet and secretarial businesses, small machine shops, clothing and textile making, tourism, furniture, auto mechanics and retailing.

2.6 THE ECONOMIC SIGNIFICANCE OF THE SMME SECTOR

The next section focuses on some of the important aspects of the SMME sector to the economy. The aspects discussed are not a complete list, but rather some of the most important aspects.

2.6.1 Job creation

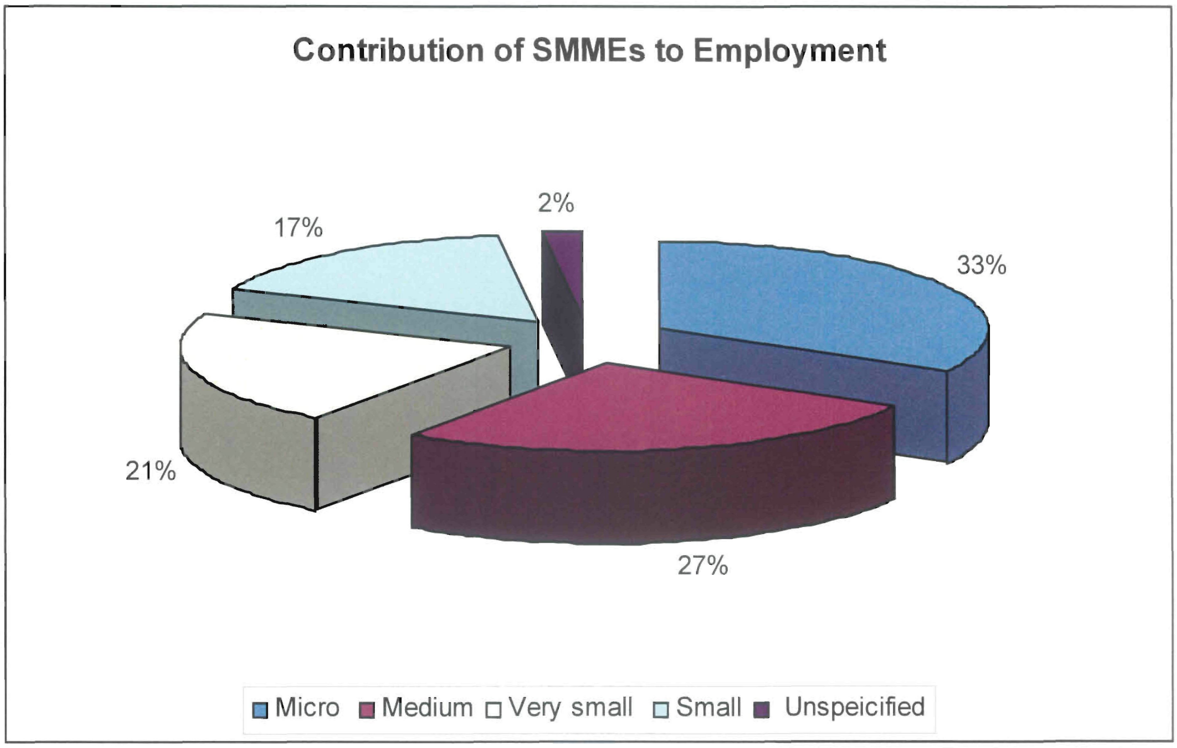
In South Africa, government initiatives since 1995 have focused on the promotion and development of small businesses to address the challenges of job creation, poverty alleviation and economic growth. The role of the small business sector in the economy is indicated by its contribution to employment. This supports the argument that small business growth is an essential ingredient in the strategy to address the country's level of unemployment.

The Small Enterprise Development Agency (SEDA) argues that all segments of the economy are important with respect to job creation but that there is mounting pressure on the small business sector to absorb or create jobs for both the unemployed as well as those entering the labour force. This is in part due to pressure being placed on the public sector, its parastatals and corporates to rationalise and reduce overall spending, which typically involves cutting human resources costs.

The definition of "employed" varies, depending on whether it includes domestic workers, public sector employment and "self-employed". There is a challenge in the estimation of the informal sector. The informal sector (consisting of survivalist and micro enterprises) functions largely as an employment cushion for those with limited skills and young job seekers. Accordingly, the number of micro-enterprise activities typically rises during economic decline (Chalera, 2007:65).

Rough estimates put small business contribution to employment share at close to 60 percent of the total. Ntsika Annual Review (2000:6) estimates small business contribution to overall employment (in the formal and informal sectors) in South Africa is well above 60 percent, with 70 percent and more achieved in trade, agriculture and business services. The Annual Review of Small Business in South Africa estimates the contribution of SMMEs at 65% (see Figure 2.1 below).

Figure: 2.1: Contributions of SMMEs to employment



Source: The Annual Review of Small Business in South Africa (Ntsika, 2000)

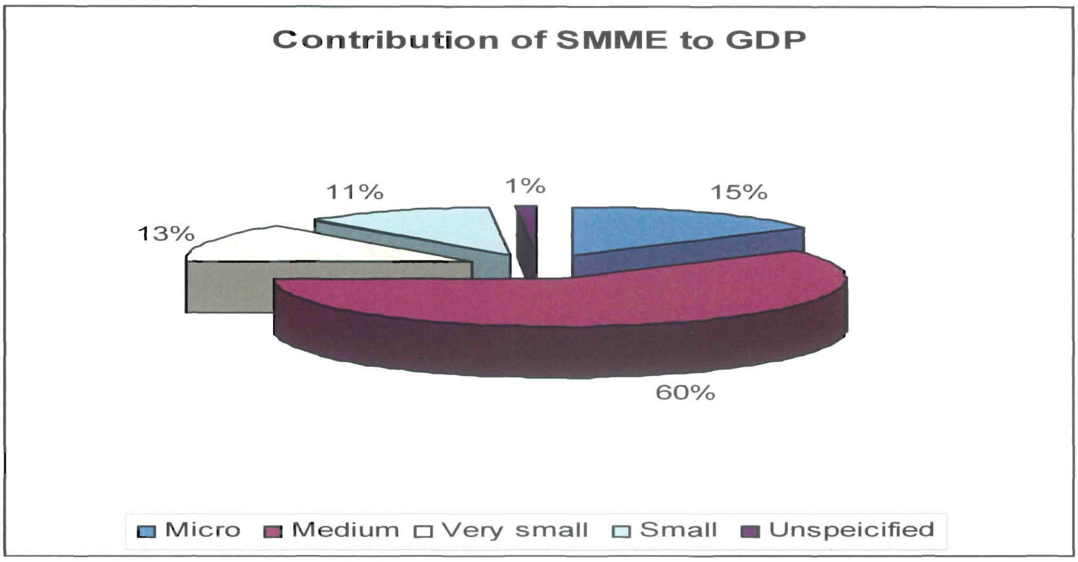
According to Figure 2.1, the informal sector (micro and very small) account to 54% of the total employment by the SMME sector. The small and medium enterprises employ 17% and 27% respectively.

Statistics derived from the Companies and Intellectual Property Registration Office (CIPRO) registered database, reveal that micro-enterprises constitute a large share of all registered businesses, but they employ only an insignificant share of the total labour force (6% in 2004) in small and medium businesses, although comprising between 2% to 5% of the total number of firms employ in the region of 37% of that labour segment. Furthermore, the study optimistically noted that there are indications the very small and small businesses, show growing employment potential. Job creation is cheaper in the SMME sector than in large formal sector companies.

2.6.2 Contribution to GDP

Statistical information regarding the contribution of SMMEs to the Gross Domestic Product (GDP) is difficult to obtain. This is because national accounts do not distinguish economic contribution of enterprises by the size of the business (Reinecke, 2004:102). The GDP records only formal activities and most SMMEs are active in the informal sector. The fastest growing economies are characterised by a high level of SMME activities. SMMEs add up to a substantial contribution of the GDP in most countries, although their share in GDP is lower than their share in employment, thus reflecting a lower productivity of SMMEs compared to larger enterprises. According to the Ntsika Annual Review (2000:18), SMMEs contribute about 40 percent of South Africa's GDP. The Annual Review of Small Business in South Africa (Ntsika, 2000) estimates the contribution to GDP by SMMEs to be between 35% and 50%.

Figure 2.2: Contribution of SMMEs to GDP



Source: The Annual Review of Small Business in South Africa: (Ntsika, 2000)

According to Figure 2.2, medium enterprises contribute 60% to the GDP and small enterprises contribute 11%.

SEDA cautiously estimates the contribution of small businesses to GDP to be between 27% and 43% with larger firms contributing up to 40% to 50%. A trend analysis reveals that GDP contribution per enterprise size differs in each economic sector (SEDA, 2007). For example, the micro enterprise segment in the transport sector is growing at a faster rate than the other sized enterprises which largely attributed to the influx of taxi owners. Furthermore, it is apparent from the data analysis from 2001 to 2006 that small enterprise contribution to the GDP has increased notably over this five year period which aligns to the overall real GDP growth which accelerated to 4.55 in 2004, 4.9% in 2005, 5% in 2006 and 5.7% in the first quarter of 2007.

This growth has led to the conclusion that the small enterprise sector is strengthening with a growing importance of small firms, which are comparatively less vulnerable than micro enterprises. As the Minister of Trade and Industry, Mandisi Mpahlwa, stated in his Budget Vote 2007/08 (Mpahlwa, 2007) "the area of small business has seen impressive growth which we hope to reinforce through the strategy we are finalising. In the preceding year, small business has grown at 7%, far outstripping the growth of the economy generally."

However, there remains a great deal of scepticism about the small enterprise sector to grow in such a way that it will be able to absorb the ever-expanding pool of unemployed people. The Global Entrepreneurship Monitor (GEM) 2006 (Maas & Herrington, 2006) has found that South Africa compares poorly with other countries in terms of entrepreneurship as its TEA rate was 5.29% compared with the average for all countries at 9,43%, or 7,79% if only compared with countries that are classified as "upper-middle income countries". Furthermore, the report seeks to establish whether there has been an improvement in its entrepreneurship since 2001 and finds that South Africa's performance in terms of relative position has consistently been below the median, which means that there has not been improvement since 2001.

2.6.3 Economic diversity

Small business also helps to create a more diverse, resilient economy, allowing a greater variety of products, industries and participants. Unlike one-company or single-industry towns, communities with a healthy contingent of small locally owned enterprises are less vulnerable to a recession or economic downturn that affects a particular industry. In this way, economic diversity fosters a greater degree of local self-reliance than would be the case when a locality relies too heavily on a small number of large corporations whose fortunes are tied to global market shifts (Walters, 2002:14). Small business contributes to diversity through innovation and creativity, and offers an opportunity for both self-sufficiency in financially disadvantaged communities and advancement for minority, women and immigrants. Murphy (1996:5) contends that small business helps to diversify a nation's economic base and provides it with the opportunity of responding to a variety of market conditions. Small businesses provide an element of local control and can respond to local needs.

2.6.4 Economic uniqueness

Small businesses bring forward an environment defined by the personality of an individual business owner. For this reason, it offers a unique array of merchandise and a more personalised buyer-seller connection or service level that augments the products and services by large corporations or chain stores. If a person visited five cities that consisted only of chain stores, the stores of each chain would differ little from one another, but the client would know what to expect regarding the atmosphere, merchandise and services. When local boutiques, bakeries, restaurants, and bookstores are added to the mix, the place takes on a more unique flavour that makes each more of an adventure for the visitor, and more like home for those who live there.

2.6.5 Quality of life

Small businesses are personal enterprises, often focusing on the community or region and increasingly operating wholly, or at least occasionally from a home-based office. A small-business owner has more control over decision making that affects the time spent with family or on other non-business interests, as well as decisions that affect the quality of the owner's workday. Small businesses are often associated with community service and the quality of life of others. Examples of small business-dominated service industries include restaurants, retail services, outpatient care facilities, day care providers, job training, counselling and rehabilitation services, residential care facilities, architectural and engineering services, computer and data processing services and special trade construction contractors. Such industries accounted for 64% of the 2, 5 million new jobs created in 2000 alone in the United States (Walters, 2002:15).

2.6.6 Innovation and flexibility

Small and medium-sized enterprises or individuals working alone invented the jet engine, personal computer, photocopying machine, transistor radio and instant photograph. Small enterprises are often sources of new ideas, materials, processes and services that large firms may be unable or reluctant to provide. A small business must devote its efforts to developing and marketing innovative products and services in order to be successful. These demands for innovation have forced smaller firms to switch operations in the face of changing market conditions and to adapt quickly to changing demands within their field and capacity (Megginson et al., 1997:12).Entrepreneurship is important in the SMME sector. Entrepreneurs are characterised mainly by innovative behaviour and employ strategic management practices in the business. The distinguishing factors of entrepreneurs are innovation, opportunity recognition and growth in the business (Watson, 2001:50).

In SMMEs, experiments can be conducted, innovations initiated and new operations initiated or expanded. The economy is better off on account of the presence of millions of SMMEs in the economy. Murphy (1996:5) contends that SMMEs cater for niche markets and hence encourage and satisfy innovation. SMMEs encourage new uses of technology and absorb technological innovation.

2.6.7 Mechanism for addressing socio-economic imbalances in South Africa

Apartheid has left a legacy of inequality in South Africa. In the labour market the effects of discrimination against black people are revealed by disparity in the distribution of jobs, occupation and income level (Chalera, 2007:32). Black people have suffered as a result of job reservation, poor education and lack of skills under apartheid.

South Africa is not poor by international standards, but it is infamous for having the most unequal distribution of income in the world. The International Labour Organisation (ILO) concluded that South Africa had higher levels of inequality than any other country in the world. The Labour Commission notes that the country's skewed income distribution is reflected by the fact that the bottom 20% of income earners captures a 1,5% of the national income, while the wealthiest 10% of the households receive a full 50% of the national income. Furthermore, poverty is concentrated in the African and Coloured population: The great majority of the poor are Black Africans. The Labour Market Commission notes that roughly 33% of the Coloured population lives in poverty, compared to 20% for Asians and 0,7% for Whites. However, according to the Solidarity Party, poverty among the white population has risen by more than 200% since 1994. This is attributed to the Affirmative Action policy of the African National Congress-led government.

The new South African government (elected in 1994) came up with many policies in an effort to address the socio-economic imbalances caused by the apartheid legacy. One of theses policies is the National Small Business Act (No.102 of 1996). This Act is the government's effort to develop and promote the small business sector mostly by involving the black majority and thereby attempting to readdress the prevailing apartheid legacy in the country.

The government recognises the important contribution that small business is making to social development goals and economic goals. The creation of employment, the reduction of poverty, the increase of household incomes, and the satisfaction of vocational and personal aspirations can all be achieved through small business development.

While social goals can be achieved, it is important to recognise that small business development requires market-orientation. Developing small business is not a welfare activity, but rather about stimulating a productive and profitable sector. The social development functions of small business are therefore achieved through the promotion of economically viable and sustainable businesses.

2.6.8 An instrument of Broad-Based Black Economic Empowerment in South Africa

The results of small business development reveal that few black-owned businesses have effectively accessed the resources required for their support. This is evident by the number of declined or unsuccessful applications by black owned businesses to access either finance or procurement opportunities designed for their benefit.

The government's commitment to Black Economic Empowerment has been taken further with the tabling of a broad-based strategy on Black Economic Empowerment. This is consistent with the focus laid out in the 1995 White Paper. Small business development is a powerful mechanism for broadening business ownership and control, thus extending economic opportunities to black business people.

2.6.9 Community orientation

Small businesses have an intimate knowledge of their communities and are usually in close contact with their customers, suppliers and others in the area. They can perform more specialised tasks than big firms can, thereby attracting customers because of specialist products, quality and personal services. They also provide an element of local control and can respond to local needs.

2.6.10 Competition

Small businesses encourage competition through the introduction of new products and services. They have the ability to adapt rapidly to changing consumer needs. The presence of small business in an economy is an expression of its competition. Monopolies pose a threat to small businesses. Consequently, small businesses stand for anti-monopoly and anti-trust legislation. Small businesses characterise the free market system.

2.6.11 Learning experience

Employees in small business perform a variety of functions. They do not hold specialised jobs like employees in larger companies. Small businesses are multi-functional businesses. Because of performing a variety of functions, small business employees have more freedom to make decisions. This in turn can lend zest and interest to employees' work experience, make them more experienced, encourage them further in their training and develop their talents and energies more effectively. Small businesses thus create an avenue for self-development and individual achievement and so become an expression of entrepreneurialism.

2.6.12 Risk-taking

Thorough planning and research are vital before starting any business. It is risky to establish a business in an uncertain environment. On the other hand, small businesses provide opportunities for risk-taking.

2.6.13 Promote entrepreneurship

Small businesses require relatively little finance and other resources. As a result, potential entrepreneurs can enter the economy through small business ventures. Small businesses therefore create entrepreneurial start-up activity in all economies. (Nieman, 2006:10). Many large companies in South Africa started out initially as small businesses. These companies developed into large companies through a process of planned growth.

The next section focuses on some of the key challenges that are experienced by the small businesses.

2.7 KEY CHALLENGES FACING SMALL BUSINESSES

2.7.1 Introduction

Companies in the small business sector face numerous challenges that affect them in a greater way than larger businesses. Despite the fact that small businesses contribution to job creation, poverty alleviation and economic growth is widely acknowledged, these challenges can result in limited profitability and growth, the decision to voluntarily close the business, or financial failure. This study focuses only on a few key problems that are encountered by the small business sector. The development of good business plans is important to alleviate some of these problems.

2.7.2 Inadequate capital and cash flow

Shortage of capital is the greatest problem facing small business owners (Megginson et al., 1997:15). If a business lacks adequate cash, it will find it difficult to acquire and maintain facilities, hire and reward capable employees, produce or market a product, and perform other indispensable tasks related to running a successful business.

Financial institutions require a business plan from any business that is seeking finance. A business plan is a backbone of a financing proposal (Bangs, 2005:5). Financial institutions rarely provide finance without seeing a business plan. In the case where a small business owner is funding the business with his own savings, a business plan must be prepared to plan how to expend the resources being committed.

2.7.3 Inadequate management

Inadequate management refers to limited business knowledge, poor management, inadequate planning and inexperience. According to Megginson et al. (1997:15), most small businesses are not started because of managerial skill, but rather because someone is good at a specific activity or trade. Managers of small businesses must therefore be regarded as generalists rather than specialists.

