Exploring the determinants of SME'S choosing alternative financiers as compared to their primary bank

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ABSTRACT

The main goal of this study is to provide insight into the determinants and factors that influence SMEs when choosing alternative financiers than primary banks. For this study an SME's primary bank is recognised through making salary, creditor payment and receiving debtor payments for the SME.

The research design is quantitative research and the participants represent an SME category, namely small or medium enterprises by the definition of the Banking Association of South Africa.

A total of 65 participants participated by completing the 4-point Likert scale semi-structured questionnaire. The findings indicate that pricing and cost efficiency are the greatest determinant factors in the selecting of alternative financing resources. Also, the respondents agree that flexibility in the facility offering from financiers is an important factor when choosing alternative finance. Advertisements appear to be the least determining factor when selecting alternative finance. The respondents indicated that acquiring alternative finance does not disrupt nor is it inconvenient to their daily business activities.

There are some limitations in a quantitative research design. The reliability is such a limitation because the sample size is relatively small. The study is of value to SME owners, researchers and academia because it provides an insight on alternative finance decisions regarding SMEs.

Keywords: Banking industry, small and medium enterprises, determinants, alternative, financiers, loyalty.

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For I know the plans I have for you, declares the Lord, plans to prosper you and not to harm you, plans to give you hope and a future.

Jeremiah 29:11

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ABBREVIATIONS

Abbreviation	Meaning
SMEs	Small and medium enterprises
GDP	Gross Domestic Product
SA	South Africa
SARB	South African Reserve Bank
LTD	Limited
SAPO	South African Post Office
UK	United Kingdom
R	Rand
FSR	FirstRand
NED SA	Nedbank South Africa
SBK SA	Standard Bank South Arica
CPI	Capitec
IPO	Initial Public Offering
OECD	Organization for Economic Co-operation and Development
MILL	Million
NSB	National Small Business
STD	Standard
DEV	Deviation
CRM	Customer relationship management
SAcsi	South African customer satisfaction index

CHAPTER 1: NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

The small medium enterprises (SMEs) sector is globally regarded as the driving force in economic growth and job creation. In South Africa, SMEs form the backbone of the economy, not just regarding their contribution to the national gross domestic product (GDP), but also in terms of employment. According to the Banking Association of South Africa (2017), SMEs employed 60% of the labour force and contributed 34% to GDP in 2017.

Despite the importance of SMEs, they still face many challenges of which access to finance are viewed as a severe constraint (Makina et al., 2015:1). The above inaccessibility of bank finance is not only a constraint to the formation of new ventures but also during the later stages when businesses require additional funds to support expansion and growth. Furthermore, most entrepreneurs, especially SMEs, struggle with accessing finance from banks due to excessive red tape, bureaucracy and a lack of understanding of the SME operators.

1.2 RESEARCH PROBLEM

It is challenging to acquire loyal customers in service industries especially in the banking industry. Customers may switch to alternative service providers in search of product variety regardless if the customer is satisfied or not. According to the South African customer satisfaction index (SAcsi, 2015), customers are more likely to switch from one financial institution to an alternative financing source if they are dissatisfied with products or services.

Approximately one-third of business customers are procuring new products not from their primary bank but rather from another financial institution. Consequently, it is called the "hidden defection problem", as in most cases these banks aren't even aware that their customers are in the market for a new product and service (American Banker, 2014).

It is of utmost importance for banks to understand which determinants influence customers seeking alternative finance. This information will assist by putting the necessary procedures, processes and strategies in place to manage these determinants more effectively and therefore ensuring their clientele stays loyal or do not seek alternative finance elsewhere.

1.3 OBJECTIVES OF THE STUDY

This section highlights the primary and secondary objectives formulated for this study based on the research problem and the discussion above.

1.3.1 Primary objective

The primary objective is to explore the determinants of SMEs choosing alternative financiers rather than their primary commercial bank in Gauteng, South Africa.

1.3.2 Secondary objectives

- Define small and medium enterprises
- Provide an overview of the financial services available to SMEs in South Africa.
- Obtain insight into the determinants that cause SMEs to choose alternative financiers rather than their primary bank through a literature study.
- Determine how loyal SMEs are towards their primary commercial bank.
- Does their primary commercial bank meet their relationship expectations and an overall extent of their primary banks' product offering and service quality?