2.7.4 Business "red-tape"

Small businesses are subject to many of the same regulations as their larger competitors. These regulations are often complex and as a result, small businesses find it difficult to comply with government requirements. While loss of time and money to comply with these regulations affect enterprises, the burden is heavier for small businesses than for larger enterprises (Reinecke, 2004:134). The regulations and laws affecting the small business sector in South Africa include labour laws like the Basic Conditions of Employment Act of 1997, the Employment Equity Act of 1998, the minimum wages, tax regulations and trade policies. Government regulations and laws may hamper the development of the small business sector and employment creation. Consequently, there is need for a more flexible treatment for the small business sector.

A study conducted in June 2005 by the Small Business Project (SBP), an independent private sector development and research agency, found that the cost of regulatory compliance constituted as much as 6,5% of GDP and cost South African businesses R79 billion. The study reported that small businesses bear the heaviest burden of red tape, given that many basic costs such as licensing and registration are fixed, regardless of the company size.

The report stated that for a normal business start-up, nine registration requirements have to be met at five different offices. There are nine Acts that have to be complied with and eight different forms of taxations to comply with. This poses a heavy burden on small businesses and inhibits its growth and development.

2.7.5 Monopolies

Challenges facing small businesses in South Africa are vast and varied. Small business owners are constrained from achieving economies of scale in the purchase of inputs such as equipment, raw materials, finance, and consulting services. Small businesses are often unable to access global markets and are limited in their performance in the increasingly monopolistic market environment of South Africa.

The South African market can be described as monopolistic inclined due to its anti-competitive nature. The very character of being monopolistic discourages business development. A monopolistic orientated economy undermines the value of business development by new entrants. South Africa's mining and media empires are in the hands of a few role-players. As is the case in the mining industry, South Africa has sold its beneficiation value to European and American mining traders to the disadvantage of business development in

South Africa. In the process its ability to create jobs for mining communities has been undermined (Buys 2008:34).

The danger of monopolies dominating economies is that they make it impossible for new entrants into the market. Monopolies manipulate product prices in favour of a minority at the expense of the majority.

The next section looks at government support mechanisms for the SMME sector.

2.8 GOVERNMENT MECHANISMS TO SUPPORT SMALL BUSINESSES

2.8.1 Introduction

A range of institutions in South Africa focuses on the promotion of small businesses. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (SA, 1995), followed by the National Small Business Act (SA, 1996), created a formal structure to address the concerns and needs of the small business sector through the creation of institutions supervised by the Department of Trade and Industry (DTI).

2.8.2 National Small Business Council (NSBC)

The National Small Business Council was established in 1995 with the main objective of representing and promoting the interest of the small business. The NSBC was also set up to advise the national, provincial and local spheres of government on social and economic policy to promote small business. The NSBC intended to play a strong advocacy role on behalf of small businesses from all sectors, but it has since become defunct. The NSBC was replaced by the National Small Business Advisory Council (NSBAC).

2.8.3 The National Small Business Advisory Council

The National Small Business Advisory Council (NSBAC) is a statutory agency that advises the Minister of Trade and Industry on the following:

- Strategies to address identified market failures affecting the small business sector;
- The impact of current and new legislation on small business;
- National standards pertaining to small business infrastructure;
- Skills development in the small business sector;
- Steps taken to create access for small business into value chains;
- Constraints affecting the viability of small business sector;
- Methods to liaise with the small business sector and to identify their needs; and
- Methods to monitor and influence the provision of support services to the small business sector.

The National Small Business Advisory Council advocates matters of importance to the small business sector and advises government on relevant issues. The NSBAC considers the impact of the small business development in relation to the national economy, and comments on the effectiveness of small business development programmes (SA, 2003b:46).

2.8.4 Khula Enterprises Finance Ltd.

Khula Enterprise Finance Limited was established under the 1995 White Paper. Khula acts as a wholesaler and supplies finance to banks and retail finance intermediaries (RFIs) for on-lending to small businesses. Khula also avails funds to micro lenders, non-governmental and community-based organisations. In addition, Khula provides credit guarantees to private banks whereby Khula assumes a portion of the risk associated with lending in the small business sector.

According to the Department of Trade and Industry (SA, 2003a:48), the objectives of Khula are to:

- Ensure improved availability and sustainability of loan and equity capital to small businesses;
- Focus strongly on the improved availability of loan and equity capital to SMMEs by offering loan guarantees and seed funds to retail financial intermediaries;
- Increase the level of bank lending at reasonable rates to historically disadvantaged individuals; and
- Stimulate the provision of start-up capital and small-scale equity products.

2.8.5 Ntsika Enterprise Development Agency

Ntsika Enterprise Development Agency was established under the 1995 White Paper to provide business development services to the small business sector. Ntsika provides non-financial support to the small business sector through a national network of local business support centres. The objectives of Ntsika are to:

- Expand, co-ordinate and monitor the provision of training advice and counselling to small business;
- Support service providers that provide business development services;
- Strengthen the capacity of small business service providers and small businesses to compete successfully in the economy;
- Undertake national research on the small business sector; and
- Consult with any organ of government or service provider to facilitate access by small business-to-business advice and counselling services, inputs such as raw materials and products, and outputs such as international and national markets.

Ntsika Enterprises Development Agency has failed to fulfil some of these functions and this had led to its reinvention as part of the DTI rather than a separate agency (Reinecke, 2004:87).

2.8.6 Small Enterprise Development Agency (SEDA)

Small Enterprise Development Agency was established in December 2004 in terms of the National Small Business Act. This law merged the previous small enterprise development agencies Ntsika Enterprise Promotion Agency, Namac Trust and the Community Public Private Partnerships (CPPP) into a single, small enterprise support agency. The DTI aims to ensure a coordinated approach to the design and implementation of development support programmes and the creation of a service delivery network for the SMME sector in South Africa through SEDA.

The mandate of SEDA is to design and implement a standard national delivery network that uniformly applies throughout the country. Its role includes the support and promotion of co-operative enterprise, particularly those located in rural areas.

The work of SEDA is carried out in line with the Department of Trade and Industry's Integrated Small Enterprise Development Strategy, which aims to:

- Strengthen support for SMMEs' access to finance;
- Create an enabling regulatory environment;
- Expand market opportunities for specific categories of small enterprises;
- Localise small business support through a grid of SEDA-coordinated information and advice access points;
- Initiate a national entrepreneurship drive and expand education and training for small business; and
- Co-fund minimum business infrastructure facilities in local authority areas across the country.

SEDA offers support services to small business owners such as business plan development, mentoring, specialised advice and facilitating access to finance and government incentives. The activities of SEDA do not replace the work done by other small business support initiatives. SEDA helps to coordinate and align existing support programmes. In order to do this, SEDA has established close working links with other stakeholders involved in small business development, particularly in government, the private sector, media and academic institutions (SEDA, 2008).

2.8.7 National Empowerment Fund (NEF)

The National Empowerment Fund was established to provide financial services to the small business sector. The tasks of the NEF include:

- Putting forward a redress to previously disadvantaged individuals by offering them loans for starting up a small business;
- Expanding and developing existing businesses;
- Transforming existing businesses at ownership and decision-making levels;
- Rural and community developments;
- Providing access to capital markets; and
- Maintaining the liquidity and warehousing of shares for projects of strategic, national importance.

2.8.8 Business Partners and Umsobomvu Youth Fund

Business Partners Limited is a specialist company that provides customised and integrated investment, mentorship and property management services for small and medium enterprises in South Africa. Business Partners was previously known as the Small Business Development Corporation (SBDC). The objective of Business Partners is to be a world class, value-added investor in small and medium enterprises, and facilitate wealth generation, job creation and economic development in South Africa. Business Partners invests capital, skill and knowledge into viable entrepreneurial enterprises. The focus of Business Partners is on independent enterprises in the commercial, manufacturing and services sectors of the economy, with the exception of on-lending activities, farming operations and non-profit organisations.

In South Africa and throughout the world, possession of skills and a job is very important for young people. South Africa has a high unemployment rate because of a critical skills shortage. There are insufficient resources to develop the skills required by young people (Kekana, 2006).The South African government created the Umsobomvu Youth Fund (UYF) in January 2001 in an attempt to overcome these obstacles.

The government assigned the UYF with the task of promoting entrepreneurship, developing job creation skills and transferring skills among South Africans between the ages of 18 and 35. The UYF is dedicated to invest in things that create opportunities for young people to acquire strong skills, find job opportunities and start their own successful businesses.

2.8.9 Business sector associations

Business chambers and sector associations are historically the most important bodies to assist small businesses. At present, the scarcity of funds due to the voluntary nature of membership seriously limits the range of feasible support programmes.

Business associations and chambers provide an important function to small businesses through providing membership and development services. Government recognises its role in supporting chamber development and the provision of small business development services through chambers and business associations. However, government also places the responsibility of membership services firmly in the hands of chambers and associations themselves (SA, 2003b).

Government utilises business sector associations as delivery mechanisms for support services, on condition that they operate cost-effectively and co-operate with other associations/chambers in an inclusive, non-discriminatory manner. Two of the most common business chambers in South Africa are the

South African Chamber of Business (Sacob) and National African Chamber of Commerce (Nafcoc).

2.8.10 Parastatal agencies

There are a number of parastatal agencies engaged in small business development. Some of these agencies report directly to the DTI while others have reporting responsibilities to other departments (SA, 2003a). These include the following:

- Centre for Scientific Industrial Research (CSIR);
- Development Bank of South Africa (DBSA);
- Independent Development Corporation (IDC);
- Land Bank;
- National Productivity Institute (NPI); and
- South African Bureau of Standards (SABS).

The above agencies were established before 1994 and have undergone a process of substantial transformation. Initially, these agencies had little or no interest in the small business sector. Presently, they are introducing programmes that target the small business sector. The government has transformed these agencies to ensure that they are sensitive to the development needs, capacities and opportunities of small businesses. The government thus works closely with these agencies to ensure that they work within a common framework for small business development.

The following section looks at some of the schemes created by the government to incentivise the promotion of SMMEs in South Africa.

2.9 GOVERNMENT INCENTIVE SCHEMES

2.9.1 Introduction

Mahlasela (2004:61-64) researched the DTI incentive schemes aimed at promoting the development of the SMME sector. This study focuses on the four most common incentive schemes. The incentive schemes are as follows:

2.9.2 The Emerging Enterprises Scheme

The objective of the Emerging Enterprise Scheme is to increase access to finance for SMMEs through financial institutions. The institution of this scheme is Khula Enterprise Finance Limited. The access criteria of this scheme are accessibility to independently owned SMMEs, with assets of less than R2m before financing, and the requirement that SMMEs must meet the bank's normal lending criteria.

The focus of the Emerging Enterprise Scheme can be described as follows: To enable an entrepreneur to access funding from his/her bankers for the establishment, expansion or acquisition of a new or existing business. The maximum facility is R75 000 per project /per year.

2.9.3 The Bridging Finance Scheme

The objective of the Bridging Finance Scheme is to address the short-term financing needs of entrepreneurs who have secured firm contracts (except construction contracts) with government and/or the private sector. The institution of this scheme is the Industrial Development Corporation (IDC).

The access criteria of this scheme are aimed at:

- Entrepreneurs who have been awarded tenders by the government;
- Entrepreneurs who have secured contracts for providing products/services to established blue chip companies;

- Entrepreneurs with an annual turnover greater than R1 million; and
- Minimum financing requirements of R500 000.

The focus of the Bridging Finance Scheme can be described as short-term loans (maximum 18 months).

2.9.4 Small and Medium Enterprise Development Programme (SMEDP)

The objective of the Small and Medium Enterprise Development Programme is to generate employment, develop entrepreneurship, promote empowerment, utilise local raw materials, and ensure the sustainability of projects receiving incentives in the small and medium investors. The institution of this scheme is the Department of Trade and Industry. The access criterion of this scheme is as follows: Countrywide availability to local and foreign firms investing not more than R100m in land, buildings, plant and equipment in new projects or expansion of existing projects. Legal entities, as well as sole proprietors and partnerships (excluding Trusts) who are engaged in qualifying manufacturing, high value agricultural projects and others may apply.

The focus of the Small and Medium Enterprise Development Programme can be described as an investment grant for two years on approved qualifying assets, calculated as follows:

- First R5m investment at 10% p.a.
- First R10m investment at 6% p.a.
- First R15m investment at 4% p.a.
- First R20m investment at 3% p.a.
- First R25m investment at 2% p.a.
- First R25m investment at 1% p.a.

An additional investment, payable in the third year and based on Human Remuneration expressed in terms of manufacturing cost, must be a minimum of 30%.

2.9.5 The Standard Credit Guarantee Scheme

The objective of the Standard Credit Guarantee Scheme is to increase access to finance for SMMEs through deposit-taking financial institutions. The institution of this scheme is Khula Enterprise Finance Limited. The access criteria of this scheme are accessibility to independently owned SMMEs with assets of less than R2m before financing and the requirement that SMMEs must meet the bank's normal lending criteria.

The focus of the Standard Credit Guarantee Scheme can be described as follows:

- To enable an entrepreneur to access funding from his/her bankers for establishment; and
- expansion or acquisition of a new or existing business.

The maximum indemnity is 60-70% and the maximum facility is R600 000.
A comprehensive business plan is a compulsory requirement for a small business to be considered for these incentives schemes. In addition, the business must be economically viable and have a profit motive

2.10 CONCLUSION

This chapter emphasises the need for the small business definition. The National Small Business Act 102 of 1996 provides definitions for small, medium and micro-enterprises. These definitions are used by the government and other organisations to determine whether a particular business is a small business and whether it qualifies for assistance.

The SMME sector is important to the economy. The propensity of the SMME sector to create employment is documented in many countries. Small businesses create employment by creating job opportunities. SEDA estimates that small businesses contribute between 27% and 43% to the GDP.

Small businesses face diverse challenges in the implementation of their business ideas and they are not adequately equipped to deal with these challenges. Some of the key challenges facing small businesses are lack of finance and business "red-tape". Financial institutions require business plans with viable business ideas to be able to offer finance. There is a complex process of nine start-up procedures to register a business. These procedures require prospective entrepreneurs to locate and access nine entry points for registration with government's regulatory authorities.

The government has established a number of mechanisms that offer support to the SMME sector. In 2004, the ISBDS was accepted to streamline support services for small businesses. The DTI is responsible for the coordination of these support mechanisms. Some of the mechanisms are SEDA, the NSBAC, Khula and Umsobomvu Youth Fund. These mechanisms offer finance and assistance on business plan development, franchising, training and mentoring, assistance in the managing of the businesses, and more.

The DTI has also created incentive schemes to promote the SMME sector. The most common incentive schemes are the Emerging Finance Scheme and the Bridging Finance Scheme. The objectives of these two schemes are to increase finance to SMMEs through financial institutions.

Business plans play an important role in the contact of small businesses with financial institutions. It is important that the small business owners are skilled to develop effective business plans. The Thuso Mentorship Scheme, a scheme with a national footprint, provides business plan development service to small businesses that are seeking to access finance from financial institutions.

A business plan forms the basis of any application for business financing. Chapter 3 looks at the importance of compiling comprehensive business plans for business financing purposes.

CHAPTER 3

LITERATURE REVIEW

3.1 INTRODUCTION

The purpose of Chapter 3 is to review the literature on the research topic to build the foundation for answering the research questions. This chapter attempts to define a business plan and to explain how to compile a business plan for business financing through a financial institution.

Section 3.1 is an introduction to the structure of this chapter. This is followed by section 3.2 which looks at the conceptualising of a business plan. A summary of what a business plan entails for the purpose of this research is also discussed in this section. In section 3.3 the importance of a business plan is discussed. The purpose of a business plan is covered in detail in section 3.4. In section 3.5, the characteristics of a business plan are reviewed followed by section 3.6, which discusses who are the parties responsible for the compilation of a business plan. The elements of a business plan are dealt with in section 3.7. Section 3.8 investigates the skills, experience and resources of business owners and section 3.9 examines the personal information of business owners. Information regarding the business is dealt with in section 3.10, marketing and sales activities in section 3.11, and the operational plan in 3.12, and the viability study in section 3.13. Additional information that must be included in a business plan is listed in section 3.14. Finally, section 3.15 summarises the conceptual context and explains how this chapter is linked to Chapter 4, the empirical research.

3.2 CONCEPTUALISING A BUSINESS PLAN

A business plan is a detailed programme of action or roadmap outlining every conceivable aspect of a proposed business venture. It is, in essence, a structured guideline to achieving one's goals (Tiffany & Barrow, 2004:4). In the modern business world, a business plan is a written roadmap that indicates who one is, where one's business is going, what has been achieved in the past, what one's plans are for the future and what one's business needs for the future (Olivier, 1998:17).

Barrow (2006:423) defines a business plan as a selling document that conveys the excitement and promise of one's business to any potential backer or stakeholder. In this regard a backer or stakeholder may refer to the bank or venture capitalists.

For the purpose of this study, a business plan is a blueprint for the actual running of the business. A business plan is a strategic document that shows how to get from a certain point to another point in the future. A business plan should cover all the important matters that will contribute to making the business a success. These include the following (Bangs, 2005:4):

- The basic business concept;
- The business strategy and the specific actions planned to implement it;
- Products and services and their competitive advantages;
- The markets to be pursued;
- The background of the management and key employees; and
- The business financing needs.

The next section discusses the importance of a business plan.

3.3 THE IMPORTANCE OF A BUSINESS PLAN

The business plan forms the basis of any application for business financing. A well planned and well researched business plan can play an important part in the successful management and running of a business. A business plan is vital in terms of financing. The business plan will show how much money is required, what it is required for and when and for how long it is required (Barrow, 2006:423). A soundly prepared business plan can reduce the risks of business failure like under-capitalisation and early cash flow problems. Business plan compilation therefore provides a valuable tool when applying for business finance. A business plan should include all the relevant information required by the financial institution to evaluate the application for business finance.

Section 3.4 looks at the purpose of drafting a business plan in detail.

3.4 THE PURPOSE OF THE BUSINESS PLAN

A business plan serves many purposes. Business plans often fail because of a lack of competency in running the business. In addition, the business plan is often seen as an end in itself or just a tool to raise finance with financiers (Gubevu, 2008:19). A business plan is used as a testing, communication, planning, strategic, measuring and financing tool. The purpose of the business plan is discussed in some detail.

3.4.1 Testing the viability and sustainability of a business idea

A business plan may be used to help determine the viability and long-term sustainability of a business idea, whether it be an existing or new business venture. It is an obligation of an existing or new entrepreneur to analyse a proposed business venture to its fullest. The viability of a business idea can only be determined after thorough investigation. Access to markets is important for business success.

3.4.2 Communication tool

The business plan is a valuable communication tool to both internal and external customers. A business plan could be used to communicate the products, services and core-competencies of a business, as well as important aspects of the past and future potential.