1.4 RESEARCH METHODOLOGY AND DATA COLLECTION

An overview of the method used and to assess the data is reported. Research design, sampling framework and data collection are discussed for the study in the section below.

1.4.1 Research design

The research study is quantitative in nature. The study aims to measure the abovementioned primary and secondary research problem by using statistics and mathematics from which analysis of the raw data will flow using a software program. Data will be gathered in a structured format (Market Research Man, 2017).

1.4.2 Sample framework

The primary bank has the authority by doing the transaction in the form of salary, creditor payment, and receiving debtor payments for the study and questionnaire. For the purpose of the study, the sample will be SMEs that consist of 91% of formalised businesses within South Africa, employing about 60% of South Africa's labour force. SMEs also contribute to the total economic output which accounts for roughly 34% of the GDP (The Banking Association of SA, 2017).

The National Small Business Act (102 of 1996) (SA, 1996) defined small and medium enterprises (SMEs) based on certain characteristics, namely industrial classification, total full-time paid employees, turnover and gross asset value (excluding fixed property).

The sample will be the clientele of one of the second-tier banks in South Africa and its trade finance subsidiary in the Gauteng province of South Africa. Little to none of the customer base of the second-tier bank and its trade finance subsidiary is seen as customers' primary bank.

Gauteng dominates the manufacturing industry in South Africa. It has long been the wealthiest and fastest growing province of South Africa. However, the growth is most likely driven by its status as a global financial centre and by high-level services rather than the core sectors of the real economy. Yet, it still has the fastest growing population. Nevertheless, Gauteng has mostly managed to maintain adequate services.

Overall the province enjoys higher employment, incomes, infrastructure and education than the other provinces in South Africa. Gauteng is responsible for contributing 34.38%

of South Africa's GDP (Provincial review, 2016). Pretoria is the administrative capital of South Africa. Johannesburg is one of South Africa's largest metropolitan areas and its leading industrial, financial, and commercial centre (Sampaolo, 2017).

1.4.3 Data collection

Data will be collected in the form of the self-developed questionnaire using the 4-point Likert scale. The questionnaire will seek to create an understanding of the various determinants to why customers are searching for products and services from alternative financiers rather than from their primary bank. The questionnaire will also examine SMEs' loyalty, satisfaction and other factors towards their primary bank.

The data from the self-developed questionnaire will be measurable, analytical and interpreted throughout the tabulation to provide a conclusion.

Questionnaires were distributed via the sales force by hand to the sample customers, who had built a relationship with the units of analysis in Gauteng. The Lottery method was used; some units would be willing to complete the questionnaire and some not.

Table 1-1: Target population summary

Sampling Characteristics	Description
Time period	2018
Study population	SME customer base of a second-tier bank and trade finance subsidiary
Geographic	Gauteng province
Sample size	65

1.5 CHAPTER OUTLINE

This mini-dissertation consists of the following chapters:

Chapter 1: Nature and scope of the study. Chapter 1 will comprise the background and research problem. The primary and secondary objectives are introduced. The research methodology and data collection were explained for the study.

Chapter 2: Chapter two will give an overview of the banking industry in Gauteng, followed by its competitiveness and developments of the industry in South Africa.

Chapter 3: This chapter focuses on the literature review in regard to SMEs and their contribution to the South African economy as well as the challenges they face. SMEs' financial access, deferent alternative financing instruments as well as the determinants for SMEs choosing alternative financing are discussed.

Chapter 4: This chapter introduces the research methodology used in the mini-dissertation and a detailed discussion is given regarding results.

Chapter 5: In chapter five the conclusion and recommendations of the study. Limitations of the study are discussed as well as the suggestion for future study on the topic is mentioned.

CHAPTER 2: SOUTH AFRICAN BANKING INDUSTRY OVERVIEW

2.1 INTRODUCTION

Corporate banking remains very competitive within the financial industry, while the big five (Capitec, Absa, FNB, Nedbank and Standard Bank) dominate the retail market (PWC, 2017). The South African finance sector has strengthened in global competitiveness ranking and has moved two places up to 47th position in 2016 from 49th in 2015 out of 138 countries (Fin 24, 2016).

Out of 144 countries, the South African banking industry was ranked first for their reporting, auditing and regulations of securities exchange that banks need to comply with (PWC, 2014).

Lafferty Group’s 2017 Global Bank Quality Benchmarking study ranked 100 major banks across 32 countries world-wide, according to their longer-term sustainability and gives its highest ratings to banks that focus on serving their customers corporate banking and retail needs.