3.4.3 Planning tool

The business plan is referred to by many as the roadmap of a business. Therefore, it could effectively be used in setting goals (short, medium and long term) and overall business objectives. Preparing a business plan will provide the entrepreneur with insight into the planning process. It is this process itself that is important to the long-term financial health of a business, and not simply the plan that comes from it (Barrow, 2006:424). As businesses and the commercial and competitive environments in which they operate are dynamic, there is room for change and adjustment. No one expects therefore that every event as recorded in a business plan should occur exactly as predicted. Nevertheless, it is the understanding and knowledge created by the process of business planning that prepares the business for any changes that it may face, and enable it to adjust quickly.

3.4.4 Measuring tool

The business plan can provide the entrepreneur with relevant information to determine whether the business is on track to meet its proposed goals and objectives.

3.4.5 Strategic tool

The business plan contains various strategies and policies, including sales and marketing, operation and pricing, which are used on a daily basis. If such strategies are included in the business plan, they can be used as a valuable reference for the daily running of the business. Strategies and policies should, however, be adjusted on a continuous basis according to changes in the business environment.

3.4.6 Financing tool

Section 2.7.2 in Chapter 2 refers to a business plan as a backbone of a financial proposal. One of the reasons for compiling a business plan is to provide a valuable tool when applying for business finance. A business plan is one of the basic requirements that must accompany an application for business finance. Financial institutions will not process an application without a business plan (see Appendix B).

The important characteristics of a business plan are discussed in the next section.

3.5 IMPORTANT CHARACTERISTICS OF THE BUSINESS PLAN

Regardless of the format of a business plan, it is important that the following aspects are considered carefully:

- The outward appearance of a business plan is important. The cover sheet of a business plan already provides the reader with the first impression of the business plan. The business plan should be neat and attractive and should contain information that will be interesting to the reader (Pinson, 2001:15).
- The business plan must not only be concise and to the point, but it must also be comprehensive enough to enable the reader to evaluate the business properly (Olivier, 1998:20). To the entrepreneur the business is of supreme interest and importance, whereas to the bank or fund manager the plan is but one of many that are received. Therefore, the entrepreneur must keep the bank manager's approval and his interest. Blackwell (2008:4) states that the business plan must meet the following requirements:
    - be clear;
    - be brief;
    - be logical; and have
    - back-up words with figures wherever possible.

The business plan should include all relevant information (be complete), be easy to understand and highly readable. As far as possible, it must be based on facts (Olivier, 1998:20). Marketing research is important before the compilation of a business plan. Marketing research will ensure that the business plan is based on facts and that it is truthful.

Section 3.6 attempts to determine as to who is responsible for the compilation of a business plan.

3.6 COMPILATION OF THE BUSINESS PLAN

The people who carry out the business should prepare the business plan to its full extent. The business plan should not be prepared by the accountant, an outsider, or the boss, unless it is a one-man business. Every member who has operating responsibility in the business should have a say in its preparation and be convinced that their part in it is practical and possible. Each of these members should also own the plan. Only the people inside the business who know what can be done and how to do it, are able to make balanced judgments and decisions. They may require assistance to translate their conclusions into cash and profit estimates, but the decision about sales and resources must remain theirs (Tiffany & Barrow, 2004:63).

According to Timmons and Spinelli (2004:401), it is not a good idea to hire outside professionals to write one's business plan, because it may entail different strategies and tactics, of which the consequences need to be considered carefully, In addition, one has to be very careful when examining the human and financial requirements for launching and building the venture. For example, one entrepreneur discovered while preparing his business plan, that the main market for his biomedical product was in nursing homes, rather than in hospital emergency rooms, as he and his physician partner had previously assumed. This realisation changed the focus of the marketing effort. Had the entrepreneur left the preparation to an outsider, he might never have discovered this. If an outsider had prepared the plan, the entrepreneur would also not have gained the same sense of confidence and commitment to the new strategy.

Some business owners do not have the knowledge, the skills and the expertise to compile business plans. Therefore, it is impossible for them to compile business plans. As stated in section 2.8 of Chapter 2, the government has established support mechanisms to support small business owners in the SMME sector. Compilation of business plans is one of the services offered by these support mechanisms. Sizanani Advisory Services and Thuso Mentorship Programme were created to address the shortage of skills in the SMME sector. They have business consultants who compile business plans. The four main retail financial institutions of South Africa have dedicated small business units that help with the compilation of business plans. At branch level, Business Relationship Managers are responsible for helping small business owners to compile business plans.

In the following section, the elements of a business plan are discussed in detail.

3.7 THE ELEMENTS OF A BUSINESS PLAN

This section deals with the content of a business plan as an important requirement for an enterprise seeking finance from commercial banks. The seven main components of a business plan are identified and discussed as such.

3.7.1 Executive summary

The executive summary is the thesis of one's business. It summarises who one is, what one's company does, where it is going, why it is going where it is going and how it will get there (Pinson, 2001:19). The executive summary usually forms the last part in the writing of a business plan. Once the business plan is complete, the concepts will be well-developed and all the information and financial data will be available to compile the executive summary.

3.7.2 Purpose of financing

This section of the business plan provides the financial institution with an overview of the exact purpose for which financing is required. Olivier (1998:21) categorises the purpose of business financing as follows:

- To purchase an existing business;
- To establish a new business (start-up business);
- To purchase a share in an existing business, whether it be a partnership, close corporation or private company;
- To purchase a franchise, whether it is an existing or new start up business. (It is important to determine whether or not the franchise is registered at the Franchise Association of South Africa (FASA)); and
- To expand an existing business.

3.7.3 The purchase price of an existing business

The purchase price is of importance to both the financial institution and the business owner. When considered together with past financial performance and other important factors (like location), the purchase price will itself indicate whether or not it is a reasonable and fair purchase price. The financial institution is especially interested in the exact make-up of the portfolio of shares consisting of debtors, land, buildings, machinery, equipment and goodwill.

3.7.4 Own financial contribution

Own contribution by the business owner is one of the most important factors in business financing. Own contribution is regarded by the financial institution as a positive commitment to the existing or proposed business venture. Own contribution can consist of cash, vehicles, equipment, start-up cost incurred or land and building.

3.7.5 The financing need

This section of the business plan should provide the financial institution with a clear overview of the business finance needed. It is essential to show that the business owner has budgeted for ample working capital as this will play a critical role both in the cash flow of the business and the financing need.

If one purchases a business or starts up a new business, it is important that the assets purchased and used in the business will be financed over an appropriate period. Olivier (1998:22) developed the following table as a guide for the structuring of business financing:

Table 3.1: Structure of business finance

ASSETS TO BE FINANCED	APPROPRIATE PERIOD OF FINANCING
▪ Debtors, shares and cash (working capital)	Short term (Usually less than 1 year)
▪ Vehicles	Medium term (1-5 years)
▪ Equipment	Medium term (1-5 years)
▪ Plant and machinery	Medium term (typically 1-5 years but also up to 7 years)
▪ Buying an existing business or franchise	Medium term (1-5 years)
▪ Setting up a new business or franchise	Medium term (1-5 years)
▪ Land and buildings	Long term (10-15 years)
▪ Goodwill	Can vary depending on cash flow of business (Usually 5 years)

From the above table, one can deduce that the appropriate term of the business finance should match the usefulness of the asset being financed.

Financial institutions normally prefer that goodwill be paid by the entrepreneur as part of own contribution.

3.7.6 Security (collateral)

Financial institutions need details of any security that can be offered for business financing to accompany the loan application (Record, 2003:91). There are four kinds of security or collateral that can be offered for business financing. These are: first class security, second class or variable security, security with no surrender value and other security. These categories are discussed in more detail.

3.7.6.1 First class security

First class security consists of:

- The pledge of investment funds at financial or insurance institutions. These include fixed deposits, special deposits and investment plans;
- First, second or sub-mortgage bonds over property (residential, industrial or commercial);
- The cession of life insurance policies with a surrender value; and
- Suretyships and guarantees of close friends, family or parents backed by tangible security. A statement of assets and liabilities of these persons must accompany the application for finance. It is important to remember that these persons' financial situation must be acceptable to the financial institution.

3.7.6.2 Second class or variable security

Second class security consists of:

- The pledge of scrip (shares of companies listed on the JSE);
- The pledge of Kruger rands;
- Instalment sale agreement over moveable assets;
- The cession of debtors; and

- The registering of a Special Notarial Bond (SNB) or a General Notarial Bond (GNB) over moveable assets. It is recommended that the applicant provides a list of all moveable assets of the business (including serial numbers where applicable).

3.7.6.3 Security with no surrender value

This type of security includes:

- Cession of life insurance policies without a surrender value; and
- Notarial Bond over shares.

3.7.6.4 Other security

If an entrepreneur is a member of a close corporation, a shareholder in a private company, or a partner in a partnership, the financial institution will normally expect that the entrepreneur provides limited or unlimited personal guarantees or surety for loan facilities granted.

3.8 THE SKILLS, EXPERIENCE AND RESOURCES OF THE PERSONS INVOLVED

A financial institution will want to know the track record of the people to whom its money is entrusted. Therefore, it is important that the business owner gives a fairly full account of his own business career and of the co-directors or partners. Past achievements and technical qualifications are relevant, and of almost equal importance is the degree of the business owner's financial investment. An entrepreneur cannot expect others to risk money in an enterprise to which the founders themselves are not financially committed in a considerable way (Blackwell, 2004:9).

Section 3.9 looks at the personal information of the small business owner that must be included in the business plan.

3.9 PERSONAL INFORMATION

The business plan should contain personal information on the owner, partners, members and shareholders. The personal information should be attached to the business plan in the form of curriculum vitae (CV). A summary of personal monthly income and expenditure should also accompany the application for finance over and above the summary of monthly income and expenditure, a statement of assets and liabilities of the owner, partners, members and shareholders must also be provided. (See Appendix C and D for format of these statements.)

A small business owner must state in the CV if he or she is married in-community of property (COP) or married with an ante-nuptial contract (ANC), and whether their status has changed since 1984, also in terms of the number of dependents or children and their ages. It is also important to name two or three references and to provide their telephone numbers as well as a short overview of employment history.

The following section discusses the important information about the business that must be included in the business plan.

3.10 INFORMATION REGARDING THE PROPOSED BUSINESS

It is important that the small business owner includes as much information as possible regarding the proposed business when applying for finance. The financial institution will require information like the name and trading name of the business, the physical and/or postal address, and the telephone and facsimile numbers of the business. The small business owner should furthermore state if the application for business is in respect of:

- a new business;
- an existing business;
- a franchise; or

- a newly acquired business.

The following information is required by financial institutions and should be included in the business plan:

- Information regarding the type of ownership – sole owner, close corporation, or private company;
- Relevant information regarding the registration of the particular business;
- The registration number and date of registration of a close corporation and private company;
- Information regarding the owners of the business – full names; information regarding the director, shareholder and member(s) or partner(s); financial contribution and percentage of shareholding;
- If an existing business is purchased, reasons should be provided for why the current owner wishes to sell his business;
- The period that the business has been in operation, and how long the current owners have owned the business;
- A projected cash flow, income statement and balance sheet for a 12-month period (for an existing or new business). Information should be provided regarding any assumptions on which the cash flow statement is based;
- Details of owners (listed above) who have interests in other businesses; and
- Information regarding the current debt or equity ratio of the business.

3.11 MARKETING AND SALES ACTIVITIES

If there is no market for a specific product or service, there is no real possibility that a business can be successful. It is therefore of vital importance that any would-be business owner should obtain detailed information about the market to be served. This is done by means of a market research, which implies a thorough market analysis, after which a marketing plan is formulated to describe how such a market will be successfully penetrated (Van Aardt et al., 2000:213).

Sales and marketing activities are closely related to project sales figure in the cash flow statement. Therefore, the financial institution will also be interested in the sales and marketing activities of the business. Olivier (1998:29-30) lists the following information regarding sales and marketing activities that should be mentioned in the business plan:

- The products and services to be or being rendered;
- Current market position with regard to competition;
- Current market share and image in the market;
- List of competitors-provide "SWOT" analysis on competitors;
- The specific target market;
- Pricing policy – also mention pricing policy of competitors if available;
- Specific strategies and action plans with regard to sales and marketing;
- Results of market research in trading areas; and
- Distribution and advertising channels at entrepreneur's disposal.

The best marketing plans are results-oriented: they define specific, realistic and measurable goals within realistic time parameters. All sales, advertising, and public relations efforts are then designed to work together to achieve these goals. Goals of the marketing strategy could include, for example, creating a brand, building a strong customer base, and increasing product or service sales (Pinson, 2001:38-39)

The operational plan is discussed in section 3.12.

3.12. OPERATIONAL PLAN

The operational plan is the small business owner's formulation of plans for running the business. An effective operational plan, when successfully implemented, can ensure a smooth-functioning and productive organisation. The business plan should include a section on the operational aspects of the business. Van Aardt et al. (2000:225) list the following operational aspects that should be included in the business plan:

- The location of the plant;
- Facilities needed for operation;
- Equipment and space needed for production or sales;
- Type and number of workers required;
- Policies in respect of inventory control;
- Guidelines pertaining to purchasing and sales;
- Plans to boost productivity to remain competitive;
- Accounting and financial procedures and policies; and
- A detailed list of suppliers indicating the company's credit terms.

Section 3.13 examines the viability study that must be undertaken before a business plan is compiled.

3.13 VIABILITY STUDY

This section is very important in the business plan when applying for business finance. The viability study provides the financial institution with valuable information and insight regarding the viability and long-term sustainability of the business. If the business venture is not viable, the financial institution will not grant business finance. For a business to be viable, it must be able to pay the following expenses:

- Monthly operational expenses;
- Market related salary for the owner or owners of the business; and
- Monthly related repayments on loan facilities or instalment sale agreements, leases and rentals.

The following monthly expenses should be considered when compiling a cash flow statement:

- Auditing and accounting fees;
- Advertising;
- Bank charges;

- Interest;
- Insurance;
- Licenses;
- Rent for premises, equipment and vehicles;
- Commission;
- Computer costs;
- District council levies;
- Donations;
- Water and electricity;
- Franchise fees (if applicable);
- Printing and maintenance;
- Salaries and wages (including pension fund contributions, SITE, UIF payments, and more);
- Security costs (if applicable);
- Travelling; and
- Telephone.

Access to markets is important for a business to be viable and sustainable (see section 3.4.1). The business owner is responsible for convincing the financial institution that the business is viable. The business owner must be truthful in all respects when writing the business plan. In addition, proof is required from the owners that the business will be able to reach break-even-point within the given time frame.

The next section deals with additional information that must be included in a business plan.

3.14 ADDITIONAL INFORMATION

All relevant information that may assist in securing business finance should be included in the business plan. This includes the following:

- Rental and lease agreements;
- Copy of contracts;

- Franchise agreements;
- News clippings and magazine articles;
- Business and factory layouts;
- Quotation for the purchasing of machinery, equipment, vehicles, fixtures and fittings;
- Curriculum vitae of the key personnel;
- All relevant financial statements (audited financial statements, interim financial statements, debtors and creditors age analysis, asset register, projected cash flow statement, balance sheet and income statement); and
- In addition, the financial institution will require the stand number, physical address, outstanding debt on exiting property, name and telephone number of contact person for valuation purposes. (See Appendix E.)

3.15 CONCLUSION

This chapter has attempted to define in detail what a business plan is and how it should be compiled when applying for business finance through a financial institution. The business plan should be structured in a logical manner and all relevant information should be included. The entrepreneur should determine the total funding requirements accurately, and be truthful. It is essential for the business to have adequate access to markets for its products and services in order to be viable and sustainable. *"A business plan that is not well articulated, with glaring gaps, fails in many instances to secure the required loan from financiers"* (Gubevu,2008:19).

The next chapter focuses on empirical research. The research findings are presented, analysed and interpreted.

CHAPTER 4

EMPIRICAL SURVEY

4.1 INTRODUCTION

The previous chapter reviewed the relevant literature related to business plans. A business plan forms the basis of any application for business financing. The chapter discussed the importance and the purpose of a business plan. The elements of a business plan were also discussed in the previous chapter.

The objective of Chapter 4 is to identify the methodology used in this study, to provide a better and adequate insight of the basic methodological techniques, its application and what purpose it served towards acquiring the relevant data. Chapter 4 has nine sections and begins with an introduction, followed by section 4.2 which discusses the research methodology research. Section 4.3 deals with descriptive survey, and section 4.4 describes population and sample. In section 4.5, data collection and administration is discussed. Section 4.6 addresses reliability and validity, and section 4.7 addresses the pilot testing undertaken. Section 4.8 deals with data analysis. Research findings are presented and analysed in section 4.9. Section 4.10 provides a conclusion to this chapter.

4.2 QUALITATIVE RESEARCH

The purpose of the empirical research is to establish the success rate of business plans that are submitted to financial institutions for business finance. This study is qualitative in nature as it attempts to find out why business plans are successful or unsuccessful when submitted to financial institutions for business finance. The research design was exploratory and an attempt was made to understand people's perceptions, perspectives and understanding of a particular situation. The characteristics of such a study include questionnaire construction, in-depth interviews as well as data analysis identifying common themes in people's description of their experiences (Leedy & Ormrod, 2001:153).

4.3 DESCRIPTIVE SURVEY

The method of data collection was a descriptive survey using a questionnaire and structured interviews. A descriptive survey is a common method used in business, sociology and government. The survey method is used to describe the incidence, frequency and characteristics of a population (Leedy & Ormrod, 2001:154). Survey research, as highlighted by Leedy and Ormrod (2001:155), usually applies one of the following methods: face-to-face interviews, a telephone interview or a written questionnaire. A written questionnaire and a face-to-face interview were used for collecting data.

4.4 POPULATION AND SAMPLE

A purposive sampling technique as described by Leedy and Ormrod (2001:157) is one where participants are chosen for a particular purpose. Patton (1990:47) points out that the sampling method in qualitative research is purposeful rather than random. The researcher purposefully selected small business owners in the Johannesburg area as respondents. The questionnaire was discussed with small business owners who have a formal, registered business operating in the main metropolitan areas of Johannesburg.

The small business owners have a bank account with the four main South African retail financial institutions (Standard Bank, ABSA, First National Bank and Nedbank). These financial institutions service the small sector and Gauteng has the highest concentration of small businesses in South Africa (Falkena et al., 2001:32). Therefore, a purposive sample of 11 small businesses from each financial institution in the Johannesburg area was selected. These are businesses that have applied for business finance from any of the mentioned financial institutions in the last five years. Such a sample was considered representative. The selection of the four main financial institutions was inherent to one particular data source, thereby seeking a convergence of results (Creswell, 1994:56).

Convenience sampling was also used to select the sample of small businesses. Leedy and Ormrod (2001:218) describe a convenience sample as one that uses readily available participants and makes no pretence of identifying a representative subset. The respondents operated in different industries (see Figure 4.9).

The individuals representing the small businesses were the founders or owners of the business. The important point in choosing the sample was to have participants who had experienced the phenomenon. They had submitted a business plan to one of the four main South African retail financial institutions for business finance. As indicated in the limitations of the study in Chapter 1, some small business owners refused to participate in the study, and the financial institutions were reluctant to help with study, citing client confidentiality clauses. Other small business owners did not provide all the necessary information required or did not complete their questionnaires. As a result their information was discarded.

Sixty (60) questionnaires were issued (fifteen to each financial institution) and forty seven (47) complete questionnaires were received back. The researcher selected 44 questionnaires (eleven from each financial institution) to make all financial institutions to be equally represented in the study. According to Cooper and Emroy (1995:206) the absolute size of a sample is more important than its size compared to the population; what matters most, is the precision needed by the researcher. While deciding the size of the sample, the researcher determined the desired precision as also being an acceptable confidence level for the estimate. Consequently, with conducting in-depth interviews, a sample of forty four (44) participants represents a reasonable sample size (Creswell, 1994:60).

4.5 DATA COLLECTION

The purpose of this section is to provide details of the instrument used to collect data and to explain how it was administered.

4.5.1 The measuring instrument

The questionnaire was used to collect data. The questionnaire was developed by means of the issues addressed in the literature review and the problem statement. The same questionnaire was used for all business owners.

4.5.2 Questionnaire construction

The questionnaire consisted of three sections and it was designed specifically to test the issues relevant to the research. These included:

- Section A: Demographics;
- Section B: Business profile; and
- Section C: Information on financing.

Section A was used to acquire demographic information to describe the sample. Section B was used to ensure that the correct respondents were being chosen for the research, i.e. respondents from small businesses. Section C was designed to determine how small business owners structure their business plans and particularly the contents of the business plan. The structure of a business plan was obtained from the four main South African retail banks to see if small business owners meet the banks' requirements in drafting their business plans (see Appendix B).

A list of all documents that must accompany a business plan for business finance application was obtained (see Appendix E). The questionnaire had 21 questions (see Appendix F).

4.5.3 Questionnaire administration

The initial contact with the respondents was made via telephone, and provided a short explanation of the purpose of the research, topics to be covered and the expected duration of the interview. Upon respondents' acceptance to participate in the study, an electronic message was sent to confirm the date and time of the interview. The respondents were also provided with a sample of the questionnaire and thanked for their willingness to participate. Each respondent was offered a copy of the completed research reports.

The researcher administered the questionnaire personally. Respondents were advised that the questionnaire would take approximately 20 to 30 minutes to complete. They were also advised that the information would be treated confidentially. A letter describing the purpose of research and an undertaking to keep the information confidential were given to the respondents when the researcher met with them during the face-to-face interview (see Appendix G).

The following are advantages of the interviews as discussed by Zikmund (1997:231):

- Both the researcher and respondent have an opportunity for feedback; and
- The researcher can gain greater clarity and understanding with probing.

The disadvantages of the interview include the following:

- The researcher, by nature of his or her presence, may influence what people say and how the events unfold; and
- The respondent may be reluctant to provide confidential information.

The researcher was careful to avoid the disadvantages of the interview. A measure of uniformity was obtained in that the researcher conducted each of the interviews.

The process that was followed during the interviews was as follows:

A suitable location (at the respondent's convenience) was chosen where they were unlikely to be distracted. For the most part, the researcher met the respondents at their business premises, but some respondents invited the researcher to their homes. Distraction was minimal.

- Rapport was established to break the ice.
- Some of the key concepts were defined to check the understanding of the respondents.
- Written permission was obtained and the researcher offered to provide a copy of the research report once it was completed.
- The respondents were asked to express themselves in their own way.
- The researcher took detailed interview notes.
- The researcher remained objective by not displaying any reactions during interviews.

4.6 RELIABILITY AND VALIDITY

The questionnaire was designed and developed on the basis of concepts and factors that the researcher identified from the literature review. The questionnaire was not based on any existing instrument.

4.6.1 External validity of the study

According to Leedy and Ormrod (2001:264), the external validity of the research study relates to the extent to which the results apply to situations beyond the study itself. Convenient sampling could have resulted in some bias, but the randomness with which the sample was extracted, addressed this potential problem to a certain extent. External validity was enhanced by using a real-life setting (Leedy & Ormrod, 2001:265).

4.6.2 Internal validity of the study

Leedy and Ormrod (2001:266) define internal validity as the extent to which the design and data of a research study allow the researcher to draw accurate conclusions about the cause and effect relationships within the data.

To enhance the internal validity of the empirical study, a pilot test was used to evaluate respondents' understanding of the statements. The study was clearly described to the respondents and they were advised on what precisely the questions were measuring.

4.6.3 Reliability

Reliability relates to whether a particular technique applied repeatedly to the same object would yield the same results (Barbie & Mouton, 2001:44). It is the extent to which the instrument that was used provides consistent results. Where a single observer is the source of data, reliability is an issue. This is due to the extent of subjectivity that may be involved.

To enhance reliability of the study, the researcher used standardized and structured interviews. In addition, the researcher operated in a systematic manner during the interviews.

4.7 THE PILOT TEST

As indicated in section 4.6.2, the use of a pilot study is recommended by Leedy & Ormrod (2001:270) as a means of testing the feasibility, validity and reliability of a measuring instrument.

The questionnaire used in this study was original and not previously exposed to the respondents. A pilot test was conducted on two small business owners who have bank accounts with First National Bank. This was done to test their understanding of the statements and questions being asked. The questionnaire was modified to facilitate their understanding, based on their feedback.

4.8 DATA ANALYSIS

The statistical methods used to analyse the data to test the research questions are discussed in this section. The data from the completed questionnaires were captured into Microsoft Excel and then imported into STATISTICA (Statsoft, 2007) for further analysis.

4.8.1 Section A and B of the questionnaire

Section 1 and 2 of the questionnaire were analysed by means of descriptive statistics. The data were analysed through a general observation of the demographic variables that provided an understanding and description of the sample. The data analysed were nominal data.

4.8.2 Section C of the questionnaire

Section C consisted of 21 questions and tested specific elements of the business plan contents. The 21 questions tested those elements of business that were identified from the literature review as important in the drafting of a business plan. The section consisted of both open-ended and closed-ended questions.

The responses were assessed and any similar themes that the data reflected were grouped together. These groups were then interpreted and reported as complete and unbiased as possible. Since content analysis is both qualitative and quantitative, the data was grouped by generic themes and summarised in a tabular format by means of charts and frequency tables.

4.9 RESEARCH FINDINGS

4.9.1 Introduction

The preceding chapters have provided the theoretical background for this empirical research. The process of conducting the empirical research has already been outlined. This section represents the results of the empirical research. All the findings are related by graphical illustrations and in tabular form in order to enable a proper understanding of the findings.

The research questionnaire is divided into three different sections which enable the researcher to achieve the objectives set. These are: demographics profile, business profile and information on financing.

4.9.2 Section A: Demographic profile

This section describes the demographic profile of small business owners who took part in this study.

QUESTION 1: What is your gender?

Figure 4.1: Gender of small business owners

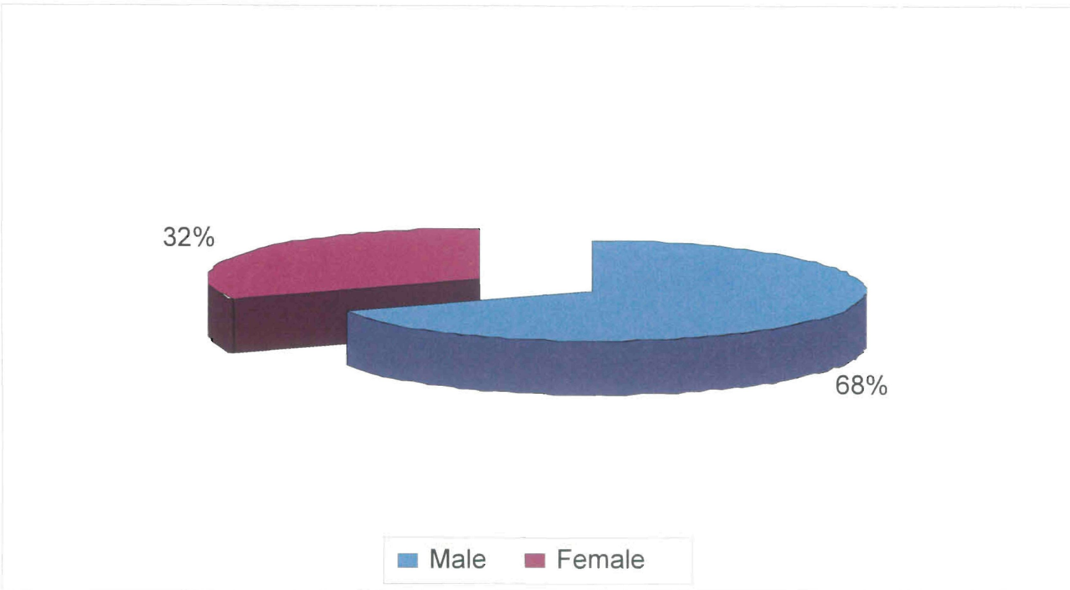


Figure 4.1 above indicates that most of the SMMEs in this research are dominated by males. A total of 68% of business owners are male and females comprise 32%.

Question 2: What is your age?

Figure: 4.2: Age of small business owners

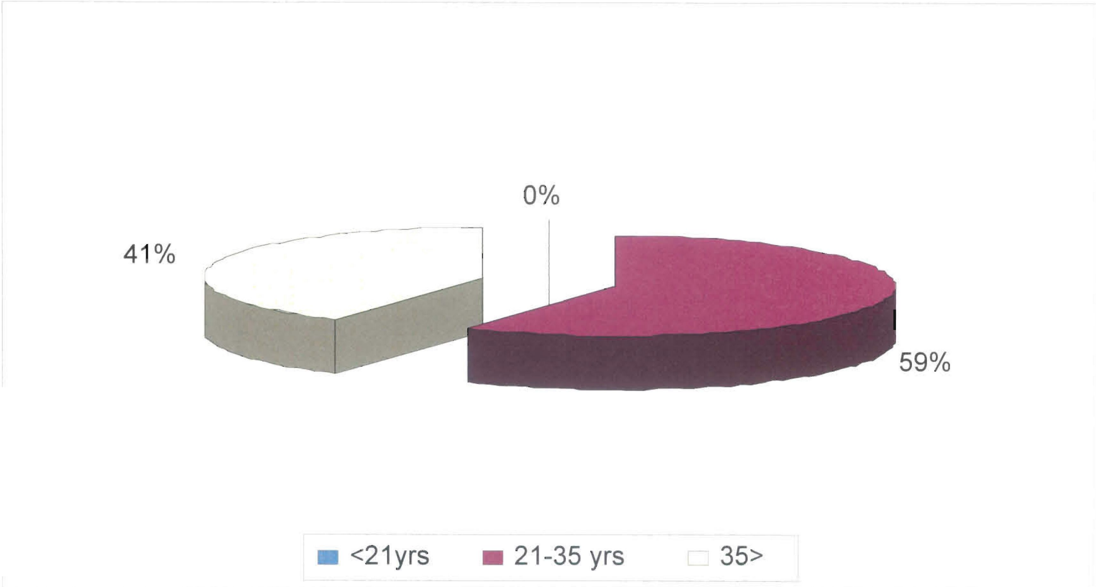
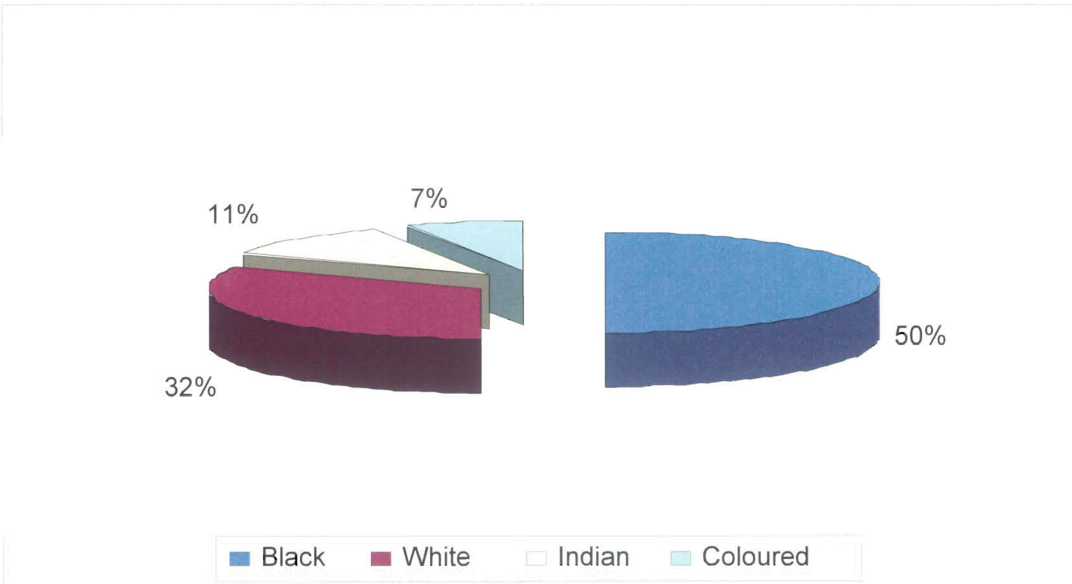


Figure 4.2 shows the age of small business owners of this research. More than half, 59%, of small business owners are in the 21-35 age group and 41% are over 35 years. There were no small business owners under the age of 21.

Question 3: What is your population group?

<u>Figure: 4.3</u>: Population group of small business owners



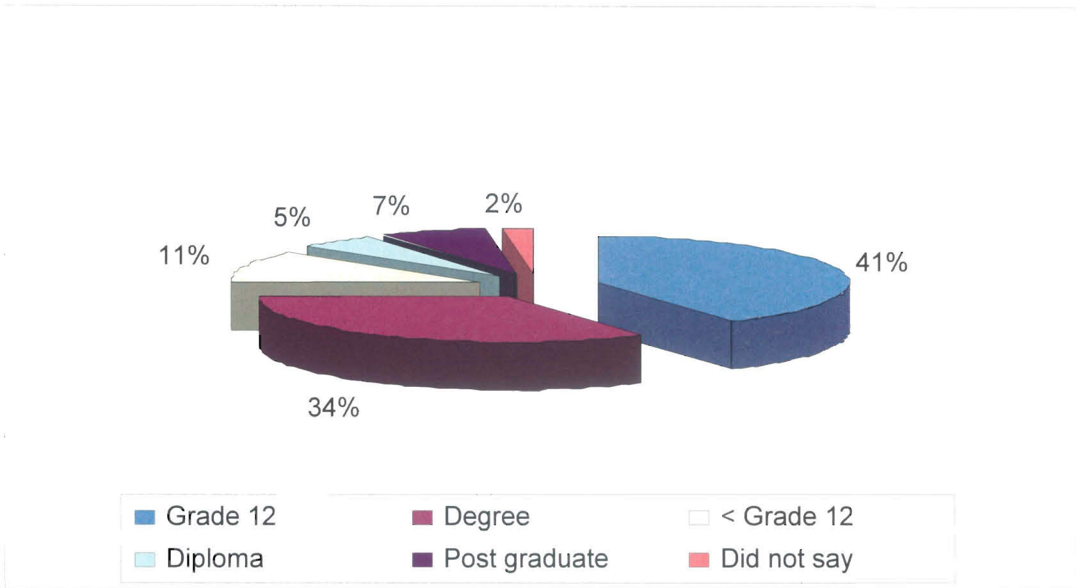
Half of the respondents were Blacks. This shows that more black people are being self-employed. This is spurned on by government initiatives like

BBBEE. Nearly one third, 32% of respondents was Whites; Indians comprised 11% and Coloureds 7%.

Question 4: What is your highest level of education?

Figure 4.4 shows the highest education level of small business owners sampled.

Figure: 4.4: Level of education



As indicated in Figure 4.4 above, 41% of small business owners have Grade 12 and 34% have degrees. Most business owners in this research are functionally literate. Only a small percentage did not indicate their education level. This information is important in determining the impact of education in the success or failure of SMMEs in South Africa. The level of education can also have an influence in determining whether a financial institution grants business finance. Business owners need to understand how business plans work and be able to use them effectively in the day-to-day running of their businesses.

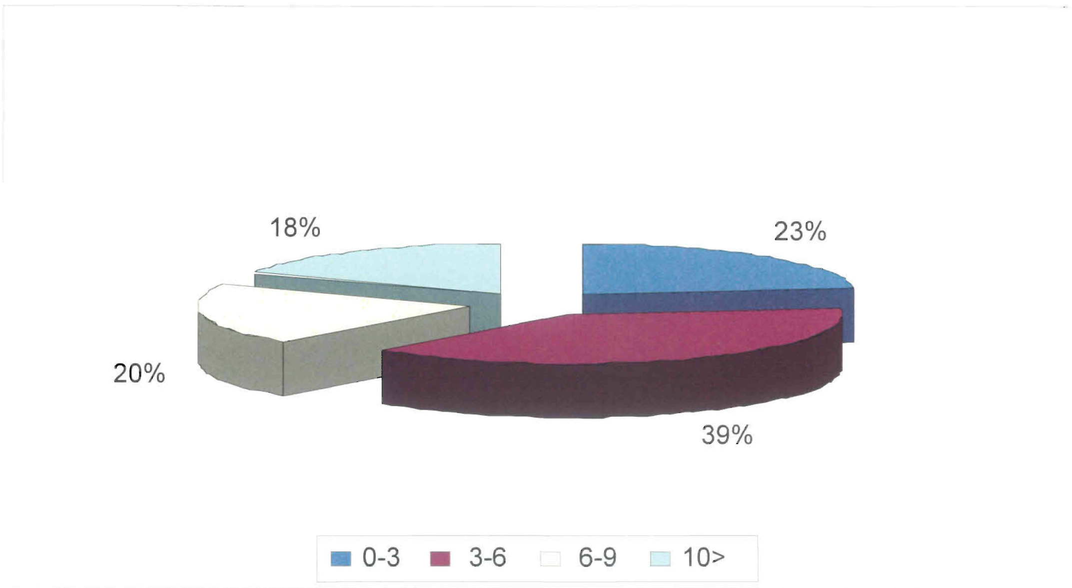
4.9.3 Section B: Business profile

This section of the questionnaire looks at the business profile of businesses in this study. The section describes the nature and industries of businesses in this research.