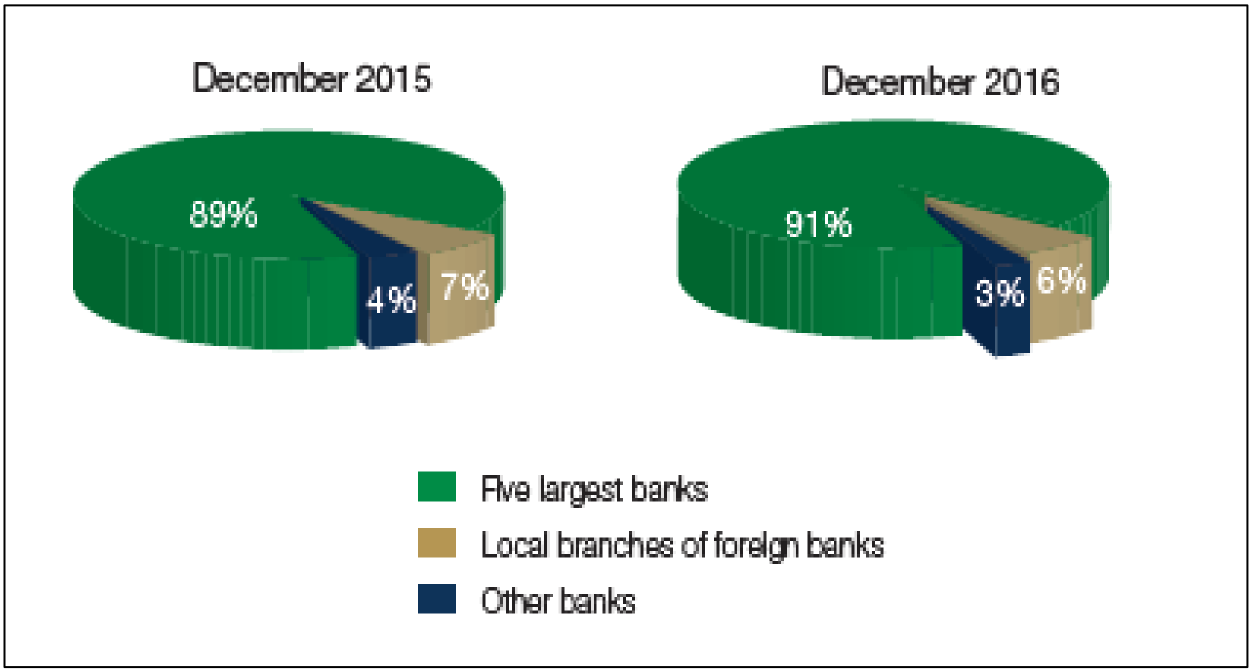
For the second year in a row, South African banks achieved the highest ranking. The Lafferty Group’s ratings are based on information available to the public such as each bank’s management, culture, strategies and business model.

The SARB is accountable to the government and parliament and submits annual reports as well as regular economic reviews to the standing committee of finance in parliament. The SARB also maintains a close co-corporation with the national treasury.

2.2 SOUTH AFRICAN BANKING INDUSTRY ACCORDING TO THE SARB

The South African banking industry is dominated by Standard Bank, FirstRand Bank, Absa, Nedbank and Investec, together holding 90.7% of the overall South African banking assets as at 31 December 2016; this is higher than in 2015 at 89.2% overall banking assets. Foreign banks branches in South Africa accounted for 5.8% of the total banking assets as of 31 December 2016 (2015: 7.3%) while the rest of the operating banks accounted 3.5% during December 2016 and 2015.

Figure 2-1: South African banking industry total assets structure



Source: SARB, 2016

The South African banking industry according to the SARB (2016) consists of nine locally controlled banks, five foreign-controlled banks, 38 foreign representative banks, 15 branches of foreign banks, three Mutual banks and two banks in liquidation.