Question 1: How many years has your business been in existence?

Figure 4.5 provides a breakdown of the appropriate number of years small businesses in this research have been in existence.

Figure: 4.5: Age of business

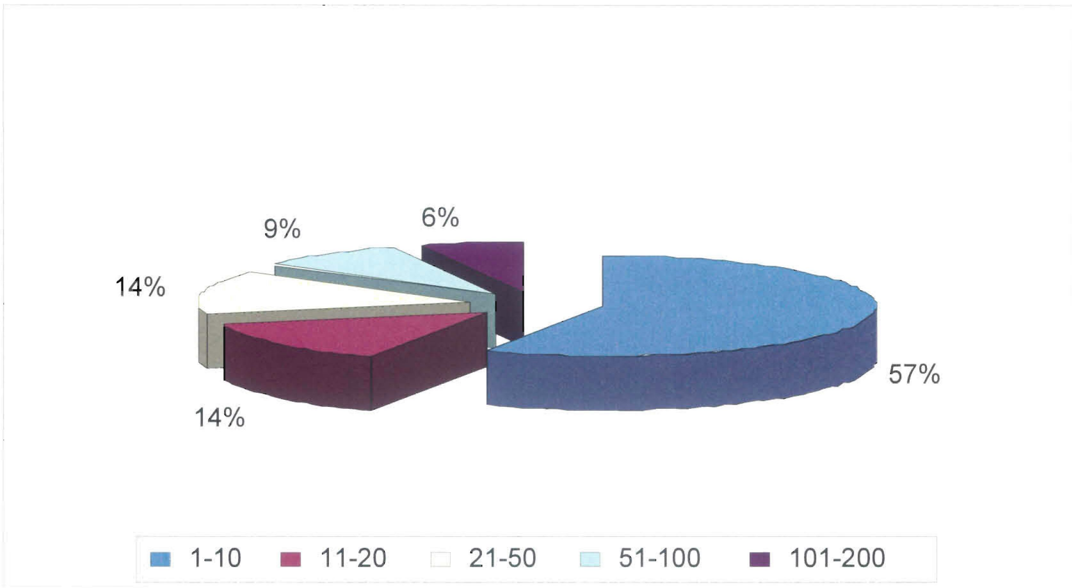


The majority of small businesses (39%) have been operating for between 3 and 6 years. Only 18% of businesses have been in operation for more than 10 years. This information is important for financial institutions when they are evaluating the viability of businesses.

Question 2: How many people do you employ?

Figure 4.6 indicates the number of employees employed by the small businesses sampled.

Figure: 4.6: Number of employees



The majority of small businesses (57%) in this study employed between 1 and 10 employees. All businesses employed less than 200 employees. This is consistent with the definition of a small business as defined by the National Small Business Act no. 102 of 1996 (See Chapter 2, section 2.3).

Question 3: What form of ownership is your business?

Figure 4.7 reflects the form of ownership of small businesses in this research.

Figure: 4.7: Form of ownership of small business

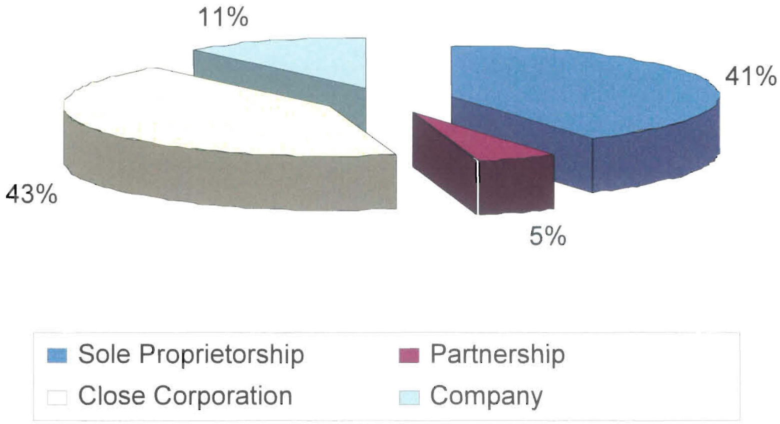
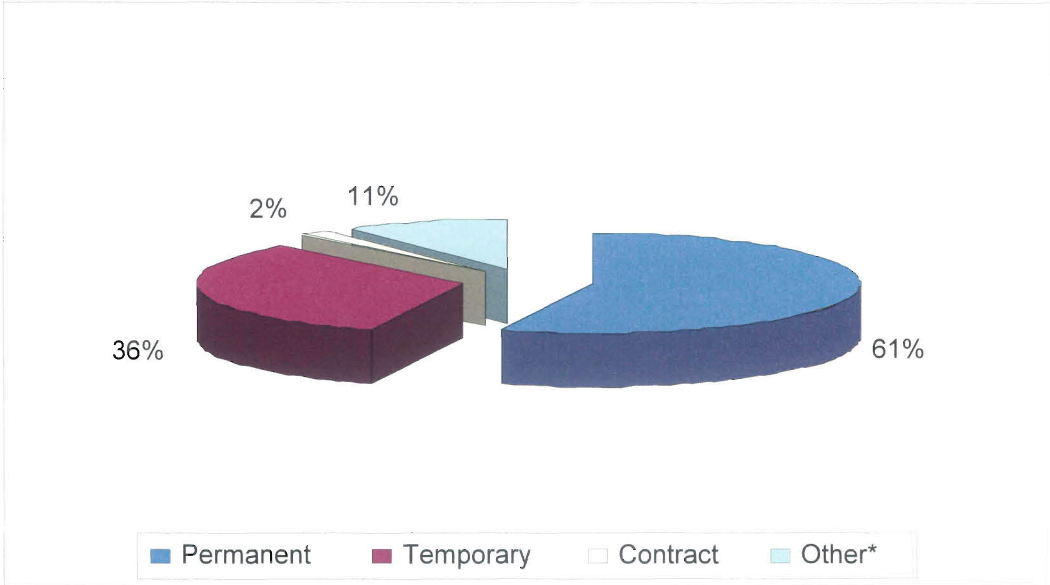


Figure 4.7 indicates that 41% of small business respondents operate as sole proprietors, 43% as close corporations and 5% as partnerships. This could be attributed to the fact that legal formalities required for the establishment of these form of ownership are simple or non-existent. Liability risk also influences the form of ownership.

Question 4: What is the nature of employment of the employees?

Figure 4.8 reflects the nature of employment of the small business employees that were sampled.

Figure: 4.8: Nature of employment



*Other is specified as casual employees

Figure 4.8 above indicates that 61% of employees were employed permanently by small business respondents of this research. This can be interpreted that the SMME sector is able to offer stable employment.

Question 5: In which industry does your business fall?

Figure 4.9 illustrates the industry classification of small businesses sampled.

Figure: 4.9: Industry classification

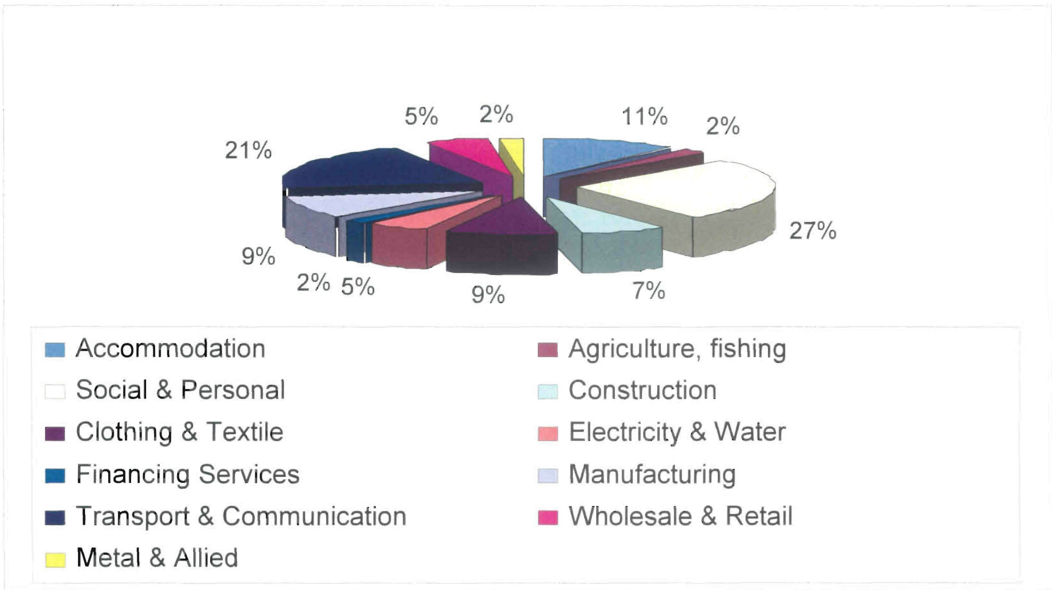
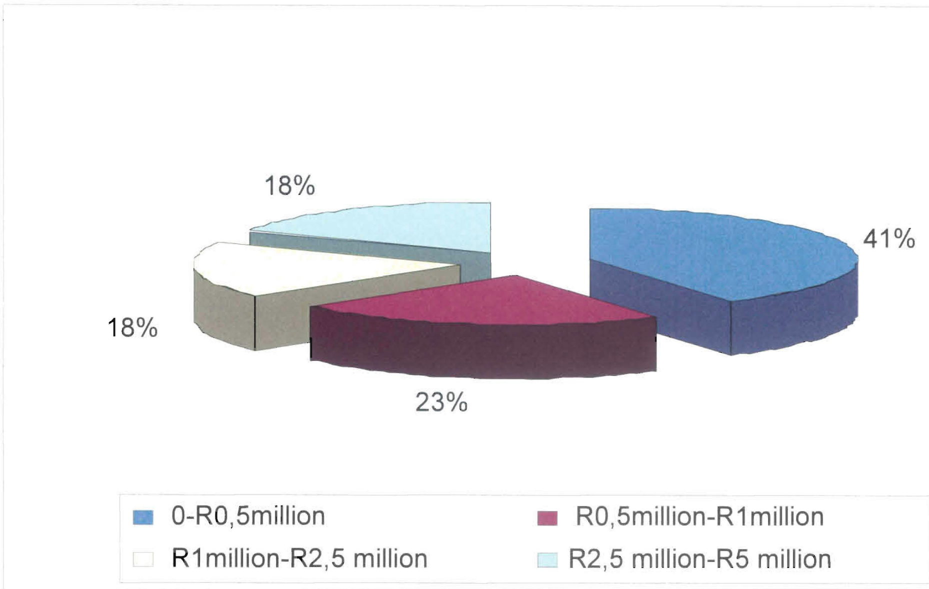


Figure 4.9 above shows that the industries dominating the SMME sector in this research are: social & personal (27%), transport & communication (21%) and accommodation (11%).

Question 6: What is your annual turnover?

Figure 4.10 shows the average annual turnover of the small businesses sampled.

Figure: 4.10: **Annual turnover**



Most small businesses in this research (41%) have an annual turnover that is less than R500 000. A total of 23% of small businesses have an annual turnover that is between R500 000 and R1 million, 18% of small businesses have annual turnover of between R1 million and another 18% of small businesses have an annual turnover of R2,5 million and R5 million.

4.9.4 Information on financing

This section deals with the elements (contents) of the business plan. The questions asked are used to probe the small business owners' understanding of the business plan. Where frequency tables are used, the issues that are raised are grouped and presented according to generic themes.

Question 7: Have you requested finance from a financial institution in the last five years?

In line with the study's objective, all 44 (100%) respondents have requested financial assistance from the four major retail financial institutions of South Africa in the last five years.

Question 8: What was the purpose for finance?

Table 4.1 represents the purpose of finance as obtained from the respondents sampled.

Table: 4.1: Purpose of finance

Category	Count	Cumulative count	Percent	Cumulative %
Start-up capital	22	22	50%	50%
Take-overs	8	30	18%	68%
Expansion	12	42	27%	95%
Bridging finance	2	44	5%	100%

Table 4.1 indicates that 50% of small business respondents needed business finance for start-up capital, 27% to expand an existing business, 18% to take over an existing business and 5% for bridging finance. The financial institution will need to be acquainted with the exact purpose for which financing is required.

Question 9: Did the financial institution assist you to identify problem areas in your business plan?

Table: 4.2: Problem identification in business plans

Category	Count	Cumulative count	Percent	Cumulative %
Yes	19	19	43%	43%
No	25	44	57%	100%

Table 4.2 shows that 43% of respondents were helped by financial institutions to identify problem areas in business plans. The rest (57%) were not offered this service at all. This question was asked to respondents in order to determine if financial institutions offer advice to their customers on compiling

business plans. In doing so, financial institutions can build strong relationships and create loyalty with their customers.

Question 10: Did you have an up-to-date business plan readily available?

Table: 4.3: Availability of a business plan

Category	Count	Cumulative count	Percent	Cumulative %
Yes	38	38	86%	86%
No	6	44	14%	100%

Table 4.3 indicates that 86% of the respondents had a business plan readily available and 14% did not have one. All six applicants (14%) who did not have a business plan did not succeed in obtaining finance. Their submission of a business plan at a later stage did not make any difference whatsoever. It is thus clear that success, for business of all sizes, is positively correlated with planning from the outset. Burns (2007:373) states that the majority of *Incorporated magazine's* annually-produced 500 fastest growing companies had business plans at the outset.

Some would-be business people attempt to start a business without a business plan (Barrow, 2006:424). Financial institutions nonetheless require that a business finance application is accompanied by a business plan. According to Parker (2004a:86), the mere fact that an effort has been taken to prepare a good business plan reflects careful analysis of the business's potential. This reassures financial institutions and other providers of funds.

Question 11: How often do you update your business plan?

Table: 4.4: Frequency of updating the business plan

Category	Count	Cumulative count	Percent	Cumulative %
Monthly	5	5	11%	11%
Quarterly	16	21	36%	47%
Bi-Annually	3	24	8%	55%
Annual	20	44	45%	100%

According to Table 4.4 of the research, 11% of respondents updated their business plans monthly, 36% quarterly, 8% bi-annually and 45% annually. Frequent re-evaluation of the business plan necessitates the application of logical thought processes, thus improving the quality of decision making.

A business plan is not a static document. According to Parker (2004b:112), a business plan that is kept up to date, frequently referred to and used as a blueprint, helps to make the business succeed. Parker also contends that a business plan serves as an early-warning system for the identification of potential problems and opportunities that may evolve in future. This facilitates the timely implementation of appropriate responses.

Planning is a continuous process and therefore a business plan needs to be updated to correspond with changing business circumstances. Barrow (2006:423) states that a business start-up or growing business should not be without a current business plan that has not been thoroughly reviewed within the past six months.

Question 12: Do you use your business plan for other purposes other than business finance?

Table: 4.5: Other uses of a business plan

Category	Count	Cumulative count	Percent	Cumulative percent
Yes	10	10	23%	23%
No	34	44	77%	100%

From the research, 77% of respondents said they used a business plan only to obtain business finance. Only 23% used a business plan for other purposes other than to attract business finance from financial institutions. Lack of planning is cited by many writers as one of the reasons that result in business failure. Planning is therefore a roadmap which will guide the small business to its objectives (Nieman, 2006:19).

A business plan not only acts as a vehicle to attract external finance but it also allows business owners to crystallise their business ideas and to think through potential problems before they have to cope with them. A business plan allows business owners to set objectives and thereby give themselves a yardstick to measure their performance (Burns, 2007:373).

As indicated in section 3.2 of Chapter 3, a business plan can be used as a blueprint for the actual running of the business. Katz and Green (2007:204) state that the business plan remains the standard for describing the business in detail.

Question 13: Who assisted you in putting your business plan together?

Table: 4.6: Assistance with compiling the business plan

Category	Count	Cumulative count	Percent	Cumulative %
Did it yourself	9	9	20%	20%
Relationship / bank manager	11	20	25%	45%
Small business advice unit	3	23	7%	52%
Business consultants	21	44	48%	100%

Table 4.6 shows that 48% of the small business respondents used the services of business consultants to compile their business plans. Branch managers or relationship managers compiled 25% of business plans and 20% were compiled by the small business owners themselves. Only 7% of the business plans were compiled through the services of small business advice units.

A business plan needs to be prepared and written by those who are vital to its implementation (Barrow, 2006:423). Parker (2004a:111) describes planning as an expression of a business owner's dreams, adapted appropriately to withstand the harsh realities of business life. If this explanation is accepted to be valid, then it is obvious that the only person who can create a business plan is the business owner himself.

Business owners can be expected to make a business plan presentation to bankers and potential investors. The business plan presentation is done to support and elaborate on the details contained in the business plan. The other objective of such a presentation is to allow bankers and potential investors to form judgements and opinions about the business owner. During the presentation they will be looking for motivation, enthusiasm, integrity, passion, expertise, professionalism and the managerial ability to actually make the plan happen. If the business owner is unable to reflect these attributes in the business plan presentation, then the budding relationship may come to an end.

Parker (2004a:112) directs that even though the business owner can get professional assistance in creating the technical aspects of the business plan, the responsibility for the overall direction and detailed content of the business plan must never be abdicated.

Question 14: Was your application for finance successful?

Table: 4.7: Success versus failure

Category	Count	Cumulative count	Percent	Cumulative %
Yes	30	30	68%	68%
No	14	44	32%	100%

Table 4.7 indicates that 68% of the business plans submitted by the small business respondents for finance were successful while the rest (32%) were unsuccessful.

Question 15: If not, which of the following reasons can be specified as a reason for its failure?

Table 4.8 represents the reasons for declining finance application.

Table: 4.8: Reasons for declining finance application

Reasons for declining	Frequency of mentions	Frequency %	Cumulative %
Lack of collateral	6	20%	20%
Adverse credit report	8	28%	48%
High risk	9	31%	79%
Small size of loan and cost of delivery	2	7%	86%
Poor quality business proposition	2	7%	93%
Information gaps / do not keep adequate records	2	7%	100%

According to Table 4.8, 20% of business plan proposals were declined because of lack of collateral. Insufficient collateral results in small business being unable to qualify for normal banking lending. Research done by Mucuha (2003:56) indicated that financial institutions do not prefer accessible assets such as office equipment and machinery, to be used as collateral. These assets are easily movable and do not have real value to financial institutions. Such assets can also be sold without the knowledge of the financial institution. Apartheid has denied previously disadvantaged people access to the acquisition of assets that could be used as collateral. As a result they do not have assets like property that can be used as collateral.