Table 2-1: List of Banks in South African

Bank Category	Bank Name
Locally controlled banks	• Nedbank Ltd • African Bank Ltd • Capitec Bank Ltd • Sasfin Bank Ltd • The Standard Bank of South Africa Ltd • FirstRand Bank Ltd • Bidvest Bank Ltd • Investec Bank Ltd • UBANK Ltd
Foreign controlled banks	• Mercantile Bank Ltd • The South African Bank of Athens Ltd • Absa Bank Ltd • Albaraka Bank Ltd • Habib Overseas Bank Ltd
Foreign representative banks	• Banco BIC • Bank Leumi Le-Israel BM • African Banking Corporation of Botswana • Bank of America, National Association • Bank One Ltd • Banco Nacional De Desenvolvimento Econômico E Social • Banif - Banco Internacional do Funchal, S.A. • Banco BPI, SA • Banco Santander Totta S.A. • AfrAsia Bank Ltd • Banque SYZ Suisse SA • Commerzbank AG Johannesburg • First Bank of Nigeria

	• Ecobank • Export-Import Bank of India • Doha Bank • The Rep. Off. for Southern and Eastern Africa of The Export-Import Bank of China • Hellenic Bank Public Company Ltd • National Bank of Egypt • Société Générale Representative Office for Southern Africa • Novo Banco • Swedbank AB (Publ) • The Mauritius Commercial Bank Ltd • Credit Suisse AG • Notenstein Private Bank Ltd • Industrial and Commercial Bank of China • Millennium BCP • KfW Ipex-Bank GmbH • The Bank of New York Mellon • Mizuho Bank Ltd • Unicredit Bank AG • Vnesheconombank • UBS AG • The Bank of Tokyo-Mitsubishi UFJ, Ltd • Wells Fargo Bank, National Association • Sumitomo Mitsui Banking Corporation • Union Bank of Nigeria Plc • Zenith Bank Plc

Branches of foreign banks	• BNP Paribas SA • Canara Bank • State Bank of India • China Construction Bank Corporation • HSBC Bank plc - Johannesburg Branch • Bank of India • Bank Of China Ltd • Icici Bank Ltd • JPMorgan Chase Bank • Standard Chartered Bank • Bank of Baroda • Bank of Taiwan South Africa Branch • Société Générale • Deutsche Bank AG • Citibank N.A.
Mutual banks	• VBS Mutual Bank • Finbond Mutual Bank • GBS Mutual Bank
Banks in liquidation	• Regal Treasury Private Bank Ltd • Islamic Bank Ltd

Source: South African Reverse Bank (2016).

2.3 BIGGEST BANKS IN SOUTH AFRICA

The 2017 SARB Annual Bank Supervision Report, indicated that the South African banking sector has assets from R4,88 trillion in December 2017 and increased to R5,16 trillion during the end of 2017. In 2017 gross loans increased with 2.54% which indicate a decline compared to the December 2016 of 2.98% (SARB, 2017).

In the reviewed period, new commercial banking licenses were provided to Discovery Bank and TymeDigital; their assets value is now listed by SARS with all the other registered banks in South Africa. Both Discovery Bank and TymeDigital are yet to start trading hence the value of the assets are low. However, their positioning among the bigger South African commercial banks shows what competitiveness they face in the local market.

Table 2-2: Biggest banks in South Africa by asset value

Africa Rank	Bank	Assets (R million)
1	Standard Bank	1 254 849
2	FirstRand Bank	1 120 747
3	Absa	983 378
4	Nedbank	892 006
5	Investec	415 285
6	Capitec	87 033
7	African Bank	31 356
8	Grindrod Bank	16 696
9	Mercantile Bank	12 892
10	Bidvest Bank	8 508
11	Sasfin	7 778
12	Albaraka Bank	5 930
13	Ubank	5 224
14	HBZ Bank	4 856
15	South African Bank of Athens	2 355
16	Tyme Digital	1 403
17	Habib Overseas bank	1 186
18	Discovery Bank	622

Source: BusinessTech (2018).

Capitec is climbing their way to becoming the top bank in South Africa by customer numbers, but still ranked below Investec which is 5th overall regarding assets. However, taking into consideration Capitec is not a full-service bank who doesn't yet offer all high-value credit options such as home loans.

The 2017 SARB annual bank supervision report also included 15 foreign International banks with local branches in South Africa.

Considering these International bank asset values in South Africa, it's remarkable to see how large some of these banks are overall, with four of the banks ranking within the ten biggest banks in South Africa.