Table 4.8 indicates that 28% of business plan proposals were declined because of adverse credit reports. Some small business owners are blacklisted with a credit bureau. Being blacklisted has a real impact on a business owner's application for finance. Poor conduct of personal and business accounts also make it difficult for financial institutions to lend to small businesses.

The above table also indicates that 31% of business plans submitted for finance were considered as high risks by financial institutions and were subsequently declined. The type of risks that financial institutions consider include activities, decisions and events that may impact on the operating profit and finance of the business and may lead to failure. Nieman (2006:225) distinguishes between inherent venture risks (like sources of raw materials and suppliers), incidental risks (like interest rates, and liquidity credit), and production capacity risks. Other risks are political, economical, social and technological.

The small business banking model is considered expensive because of the costs associated with service offering and high monitoring requirements. Intensive monitoring is required for small business customers. Financial institutions provide a service that is deemed to be cost-effective. Of all the business plans submitted for finance, 7% of applications were declined because of small loan size versus cost of delivery.

Financial institutions decline to finance small businesses when they receive business plans that lack depth and thorough research on the business concept. Parker (2004b:116) advises that the readers of a business plan should be provided with an in-depth picture of the business and its potential. In this research study, 7% of applications were declined because of poor quality of business proposition.

Small businesses do not have the resources or organisational structure to comply with the financial information required from financial institutions. When small businesses provide inadequate financial information, it becomes difficult for the bank to assess the business' position of business credibly. Financial information is required by financial institutions as part of regulatory requirements. The Financial Intelligence Act (SA, 2001) compels financial institutions to identify and verify its customers. Financial information is also required to provide background on the performance of the business so that financial institutions can assess the risk it is taking. It is also significant for the small business itself, to understand its financial position. A further 7% of business plans submitted for finance were declined because of inadequate financial information supplied.

Question 16: Which of the following did you provide as own contribution in your business plan when you applied for finance?

Table 4.9 represents the most common forms of own contribution.

<u>Table: 4.9</u>: Forms of own contribution

Forms of own contribution	**Frequency of mentions**	**Frequency %**	**Cumulative %**
Cash	28	42%	42%
Equipment	15	23%	65%
Vehicles	13	20%	85%
Land and buildings	9	14%	99%
None	1	1%	100%

According to Table 4.9, of all the business plans submitted for finance, 42% provided cash as own contribution. Another 23% provided office equipment, 20% vehicles, 14% land and buildings. Only 1% did not provide any form of risk capital or own contribution.

Financial institutions require small businesses to invest in their own businesses so that they have some risk capital at stake. The small business stands to lose nothing if it invests nothing, but the financial institution bears all the risk. Financial institutions therefore require small business owners to invest in their own businesses in order to share the risk. In this way, the owners commit themselves to the success of their business because they also stand to lose should the business fail.

Question 17: Which of the following did you provide as collateral?

Table 4.10 lists the common collateral offered by the respondents sampled in the study.

Table: 4.10: Collateral provided by small business respondents

Collateral / security	Frequency of mentions	Frequency %	Cumulative %
First, second or sub-mortgage bond over property	20	33%	33%
Pledge of investment at financial or insurance institution	8	13%	46%
The cession of life insurance policies with surrender value	6	10%	56%
Suretyships and guarantees	23	38%	94%
Instalment sale agreement	4	6%	100%

This question was included in the questionnaire to determine what form of security small business respondents offered financial institutions in return for business finance. Financial institutions feel that the provision of collateral offers the small business owner a strong incentive to see the business succeed.

From Table 4.10 above, it is clear that 38% of small business respondents provided suretyships and guarantees as security, 33% provided first, second or sub-mortgage bond over property, and 13% provided pledge of investment at financial or insurance institutions. A total of 10% of respondents ceded life insurance policies with surrender value and 6% provided instalment sale agreement as security.

Bankers are looking for assets security to back their loan and the near certainty of getting their money back (Barrow, 2006:425). Collateral is used by the financial institutions to mitigate the risks involved in lending. If the balance sheet of a business cannot provide collateral, the small business owner may be asked to guarantee the loan, secured on the personal assets.

Question 18: Which one of the following was included in the business plan?

All 44 respondents interviewed indicated that they had provided the financial institutions with all documentation required for a financial application for business finance to be processed. These include CV's, statement of assets and liabilities of owners, statement of income and expenditure of owners, and more. Financial institutions are strict and business finance applications are not processed without the necessary documentation and information required.All these documents are compulsory for an application to be processed.

Question 19: How was the market for the product or service indicated in your business plan?

Table: 4.11: Marketing and sales activities

Market for product / service	Frequency of mentions	Frequency %	Cumulative %
Market analysis	27	13%	13%
Marketing plan	40	20%	33%
Developing a customer's profile	31	15%	48%
Competitor analysis	44	21%	69%
Location	25	12%	81%
Networking	11	5%	86%
Go to markets	8	4%	100%

The purpose of this question was to determine whether small business owners had detailed information about the market to be served. Financial institutions are interested in the sales and marketing activities of a business. This is because marketing and sales activities are closely related to the projected sales figures in the cash flow statement. The respondents raised 25 strategies that were mentioned 206 times. These strategies relate to the above question and were grouped in eight generic themes, as presented in Table 4.11.

It is clear that small business owners in this research undertook a market analysis and formulated a marketing plan to describe how a particular market would be penetrated. A competitor analysis was also done. Developing a customer profile, competitor analysis and location are all part of the marketing plan that should be included in the business plan. In this research study, the following accounted for a combined 81% of indicating a market: marketing analysis, marketing plan, developing customer profile, competitor analysis and location.

Networks are social relationships among individuals. Social, personal and extended networks are important for the development of a small business. Networks are instrumental in enabling access to the market that is required for a sustainable competitive advantage. Only 5% of respondents used networks as an indication of a market for their products and services.

Go-to markets are described as markets that already exist. Small business owners have signed long-term contracts and these are included in business plans. BBBEE deals also fall into this category. A go-to market constitutes 4% of the total.

Gap in the industry is another important category and constitutes 10% of the total. Gap in the industry indicates new markets. Stokes and Wilson (2006:105) explain that a new market may be differentiated only by geography. Small business owners innovate in this way, in that they spot a geographic market overlooked by larger companies. They may also use an idea from another country before it is widely introduced.

Small business owners have to clearly describe the customers the business intends to sell to and try to quantify the numbers of the customers. It is important to also name them if possible. Financial institutions and other backers of finance need to be convinced that the business is sustainable.

Small business owners therefore have to choose a market that has a potential for growth.

Question 20: Did the business plan indicate how the business was going to be run?

This question was included in the questionnaire to assess whether small business owners included an operational plan in their business plans. An operational plan is a business plan designed to be used internally for management purposes. Operational plans are designed to be used as working documents within a business. In addition to all the material typically included in a full business plan, an operational plan includes detailed specifications of the major techniques, methods, recipes, formulas and sources used by the business to do its work (Katz & Green, 2007:216). All 44 respondents (100%) indicated that their business plan indicated how they were going to operate the business.

Question 21: How did the business plan prove to the financial institution that the business would be sustainable and viable?

Table 4.12 shows how respondents proved to the financial institution that the business was viable.

Table: 4.12: Proof of viability

Proof of viability	Frequency of mentions	Frequency %	Cumulative %
Revenue generation	26	25%	25%
Location	20	20%	45%
Cash flow	17	17%	62%
Own contribution	13	13%	75%
Profit potential	14	14%	89%
Nature of business	12	11%	100%

From the research, 77% of respondents said they used a business plan only to obtain business finance. Only 23% used a business plan for other purposes other than to attract business finance from financial institutions. Lack of planning is cited by many writers as one of the reasons that result in business failure. Planning is therefore a roadmap which will guide the small business to its objectives (Nieman, 2006:19).

A business plan not only acts as a vehicle to attract external finance. A business plan also allows business owners to crystallise their business ideas and to think through potential problems before they have to cope with them. A business plan allows business owners to set objectives and thereby give themselves a yardstick to measure their performance (Burns, 2007:373).

As indicated in section 3.2 of Chapter 3, a business plan can be used as a blueprint for the actual running of the business. Katz and Green (2007:204) state that the business plan remains the standard for describing the business in detail.

Question 22: What do you view as the main factors for successfully obtaining finance from a financial institution?

Table 4.13 represents the main factors that respondents identified as crucial in obtaining finance.

Table: 4.13: Success factors in obtaining finance

Success factors	Frequency of mentions	Frequency %	Cumulative %
Access to markets	3	2%	2%
Viable business idea	1	1%	3%
Business experience/expertise/skills	27	20%	23%
Collateral	17	13%	36%
Good record of accomplishment	29	21%	57%
Cash flow	23	17%	74%
Debt management / ability to repay loan	12	9%	83%
Profit motive	4	3%	86%
Credit record	4	3%	89%
Risk capital / own contribution	15	11%	100%

According to Nieman (2006:114), financial institutions approach the financing of small business cautiously because of their obligations to clients, shareholders and other stakeholders. They also approach financing vigilantly because of the high failure rate of small businesses. Financial institutions first have to determine the viability of the small business and whether the applicant has the entrepreneurial skills to ensure success to the business.

Table 4.13 above indicates that 21% respondents listed a good record of accomplishment as being important when obtaining finance. A record of accomplishment of the business, and the individual, needs to be assessed. The business owner should not be listed by credit bureaus and his personal accounts should be well conducted. There should be no unpaid cheques and/or excesses.

A total of 20% of respondents stated that business skills, experience or expertise of the owners is important in securing finance. Financial institutions assess the character of the owners to determine whether they will be able to get the business off the ground and whether they can be trusted to repay the loan if business conditions become tough.

Table 4.13 shows that 17% of respondents mentioned cash flow as being important to obtain finance. Financial institutions want to be assured that the business has the capacity to generate net profits that are substantial enough to create cash flow and surplus.

Collateral is essential in obtaining finance and 13% of respondents mentioned this category. In the past, financial institutions would grant loans based solely on the value of collateral that the business owner could offer (Parker, 2004:79). Fixed assets like a home are important assets that can be used by financial institutions as partial surety. The term "partial" is used because of depreciation of the assets. When a financial institution repossesses assets, it can only recoup a small fraction of the original price.

Financial institutions require small business owners to share in the risk before lending. Own contribution or risk capital is therefore essential in obtaining finance. According to Parker (2001b), own contribution in the business environment is expected to be around 50% of the total. This figure can drop to 10% depending on the merit of the proposal and when other circumstances come into play, for example the access to a loan guarantee.

Respondents listed the other factors that are important in obtaining finance as debt management / ability to repay the loan (9%), profit motive and credit record (3% respectively), access to markets (2%) and a viable business idea (1%).

Question 23: What do you regard as the main barriers in obtaining finance from a financial institution?

Table 4.14 reflects what respondents view as main barriers when obtaining finance from a financial institution.

Table: 4.14: Barriers to finance

Category	Frequency of mentions	Frequency %	Cumulative %
Poor debt management/inability to repay debt	13	9%	9%
Bad credit record	17	12%	21%
Lack of experience / expertise in running a business	16	11%	32%
Bad record of accomplishment	20	14%	46%
Poor management	5	4%	50%
Lack of collateral	10	7%	57%
Poor business proposition	7	5%	62%
Lack of risk capital / own contribution	13	9%	71%
Lack of markets	8	6%	77%
Financial institutions are risk averse	10	7%	84%
Financial institutions are not sympathetic to the needs of SMMEs	5	4%	88%
Inability of financial institutions to assess financial position of business	3	2%	90%
Lack of cash flow	15	10%	100%

Access to finance is one of the many problems faced by businesses in the small business sector. The respondents listed a number of typical problems that inhibit their access to finance. Thirteen of the barriers that the respondents listed were mentioned 142 times.

Table 4.14 reflects that 9% of respondents stated that poor debt management or inability to repay the debt was a barrier to obtaining finance. Financial institutions want to be convinced that a business will be able to repay its debts. This means that the small business has to be viable before it can secure finance. 10% of respondents mentioned lack of cash flow as a barrier to finance. If there is no cash flow, the business will be unable to repay debts.

A bad record of accomplishment is also a barrier to obtaining finance. Bad record of accomplishment was mentioned by 12% of the respondents. Financial institutions also assess the record of accomplishment of individuals before granting finance. If a small business is not creditworthy, it might experience difficulty in raising finance. Financial institutions analyse the strengths and weaknesses of the small business, just as a small business would carefully consider which clients to grant credit to. Bad credit history was mentioned by 12% of respondents. Bad credit history is an area of concern for financial institutions, because they cannot simply refuse to lend because the applicant is listed. They are therefore pressurised to investigate the reasons for listing.

Lack of experience or expertise in running a business is another obstacle to raising finance. This category was mentioned by 11% of respondents. Lack of formalised financial systems and experience in small business owners are a major problem (Van Heerden et al., 2003:22). Nieman (2006:118) contends that lack of experience in financial management has repercussions for the running of the business. Lack of collateral was mentioned as a barrier to finance by 7% of the respondents. The respondents felt that financial institutions were placing too much emphasis on collateral. Financial institutions furthermore have a profit motive because they themselves are businesses. It is therefore important for them to reduce their risk.

A total of 5% of the respondents felt that a poor business proposition was a barrier to finance. Financial institutions need be convinced that the business idea is viable and sustainable. Risk capital or own contribution, mentioned by 9% of respondents, is one of the major obstacles to obtain finance. Financial institutions are not willing to risk only their money in a small business. They want a small business to also contribute, in order to share the risk. Judicious financial management dictates that the contribution of own capital should at least be 50%. The small business owner may not be in a position to do so and thus be unable to obtain finance. Risk capital contributed by small business owners in this study was about 48%.

Other barriers to finance as mentioned by respondents are:

- Financial institutions are risk-averse (7%);
- Financial institutions are not sympathetic to the needs of the SMME sector (4%); and
- Banks are unable to assess the position of the small business (2%). Respondents felt that this was due to incompetent and under-qualified staff of financial institutions.

Question 24: Do you agree with the following statement?

"***Financial institutions reward critical success characteristics of (prospective) entrepreneurs.***"

Table: 4.15: Reasons for agreeing

Reasons	**Frequency of mentions**	**Frequency %**	**Cumulative %**
Entrepreneurs are innovative	31	22%	22%
Entrepreneurs are good in identifying opportunities	27	19%	41%
Entrepreneurs are good in growing a business	26	18%	59%
Entrepreneurs are risk takers	24	16%	75%
Entrepreneurs have business expertise/skills	19	13%	88%
Entrepreneurs have viable business ideas	16	12%	100%

All 44 (100%) small business respondents agreed with the statement that financial institutions reward critical success characteristics of prospective entrepreneurs. The six characteristics of entrepreneurs that the respondents listed were mentioned 142 times.

Entrepreneurs are innovative: This characteristic was mentioned by 22% of the respondents. Burns (1999:8) states that entrepreneurs are experts in innovation. Entrepreneurs are able to create an opportunity and then focus their resources on quickly delivering what the market wants. They are good in creating something new and different.

Entrepreneurs are good in identifying opportunities: A total of 19% of the respondents mentioned this characteristic of an entrepreneur. The essence of the success of entrepreneurs is their ability to spot an opportunity arising out of change. Entrepreneurs are flexible and respond speedily to changing market circumstances.

Entrepreneurs are good in growing a business: Entrepreneurs are good in starting a new business or to convert an existing business. Table 4.15 shows that 18% of the respondents listed this characteristic of entrepreneurs. Entrepreneurs are motivated by growth. However, small business owners are not necessarily interested in growth as an objective. Small business owners are motivated by autonomy and security. They see themselves as successful when their businesses are profitable.

Entrepreneurs are risk takers: Entrepreneurs are not put off by risk but they are prepared to take financial and personal risk involved when embarking on the entrepreneurial process. This characteristic of entrepreneurs was mentioned by 16% of the respondents. Entrepreneurs are willing to take risks that larger businesses are unwilling or unable to take.

Entrepreneurs have business expertise/skills: Only 13% of the respondents agreed with this characteristic of entrepreneurs. Entrepreneurs deal with the planning, organising, leadership and control of all the functions in the business. They also prefer to be in control of their own businesses.

Entrepreneurs have viable business ideas: Entrepreneurs have viable and sustainable business ideas. The opportunities that they create from their ideas create value, both for themselves and for society. A total of 12% of the respondents mentioned this characteristic of entrepreneurs.

Financial institutions reward all these characteristics of entrepreneurs. As said before, financial institutions are risk-averse in that they want to share the risk. They are more than willing to reward entrepreneurs by making finance available to them at discounted interest rates and offering reduced bank charges rates. Financial institutions can also ease their requirements regarding collateral and risk capital contribution by entrepreneurs as a reward. Innovation, viable business ideas, creation of good opportunities, ability to grow a business, management skills and expertise, and willingness to take risk are all attributes that are deemed important by financial institutions. Entrepreneurs' objectives are business growth and profit motive. These are essential attributes required by financial institutions in funding a business.

Question 25: Which of the following services do you think the financial institutions can assist you with to develop your business skills?

Table 4.16 represents the services that respondents deem as important to develop their business skills.

Table: 4.16: Services needed by small businesses

Need	Count	Cumulative count	Percent	Cumulative percent
Tool for creating a business plan	10	10	23%	23%
Mentorship and training services	5	15	11%	34%
Enterprise toolkit	0	15	0%	34%
Cash flow model	4	19	9%	43%
All of the above	25	44	57%	100%

Financial institutions are a major source of information and advice to the small business sector and are ideally placed to educate their small business customers (Mason & Harrison, 1996:47). The banking sector can be a driving force in the development of small business.

Table 4.16 indicates that 57% of the respondents stated that financial institutions can assist them with all the needs listed. The second most important need of small businesses was revealed as the need to create a business plan tool. The scarcity of good applications forwarded by small businesses to Sizanani Advisory Services reflects the need. Sizanani is an initiative by the big four banks and offers mentorship on developing business plans. A total of 23% of the respondents need the financial institutions to assist with business plan creator tools.

Skills development for most financial institutions is addressed by maintaining strategic relationships with other service providers like the Sector Education and Training Authority (Seta), and Khula, who offer training and mentorship programmes (11% of the respondents).

Interestingly, no respondent selected the enterprise toolkit need on its own. Table 4.16 shows that 9% of the respondents need the financial institution to assist them with a cash flow model. Small business owners often lack basic business skills, such as understanding cash flow and financial statements to manage the business. It is very essential that small business owners understand the importance of cash flow in sustaining a business. Their inexperience in this area could result in business failure even though financing is provided.

Question 26: Which of the following government incentive schemes have you tried for business finance?

Table: 4.17: Government incentive schemes

Category	Count	Cumulative count	Percent	Cumulative percent
Khula Enterprise Finance	16	16	36%	36%
Industrial Development Corporation(IDC)	2	18	5%	41%
The Bridging Finance Scheme	2	20	5%	46%
Umsobomvu Youth Fund	8	28	18%	64%
None of the above	16	44	36%	100%

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa states that small business need a supportive legal and regulatory environment, access to markets, finance, appropriate resources and management, and tax and other incentives (Nieman, 2006:258).

In 2003 the GEM Report reported that entrepreneurs ranked the need for financial support as their highest need (Brooksbank, 2004:54). Government is responsible for formulating policies and legislation to address the needs of the small business sector in order to promote small business sector development. The DTI was tasked by the government to establish and coordinate an overall institutional framework for SMME development. Institutions such as SEDA, Khula, IDC, Umsobomvu Youth Fund and others were subsequently established to create an enabling environment for small businesses. Khula is the most popular institution from the small business respondents sampled.

Table 4.17 shows that 36% of respondents applied for finance from Khula. A total of 18% of the respondents applied for finance at Umsobomvu Youth Fund, 5% applied at the IDC and Bridging Finance Scheme respectively. Another 36% of respondents did not apply for finance to any of the listed institutions.

The Department of Trade and Industry still needs to do more groundwork to make the abovementioned institutions popular. Some of the respondents indicated that they have never heard of these institutions. From this, one can deduce that these institutions have a minimal effect on the development of the small business sector.

4.10 SUMMARY

This chapter outlined the research procedures used to obtain the necessary information for the research. All data necessary for the research were collected by means of questionnaires to respondents and these were followed by in-depth interviews. The descriptive analysis consisted of frequency distributions of the responses to all sections of the questionnaire. The frequency distributions of the variables were generated and presented as pie charts and tables for easy reading and understanding.

The results of the empirical study have been discussed in this chapter. Based on the interpretation of the results, the research found that business plans submitted to financial institutions lack depth and thorough research on the business concept. The researcher is satisfied with a response rate of 73%. This rate is considered sufficient to regard this study to be valid and reliable.

The next chapter will discuss the achievement of the primary and secondary objectives of this research; recommendations will be given and will suggest possible related future research studies.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarises the main research results and makes recommendations in terms of the analysis of the success rate of business plan proposals at selected financial institutions. Suggestions for further research are also made.

5.2 CONCLUSION AND MAIN RESEARCH FINDINGS

The purpose of this study was primarily to research the problem regarding the success rate of business plan proposals at selected financial institutions. The problem was approached by investigating how small business owners compile their business plans to financial institutions for business finance and to assess their eventual success rate. The study attempted to determine whether small business owners prepare effective business plans; in other words, whether their business plans submitted for finance include all the important elements which are required by financial institutions to be successful.

Based on the research findings of this study, it can be concluded that business plans submitted to financial institutions by business owners are not effective and are not properly prepared. The results indicate that the business plans submitted to financial institutions lack depth and thorough research on business concepts. Business plans submitted to financial institutions often lack viability and sustainability. The small business owners provide inadequate business information. Financial institutions have certain criteria to enable them to assess the risk and financial position of a small business. These criteria include a sound business plan, a good record of accomplishments, the availability of financial statements and collateral. These risk assessment criteria assist financial institutions to assess the risk of doing business with small business customers.

The first of the secondary objectives (see section 1.3 in Chapter 1) was to determine factors that small business owners regard as important in obtaining finance from financial institutions and barriers to finance.

A conclusion is reached from the study that small business owners agree on essential factors in obtaining finance. The study reveals that the critical success factors are as follows (in order of importance):

- A good record of accomplishments (21%);
- Business experience / expertise / skills (20%);
- Cash flow (17%);
- Collateral (13%);
- Risk capital / own contribution (11%);
- Debt management / ability to repay loan (9%);
- Credit record and profit motive (3%);
- Access to markets (2%); and
- Viable business idea (1%).

Financial institutions place high reliance on the so-called traditional determinants of assessibility. Assessing the viability of the business is based on three aspects, namely business concept development, management skills and access to markets. The record of accomplishment of the small business owner is a significant clue as to the ability of the owner to repay the facilities lent.

Financial institutions look favourably on applications by small business owners who have injected their own funds into the business. Well-prepared small business owners who have a form of acceptable collateral to offer, stand a better chance of being granted finance.

Risk is one of the major constraints in the operation of financial institutions in the small business sector. Risk is embodied in the barriers to finance as presented by small business owners and include (in order of importance):

- A poor record of accomplishments (14%);
- Bad credit record (12%);
- Lack of experience/ expertise in running a business (11%);
- Lack of cash flow (10%);
- Lack of risk capital/ own contribution and poor debt management/inability to repay debts (9%);
- Lack of collateral (7%);
- Lack of markets (6%); and
- Poor management (4%).

Another barrier to finance, as mentioned by small business respondents, is that financial institutions are risk-averse. There is also a feeling among the respondents that financial institutions are unsympathetic to the needs of the small business sector. The small business owners that were sampled claim that financial institutions are unable to assess the financial position of a small business. They attribute this to the incompetence of the bank staff.

The second secondary objective (see section 1.3 in Chapter 1) was to determine the services that small businesses need from financial institutions in order to develop their business skills. Financial institutions play a critical role in the development of the small business sector. Most businesses require financing in order to grow and be sustained. These businesses' first port of call would be a financial institution. Yet, small business owners' needs are not limited to banking facilities.

The barriers to finance raised by small business owners, such as lack of viable business plans, poor business proposition, and so forth, are all related to their limited business skills and/or dedicated resources. These limitations can, however, be addressed by providing business mentors and training services to assist the small business in honing their business skills. Business mentors could be CEOs and other senior management of the financial institutions taking prospective entrepreneurs and small business owners of businesses that have potential. This will particularly assist them to interrogate their business concepts thoroughly in order to understand and prepare appropriate financial information. Business mentors would enable the small business owners to understand business concepts and credibly convey their business position.

A tool to create a business plan will empower small business owners with skills to prepare effective business plans. Needless to say, where small business owners are able to provide financial institutions with sound business plans and appropriate information, it would lessen the financial institution's perception of high risk associated with doing business with the small business customers.

The third secondary objective was to determine whether small business owners are aware of government incentive schemes allowing them to apply for finance. In 1994, the government adopted the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (SA, 2003a). The White Paper created an enabling environment for the accelerated growth of small business, following a history of neglect of small businesses. The White Paper also offers small business owners the opportunity to develop and access certain networks that are beneficial to their survival; for example, access to finance.

The results from this study indicate that these schemes or networks are not popular. The most popular scheme is Khula Enterprise Finance. Khula facilitates financial assistance through financial institutions and this could be the reason for its popularity with the respondents of this study. A total of 36% of the respondents applied for finance through financial institutions only. A conclusion is reached that there is a lack of awareness by small business owners about the government incentive schemes. This is due to poor communication and a lack of knowledge.

In line with the problem statement and the conclusions drawn from the empirical research, recommendations are made to financial institutions, small business owners and to the government.

5.3 RECOMMENDATIONS

The recommendations that arise as a result of the study include:

5.3.1 Recommendations to financial institutions

- Keep in mind that a small business differs from a big business. Obtaining financial statements or collateral is therefore not always guaranteed.
- Seek alternative means to assess the business' repayment ability.
- Align assessment criteria more directly with the needs and circumstances of small businesses. For example, a risk-capital fund could be created to invest in those businesses that would otherwise fail to qualify for business finance.
- Partner with advisers who can provide business mentoring and training for small businesses.
- Create tailored credit-risk assessment instruments for different small business industries. "One-size fits all" does not apply.
- Maintain dedicated small business divisions. Staff the divisions with people who have a good understanding of the small business sector and who demonstrate a keen interest in the commercial viability of small businesses.
- Identify problem areas in a business plan and discuss them with business owners. This will help in client retention and relationship building.

5.3.2 Recommendations to small business owners

- Learn the necessary business skills. Universities and various other institutions run short courses on business, entrepreneurship, and others.
- Be well prepared when applying for finance in order to be informed on the various sources and requirements.
- Traditional determinants of accessibility, such as record of accomplishment, credit record, and possessing financials and collateral are very important. These determinants are required by all financial institutions and are not negotiable in applications for finance. Thus, good conduct of personal finances is very important.
- Conduct a thorough market research and obtain expert advice in drafting a business plan. Do not abdicate the responsibility of drafting a business plan; be involved throughout the whole process.

5.3.3 Recommendations for government

- Government should ease the formalisation requirements for small businesses.
- Maintain strategic relationships with financial institutions and small businesses. By doing so, financial institutions could develop a range of opportunities for small businesses; for example, providing them with access to markets. Such linkages would focus on small businesses operating within the BBBEE business model, and financial institutions would be enabled to assist them with service.
- Create a small business activity audit/framework to audit the small business operations of financial institutions.
- Create a supportive legal and regulatory environment for the SMMEs.
- Provide more tax incentives to boost job creation. There is scope to reduce company tax due to improved tax collection systems of the government.
- Streamline support services for small businesses.

The final section of this study concludes by suggesting further areas for research.

5.4 AREAS FOR FURTHER RESEARCH

The following particular areas of research are recommended for further study:

- A similar study could be conducted to determine the challenges and strategies used by other providers of finance operating in the small business sector;
- An updated study into informal small business to understand what motivates them as they have less ability to decide where to go for finance; and
- A study on whether financial institutions have been able to improve access to finance by making proactive changes when taking cognisance of research conducted.

REFERENCES

BANGS, D.H. 2005. Business plans made easy. 3rd ed. Toronto: Entrepreneur Press.

BARBIE, E. & MOUTON, J. 2001. The practice of social research. Cape Town: Oxford University Press.

BARROW, C. 2006. The complete small business guide. 8th ed. Sussex: Capstone.

BARROW, C. & BROWN, R. 1998. The business plan workbook. 3rd ed. London: Kogan Page.

BLACKWELL, E. 2008. How to prepare a business plan. 5th ed. London: Kogan Page.

BLACKWELL, E. 2004. How to prepare a business plan: planning for successful start-up and expansion. 3rd ed. London: Kogan Page.

BOER, A. 1997. The banking sector and small firm failure. *International small business journal*, 9 (4):11-29.

BOYLE, B. 2007. All systems go for SME growth. *Business Day*: 5, 12 Dec.

BROOKSBANK, R. 1991. Defining the small business: a new classification of company size. *Entrepreneurship and regional development journal*, 3 (1):17-31.

BURNS, P. 2007. Entrepreneurship and small business. 2nd ed. New York: Polgrave Macmillan.

BURNS, T. 1999. Break the curve: the entrepreneur's blueprint for small business success. London: International Thomson Business Press.

BUSINESS PARTNERS. [Web:] http://www.businesspartners.co.za Date of access: 7 Jul. 2008.

BUYS, E. 2008. It's time for South Africa to turn the tide on enterprise development. *Small business monitor*, 30-31.

CHALERA, S.C. 2007. An impact analysis of South African national strategy for the development and promotion of SMMEs. Pretoria: University of Pretoria (Ph.D - Thesis.)

COOPER, D.R. & EMROY, C.W. 1995. Business research methods. 5th ed. USA: Irwin.

CRESWELL, J.W. 1994. Research design: qualitative and quantitative approaches. California: Sage.

CRONJE, G.J., DU TOIT, G.S., MOTLATLA, M.D.C. & MARAIS, A. 2004. Introduction to business management. 6th ed. Johannesburg: Thomson.

FALKENA, H., ABEDIAN, I., COOVADIA, C., DAVEL, G., MADUNGANDABA, J., MASILELA, E. & REES, S. 2001. Small business access to finance in South Africa: a supply-side regulatory review. [Web:] http://www.treasury.gov.za/documents/sme Date of access: 15 May 2008.

FIRST NATIONAL BANK. 2008. [Web:] http://www.fnb.co.za]. Date of access: 15 Jul. 2008.

FRYE, I. 2006. Poverty and unemployment. Paper presented at the National Labour & Economic Development Institute, Johannesburg, January 2006.

GANGULY, P. 1985. UK small business statistics and international comparisons. London: Harper & Row.

GAPE, H.T. 2007. An investigation into the pricing methods used by small and medium sized enterprises: 1960-2007. Potchefstroom: Northwest University (Thesis - Ph.D). 206 p.

GUBEVU, T. 2008. Business plan is a map for success. *The Times:* 19, 21 Jul.

HERTZ, L. 1982. An international acceptable small business definition. Paper delivered at the International Business Congress, Madrid, Spain. August 1982.

KATZ, J.A. & GREEN, R.P. 2007. Entrepreneurial small business. New York: McGraw- Hill/Irwin.

KEKANA, S. 2006. The role of Umsobomvu Youth Fund. [Web:] http://www.youthportal.org.za Date of access 7 Jul. 2008.

LEEDY, P.C. & ORMROD, J.E. 2001. Practical research: planning and design. 7th ed. Upper Saddle River, NJ: Prentice-Hall.

LUCAS, G.H.G. 1992. Defining a small business in South Africa. Research Report No. 191. Bureau of Market Research. Pretoria: University of South Africa.

MAAS, G. & HERRINGTON, M. 2006. Global Entrepreneurship Monitor. South African Report. Cape Town: Graduate School of Business.

MAHLASELA, E.R. 2004. Procurement profession: a tool for competitiveness and empowerment. Potchefstroom: Northwest University. (Dissertation - MBA).

MANUEL, T.A. 1995: National strategy for the development and promotion of small business in South Africa: White Paper of the Department of Trade and Industry. Parliament, Cape Town. 28 March. Proceedings in Parliament: 1-30.

MARX, S., VAN ROOYEN, D.C., BOSCH, J.K. & REYNDERS, H.J.J. 1998. Business management. 2nd ed. Pretoria: Van Schaik.

MASON, C.M. & HARRISON, R.T. 1996. The UK clearing banks and the informal venture capital market. *International journal of bank marketing*, 14 (1): 5-14.

MEGGINSON, W.L., BYRD, M.J. & MEGGINSON, L.C. 1997. Small business management: an entrepreneur's guide book. 2nd ed. New York: McGraw-Hill/Irwin.

MEGGINSON, W.L., BYRD, M.J. & MEGGINSON, L.C. 2006. Small business management: an entrepreneur's guide book, 5th ed. New York: McGraw-Hill/Irwin.

MPAHLWA, M. 2007. Integrated strategy on the promotion of entrepreneurship small enterprises: unlocking the potential of South African enterprises. Department of Trade and Industry. Cape Town. Parliament proceedings: 1-48.

MUCUHA, H.W. 2003. Response to constraints in small business banking. Johannesburg: University of Witwatersrand. (Dissertation - MBA).

MURPHY, M. 1996. Small business management. 2nd ed. London: Pitman.

NEGOTA, G. 1990. The road ahead: small business in the 1990s. Papers presented during a Symposium held at Sun City, Rustenburg on 1 and 2 October 1990. Conference proceedings: 1-16.

NIEMAN, G. 2006. Small business management: a South African approach. Pretoria: Van Schaik.

NTSIKA ENTERPRISE PROMOTION AGENCY. 2000. State of small business in South Africa. Annual review 2000. Pretoria: Ntsika.

NTSIKA ENTERPRISE PROMOTION AGENCY. 2001. Annual report 2001. Pretoria: Ntsika.

OLIVIER, L.T. 1998. A practical guide to obtain finance for a small and medium sized enterprise: an insight into the South African banking and financing Industry. Johannesburg: Small Business Project.

PARKER, E. 2004a. Roadmap to business success. Johannesburg: Rollerbird Press.

PARKER, E. 2004b. Run your own business success. Johannesburg: Rollerbird Press.

PATTON, M. Q. 1990. Qualitative evaluation and research methods. Newbury Park: Sage.

PINSON, L. 2001. Anatomy of a business plan: a step-by-step guide to building a business and securing your company. Chicago: Dearbon Trade Publications.

RECORD, M. 2003. Preparing a winning business plan. 3rd ed. Oxford: How To Books Ltd.

REINECKE, G. 2004. Policies for small enterprises: creating the right environment for good jobs. Geneva: International Labour Organisation.

SA ***see*** SOUTH AFRICA

SEDA. 2007. A review of trends in entrepreneurship and the contribution of small enterprises to the economy. Pretoria. 2000-2006.

SEDA. 2008. About us. [http://seda.org.za]. Date of access: 14 Jul. 2008.

SOUNDY, S.C.E. 2000. The role of the Relationship Manager in the retention of small business accounts in banking. Johannesburg: University of Witwatersrand (Dissertation - MBA).

SOUTH AFRICA. 1995. National Strategy for the Development and Promotion of Small Business in South Africa. Pretoria: Government Printer.

SOUTH AFRICA. 1996. National Small Business Act no. 102 of 1996. Pretoria: Government Printer.

SOUTH AFRICA. 2001. Financial Intelligence Act no. of 2001. Pretoria: Government Printer.

SOUTH AFRICA. 2003a. Department of Trade and Industry. Annual Report. Pretoria: Government Printer. 44 p.

SOUTH AFRICA. 2003b. Department of Trade and Industry. Unlocking potential in an entering nation: the Integrated Small Business Strategy in South Africa 2004-2014. Pretoria: DTI.

SOUTH AFRICA. 2003c. National Small Business Amendment Act 2003. [Web:] http://www.info.gov.za/documents/acts Date of access: 15 May2008.

SOUTH AFRICA. 2007. Labour Force Survey. Statistics South Africa. September.

STATSOFT Inc. 2007. Statistica (data analysis software system), version 7.1. [Web:] http://www.stasoft.com. Date of access: 12 Oct. 2008.

STOKES, D. & WILSON, N. 2006. Small business management and entrepreneurship. 5th ed. London: Thomson.

TIFFANY, A. & BARROW, C. 2004. Business plans for dummies: an insider's guide to successfully planning your business. Chichester: Wiley.

TIMMONS, J. A. & SPINELLI, S. 2004. New venture creation: entrepreneurship for the 21st century. 6th ed. Boston: McGraw-Hill/Irwin.

VAN AARDT, I., VAN AARDT, C. & BEZUIDENHOUT, S. 2000. Entrepreneurship and new venture management. Cape Town: Oxford.

VAN HEERDEN, S., VIVIERS, S. & VENTER, D. 2003. A comparative study of selected problems encountered by small businesses in the Nelson Mandela, Cape Town and Egoli metropoles. *Management dynamics*, 12 (3):13-23.

WALTERS, T.S. 2002. Big vision, small business. San Francisco: Berrett-Koehler Publishers.

WATSON, C.H. 2001. Small business versus entrepreneurship. 2nd ed. Burlington: Ashgate.

ZIKMUND, G. M. 1997. Business research methods. 5th ed. Fort Worth: The Dryden Press.

APPENDIX A: DEFINITION OF LABOUR MARKET INDICATORS

A Employed (12 648 000): Persons aged 15-65 who performed any work or who did not work but had a job business in the seven days prior to the survey interview.

B Unemployed (official definition) (4 336 000): Persons aged 15-65 who did not have a job or business in the last seven days prior to the survey interview but had looked for work or taken steps to start a business in the last four weeks prior to the interview. These people were also able to take up work within two weeks of the interview.

C Labour force (16 984 000): The sum of employed and unemployed persons.

D Not in the labour force (not economically active) (13 211 000): Persons who are not available for work. These include scholars and students, full-time homemakers, those who are retired, and those who are unavailable or unwilling to work.

E Population of working age (30 195 000): All persons living in South Africa aged 15-65 inclusive at the time of the survey.

F Discouraged work-seekers (3 503 000): Unemployed persons who are available to work but who say that they are not actively looking for work.

G Unemployment rate (25, 5%): The number of unemployed persons expressed as a percentage of the labour force.

H Labour force participation rate (56, 2%): The number of persons in the labour force expressed as a percentage of the population aged 15-65.

I. Labour absorption rate (41, 9%): The percentage of the population of the working age who were employed.

APPENDIX B: STRUCTURE OF A BUSINESS PLAN

1. BACKGROUND

A short summary of:

- History
- Shareholders/Owners
- Description of the business and its markets
- Research for requiring financial assistance

2. MAIN PRODUCTS AND SERVICES

- Describe the main products or services
- Describe their competitive advantage in the market
- Impact of future developments on the success of the product?
- Detail on the development cycle of new products/services
- Price
- Threat of substitute products

3. MANAGEMENT BACKGROUND

- Names, ages, qualifications, experience and CVs of owners/members/shareholders
- How will key personnel be trained and what is their level of experience

4. HUMAN RESOURCES ISSUES

- How many staff
- What experience is required?

5. BUSINESS ENVIRONMENT

- Political factors
- Social factors
- Technological factors
- Policy and regulatory issues affecting business
- Economic/business cycle

6. SUPPLIERS

- Terms, etc.
- Potential economical threats of supplier
- Alternative suppliers

7. UNIONS

8. PLACE

- Where is the business situated?
- What is the viability of the site?

9. CUSTOMERS

- Who are they?
- Threats of using alternative suppliers

10. MARKETING INFORMATION

Define the industry/sector in terms of:

- Characteristics
- Proposed/existing market
- Major clients – current and future
- Likely trends in the industry/sector
- Application of your products/service

The market

Segments targeted

- What are the major areas aimed at and where are they situated?
- How the abovementioned areas are changing and developing

Customer success in each segment targeted:

- Customer profile and buying habits
- Success already achieved with customers or interest shown to date
- Is there seasonal variation?
- Critical elements (reliable, quality, price, service, etc)

Competition

- Who are your current and possible future competitors?
- Appraise your current and possible competitors
- What are their strategies?
- How will you succeed?
- How will your competitors respond?
- How do you compare to your competitors?

Market Activities

- Promotion and advertising
- Pricing
- Distribution
- Geographic penetration

Sales

- How will sales be achieved?
- How will prospective clients be identified and converted into customers?

11. OPERATIONS AND PRODUCION

- The production/service process
- Suppliers, what are the likely developments?
- Key production/operating advantages
- Critical aspects, i.e. parts, machinery, etc.
- Cost of production and impact of volume on costs
- Machinery required
- Present facilities and future plans

12. COPIES OF CONTRACTS,TAKE OFF AGREEMENTS TO BE SUPPLIED

13. FINANCIAL POSITION

- Three year cash flow forecasts, with cash flow assumptions
- Audited financial statements for an existing business
- Latest available monthly management accounts for an existing business

Finance required

- How much is required?
- What will it be used for?
- When is it required?

Own contribution

- What will be contributed? Cash, equipment?
- How will be contributed?

14. SECURITY INFORMATION

- What is available as security?
- How much is it worth?

Source: Nedbank Small Business Centre

APPENDIX C: INCOME AND EXPENDITURE STATEMENT

Statement of Income and Expenditure as at

Monthly expenses	Amount	Monthly Expenses	Amount
Accommodation		Brought forward	
Bond Repayments		**Sundries**	
Rent/Board/Lodging		Alimony/Maintenance	
Water and lights		Crèche/Afterschool	
Rates and taxes		School fees	
Household		Higher education costs	
Wages Household Staff		Liquor	
Telephone		Cigarettes	
Pool/Tennis courts		Chemist (non-medical)	
Garden		Dry cleaning	
Household Maintenance		Shoe/clothing Repairs	
General Hardware		Church	
Food		Social Club	
Groceries		Union Fees	
Meat		Nappy Service	
Bread and Milk		M-Net	
Vegetables and Fruit		TV Fees (Rentals etc.)	
Pet Food and Vet Costs		Provision of Savings	
Medical		Appliance repairs	
Medical Aid Subscriptions		Stationery/Stamps	
Costs in excess of benefits		Hairdresser	
Chemist		Monthly Provision for annual Payments	
Medical Insurance		**Licenses/Taxes**	
Traveling		Cars	
Fuel/Petrol		Caravans	
Parking		Trailers	
Train/Bus/Taxi		Bikes	
Entertainment		Radio/TV	
Dining		Rates	
Cinema/Video		Provisional Tax	
Sports/Hobbies			
Society Subscriptions			
Allowances/Clothing			
- Personal			
- Spouse			
- Children		**Fees**	
Paper/Magazines		Club	
Gifts/Donations		University Fees	
Insurance		Boarding school	
Life, Endowment Assurance			
House Building Insurance			
- Content			

Cars/Boats/Trailers			
Retirement Annuities		Total Monthly Expenditure	
Funeral		Monthly Income	
UIF		Net salary – Self	
Accident		Net salary – Spouse	
HP and Open Accounts		- Net of Tax, pension & other deductions	
1			
2		Interest	
3		Rental	
4		Dividends	
Bank Accounts		Subsidies	
Loans etc.		Reimbursive Allowances	
Interest on O/D's		- **Petrol, travel, parking expenses etc.	
Bank charges			
Credit Card payments (Ordinary)			
Credit cards Payments (Budget)		Total Monthly Income	
Personal Loan Repayments		Less: Total Monthly Expenditure	
Study Loan Repayments			
Subtotal		**Surplus (deficit)**	

APPENDIX D: STATEMENT OF ASSETS AND LIABILITIES

Balance Sheet of ______________________________

As at: ______________________________

Contingent Liabilities at above date:	Amount
As guarantor or surety for others viz: On shares not fully paid,viz: On Bills/Hire Purchase Agreements discounted:	
	R

Married in/out of Community of Property ______________________

Date of Birth: ______________________________

Signature: ______________________ Signature: ______________________

Date: ______________________ Date: ______________________

Liabilities

Due to Bank, viz:		
Bills Payable		
Open Accounts First card		
Owing under Hire Purchase Agreements		
Other Short Term Liabilities		
Bonds (to be detailed separately starting to whom due and which properties they cover)		
General or Special Notarial Bonds (gives details)		
Other Long Term Liabilities, viz:		
Total Liabilities		
Capital Brought Forward		
Plus Profit		
Additional Funds introduced		
Minus Loss		
Drawings		
Extend capital at date of this statement – Surplus (Contingent Liabilities see page 1)		
If Applicable **Details of Quoted Shares**	Total	

Assets

Bank Balances			
Cash			
Book Debts (good)			
Bills Receivable (not under discount)			
Hire Purchase Agreements in my/our favour			
Stock in Trade			
Produce			
Livestock (give particulars on reverse)			
Work in Progress			
Quoted shares and other liquid assets (specify – on reverse if necessary)			
Medium/Long Term investments (shares in private companies, loans, bonds etc,			
Fixed Property (details each separately property stating if freehold, leasehold or land Settlement Title)	M.C.V	Market Value	
Machinery, Plant etc.			
Vehicles, Implements			
Furniture, Fittings etc			
Life Insurance (not payable to third parties)			
Face Value Extend estimated loan value only			
Goodwill and other assets, viz:			
		Subtotal	
		Total	
If applicable Details of Private Company			
Details of other Investments			

APPENDIX E: GENERAL REQUIREMENTS FROM THE CLIENT

- Comprehensive business plan
- Annual financial statements for the past three-years/Management accounts (for existing business).
- Proof of own capital contribution by the client
- Projected Annual Financial statements for one year:
    - Projected Balance Sheet
    - Projected cash flow
    - Projected Income Statement
- CC/Company registration documents.
- Purchase and sale agreement, with the assets register.
- Copies of the lease agreement (unsigned).
- Copies of any contracts secured/Letters of intent.
- Quotation on all the items to be purchased and the disbursement of the loan amount.
- Six months bank statement.
- Personal Statement of assets and liabilities from the client.
- Comprehensive CV for the members.
- I.D copies and the marriage certificate of members(s) surety.
- Copies of verification documents in terms of the FIC Act. (Proof of residential address e.g. utility bill, municipal rates)

APPENDIX F: QUESTIONNAIRE

THE ANSWERS TO THIS QUESTIONAIRE ARE STRICTLY CONFIDENTIAL. PLEASE MARK THE APPROPRIATE BLOCK WITH AN 'X'. WHERE ASKED FOR COMMENTS, KEEP ANSWERS SHORT AND PRECISE.

PLEASE ANSWER ALL THE QUESTIONS.

SECTION 'A': DEMOGRAPHICS.

1. WHAT IS YOUR GENDER?

MALE	FEMALE

2. WHAT IS YOUR AGE?

Under 21 years	1
21 – 35 years	2
Over 35 years	3

3. WHAT IS YOUR POPULATION GROUP?

Black	1
Coloured	2
Indian	3
White	4

4. WHAT IS YOUR HIGHEST LEVEL OF EDUCATION?

Less than Grade 12	1
Grade 12	2
Diploma	3
Degree	4
Post Graduate	5

SECTION B: BUSINESS PROFILE.

1. HOW MANY YEARS HAS YOUR BUSINESS BEEN IN EXISTENCE?

0-3 YEARS

3-6 YEARS

6-9 YEARS

MORE THAN 10 YEARS

2. HOW MANY PEOPLE DO YOU EMPLOY?

1-10

11-20

21-50

51-100

101-200

3. WHAT FORM OF OWNERSHIP IS YOUR BUSINESS?

SOLE PROPRIETORSHIP

PARTNERSHIP

CLOSE CORPORATION

COMPANY

4. WHAT IS THE NATURE OF EMPLOYMENT OF THE EMPLOYEES?

PERMANENT

TEMPORARY

CONTRACT

OTHER (PLEASE SPECIFY)

----

5. IN WHICH INDUSTRY DOES YOUR BUSINESS FALL?

ACCOMODATION AND CATERING

AGRICULTURAL, HUNTING FORESTRY AND FISHING

COMMUNITY, SOCIAL AND PERSONAL SERVICES

CONSTRUCTION

CLOTHING AND TEXTILES

ELECTRICITY, GAS AND WATER

FINANCING, INSURANCE, REAL ESTATE AND BUSINESS SERVICES

FOOTWEAR AND LEATHER

MANUFACTURING

METAL AND ALLIED

MINING AND QUARYING

TRANSPORT, STORAGE AND COMMUNICATION

WHOLESALE AND RETAIL TRADE

OTHER (PLEASE SPECIFY) ---

6. WHAT IS YOUR ANNUAL TURNOVER?

R0-R500 000	1
R500 000 – R1MILLION	2
R1 MILLION – R2,5 MILLION	3
R2,5 MILLION – R5 MILLION	4

SECTION C: INFORMATION ON FINANCING

7. HAVE YOU ASKED FOR FINANCE FROM A FINANCIAL INSTITUTION IN THE LAST 5 YEARS?

YES	NO

8. WHAT WAS THE PURPOSE FOR FINANCE?

I	START-UP CAPITAL	
Ii	TAKE-OVER OF EXISTING BUSINESS	
Iii	EXPANDING AN EXISTING BUSINESS	
IV	BRIDGING FINANCE	

9. DID THE FINANCIAL INSTITUTION HELP YOU WITH IDENTIFYING PROBLEM AREAS IN YOUR BUSINESS PLAN?

YES	NO

10. DID YOU HAVE AN UP-TO-DATE BUSINESS PLAN READILY AVAILABLE?

YES	NO

11. HOW OFTEN DO YOU UPDATE YOUR BUSINESS PLAN?

MONTHLY	1
QUARTERLY	2
BI-ANNUALLY	3
ANNUALLY	4

12. DO YOU USE YOUR BUSINESS PLAN FOR OTHER PURPOSES OTHER THAN FOR BUSINESS FINANCE? --

YES ☐ NO ☐

13. WHO HELPED YOU TO PUT YOUR BUSINESS PLAN TOGETHER?

DID IT YOURSELF	1
RELATIONSHIP MANAGER/BRANCH MANAGER	2
SMALL BUSINESS ADVICE UNIT	3
BUSINESS CONSULTANTS	4

OTHER (SPECICIFY) --

14. WAS THE APPLICATION FOR FINANCE SUCCESSFUL?

YES ☐ **NO** ☐

15. IF NOT, WHICH OF THE FOLLOWING REASONS WAS SPECIFIED AS A REASON FOR ITS FAILURE? (YOU MAY MARK MORE THAN ONE BLOCK.)

LACK OF COLLATERAL

ADVERSE CREDIT REPORT

HIGH RISK

SMALL LOAN SIZE AND COST OF DELIVERY

POOR QUALITY OF BUSINESS PROPOSITION

INFORMATION GAPS/ DO NOT KEEP ADEQUATE FINANCIAL RECORDS

OTHER (PLEASE SPECIFY) --

16. WHICH ONE OF THE FOLLOWING DID YOU PROVIDE AS OWN CONTRIBUTION IN YOUR BUSINESS PLAN WHEN APPLYING FOR FINANCE?

CASH

VEHICLES

EQUIPMENT

LAND AND BUILDINGS

OTHER (PLEASE SPECIFY) --

17. WHICH OF THE FOLLOWING DID YOU PROVIDE AS COLLATERAL/SECURITY?
YOU MAY TICK MORE THAN ONE.

FIRST, SECOND OR SUB-MORTGAGE BONDS OVER PROPERTY

PLEDGE OF INVESTMENTS AT FINANCIAL OR INSURANCE INSTITUTIONS

THE CESSION OF LIFE INSURANCE POLICIES WITH SURRENDER VALUE

SURETYSHIPS AND GUARANTEES

INSTALMENT SALE AGREEMENT

OTHER (PLEASE SPECIFY) --

18. WHICH ONE OF THE FOLLOWING WAS INCLUDED IN THE BUSINESS PLAN?
(YOU MAY TICK MORE THAN ONE.)

OWNER'S /DIRECTOR'S SKILLS

OWNER'S/ DIRECTOR'S EXPERIENCE

OWNER'S/ DIRECTOR'S CV

OWNER'S/DIRECTOR'S FINANCIAL STAKEHOLDERS

MONTHLY INCOME AND EXPENDITURE OF STATEMENT OF OWNERS

STATEMENT OF ASSETS AND LIABILITIES OF OWNERS

19. HOW WAS THE MARKET FOR PRODUCT OR SERVICE INDICATED IN YOUR BUSINESS PLAN?

----

20. DID THE BUSINESS PLAN INDICATE HOW THE BUSINESS WAS GOING TO BE RUN?

YES NO

21. HOW DID THE BUSINESS PLAN PROVE TO THE FINANCIAL INSTITUTION THAT THE BUSINESS WILL BE SUSTAINABLE AND VIABLE?

----

22. WHAT DO YOU VIEW AS THE MAIN REASON FOR SUCESSFULLY OBTAINING FINANCE FROM A FINANCIAL INSTITUTION? PLEASE MOTIVATE YOUR ANSWER.

----

23. WHAT DO YOU SEE AS MAIN BARRIERS IN OBTAINING FINANCING FROM A FINANCIAL INSTITUTION? PLEASE MOTIVATE YOUR ANSWER.

----

24. DO YOU AGREE WITH THE FOLLOWING STATEMENT? "FINANCIAL INSTITUTIONS REWARD CRITICAL SUCCESS CHARACTERISTICS OF (PROSPECTIVE) ENTREPRENEURS." PLEASE MOTIVATE YOUR ANSWER.

----

25. WHICH OF THE FOLLOWING FACTORS DO YOU THINK THE FINANCIAL INSTITUTION CAN HELP YOU WITH TO DEVELOP YOUR BUSINESS SKILLS?

BUSINESS PLAN CREATOR TOOL	1
MENTORSHIP AND TRAINING SERVICES	2
ENTERPRISE TOOLKIT	3
CASH FLOW MODEL	4
ALL OF THE ABOVE	5

26. WHICH OF THE FOLLOWING GOVERNMENT INCENTIVE SCHEMES HAVE YOU TRIED FOR BUSINESS FINANCE?

KHULA ENTERPRISE FINANCE	1
	2

INDUSTRIAL DEVELOPMENT CORPORATION (IDC)	
THE BRIDGING FINANCE SCHEME	3
ALL OF THE ABOVE	4
NONE OF THE ABOVE	5

THANK YOU FOR YOUR PARTICIPATION.

APPENDIX G: LETTER TO RESPONDENTS

QUESTIONAIRE FOR SMALL BUSINESS OWNERS

Dear respondent

Survey on "The success rate of business plan proposals at selected financial institutions"

I am busy completing an MBA at the University of Northwest Potchefstroom Business School. As part of the programme, I am researching the elements of a business plan that influences its success when being analysed by financial institutions for finance.

I am particularly interested to learn about the main factors that influence your ability to access finance and about what financial institutions need in a business plan for it to be successful. Your honest feedback and opinions on this matter will be very valuable indeed.

The questions I will ask should take no longer than ten minutes to complete. There are no wrong and right answers. Simply state your immediate response to each question. All responses will be treated in the strictest confidence.

Thank you in advance for your time and willingness to participate. Your valued contribution will not only contribute to this research, but it will also contribute in some way to addressing the issue of success to financing, and also give insight into what small business entrepreneurs and other business people can do to make sure that they develop proper business plans according to financial institution's requirements.

Yours sincerely,

Sello Maphosa (Researcher)