Table 2-3: Biggest foreign banks in SA by asset value

Africa Rank	Bank	Assets (R million)
1	Citibank	58 756
2	HSBC	47 717
3	Bank of China	44 341
4	China Construction Bank	36 098
5	JPMorgan Chase	33 939
6	Standard Chartered Bank	33 493
7	BNP Paribas	13 748
8	Deutsche Bank	10 450
9	Société Générale	8 935
10	State Bank of India	8 602
11	Bank of Baroda	2 779
12	Bank of Taiwan	2 365
13	ICIC Bank	584
14	Cabara Bank	488
15	Bank of India	742

Source: BusinessTech (2018).

India's Bank of Baroda has been making headlines in South Africa, who announced plans to leave the country entirely after they formed part of an investigation into the state capture report.

2.4 PROFILE OF THE BIG FIVE BANKS (CAPITEC, ABSA, FNB, NEDBANK AND STANDARD BANK)

- **Capitec Bank Limited**: Established in 2001 and Capitec Bank Holding Limited was listed on the JSE in 2002 which owns 100% of Capitec Bank Limited, from a small micro-lending bank. Capitec has risen to a major competitor as a retail bank in the South African Banking industry. The bank is considered to be the market leader, with respect to the lower to middle-income bracket and first-time retail bank user (Capitec, 2015; SME South Africa, 2017). Lafferty Groups awarded Capitec with the highest 5-star rating and is now regarded as the Best Bank in the World, Absa achieved four stars, and FirstRand, Standard and Nedbank were given three stars.

- **ABSA**: Established in 1991, after four retail banks (United Bank, Allied, Trust Bank and Volkskas Bank) were consolidated. ABSA Bank services include commercial, retail banking, investment banking, credit cards, investment management, private equity and insurance.

- **First National Bank "FNB"**: Established in 1838 and is the oldest SA Bank and trading as a division of FirstRand Bank Ltd (FNB, 2016). FNB won the award for most innovative bank in 2012 by Bai-Finacle Global Banking Innovation Awards. FirstRand was established through a merger between RMB Holding and Anglo American in 1998. Subsidiaries are RMB (Investment and Corporate banking), Wesbank (unsecured lending and asset finance) and FNB (corporate and retail banking).

- **Nedbank SA**: Established in 1888 as part of the Nedbank Group and a subsidiary of Old Mutual, listed on the JSE since 1969. Nedbank services and products range from retail banking, corporate banking, investment banking, bank assurance and wealth management. Income is mostly generated from investment and corporate banking but is also revolutionising their retail franchise which has been falling behind the other big banks.

- **Standard Bank**: Founded in 1862 and listed on the JSE in 1970. Operates currently in 17 African countries, with its main offering being business and personal banking, investment and wealth-liberty. They also control a stake in Liberty Holding.

2.5 SOUTH AFRICAN BANKS RANKING IN AFRICA AND WORLD

A list of top 1,000 banks in the world was released by The Banker, including the rankings of the big five financial institutions of South Africa. The big five managed to climb in the rankings, with Standard Bank Group once again topping the regional table with a remarkable jump in the global table from 160 to 149 position (The Banker database, 2017).

South African banking firms succeeded to post a significant recovery in the last financial year despite facing adverse conditions during 2016, due to high political risk, volatile currency and low commodity prices.

Table 2-4: 2017 Top 25 Africa Banks ranking and World ranking regarding capital

Africa Rank	World Rank	Bank	Country
1	149	Standard Bank Group	South Africa
2	183	FirstRand	South Africa
3	235	Nedbank Group	South Africa
4	289	Attijariwafa Bank	Morocco
5	301	National Bank of Egypt	Egypt
6	307	Groupe Banques Populaire	Morocco
7	330	Ecobank Transnational	Togo
8	360	Investec South Africa	South Africa
9	422	Banque Misr	Egypt
10	430	Zenith Bank	Nigeria
11	442	MBCE Bank Group	Morocco
12	567	First Bank of Nigeria	Nigeria
13	588	Guaranty Trust Bank	Nigeria
14	628	Access Bank	Nigeria
15	639	Arab African International Bank	Egypt

16	646	Capitec Bank Holding	South Africa
17	669	MCB Group	Mauritius
18	721	KCB Group	Kenya
19	724	Banco Angolano de Investimentos	Angola
20	783	CIB Egypt	Egypt
21	806	Equity Bank	Kenya
22	834	United Bank of Africa	Nigeria
23	863	Credit Agricole du Maroc	Morocco
24	881	Diamond Bank	Nigeria
25	888	Africa Bank	South Africa

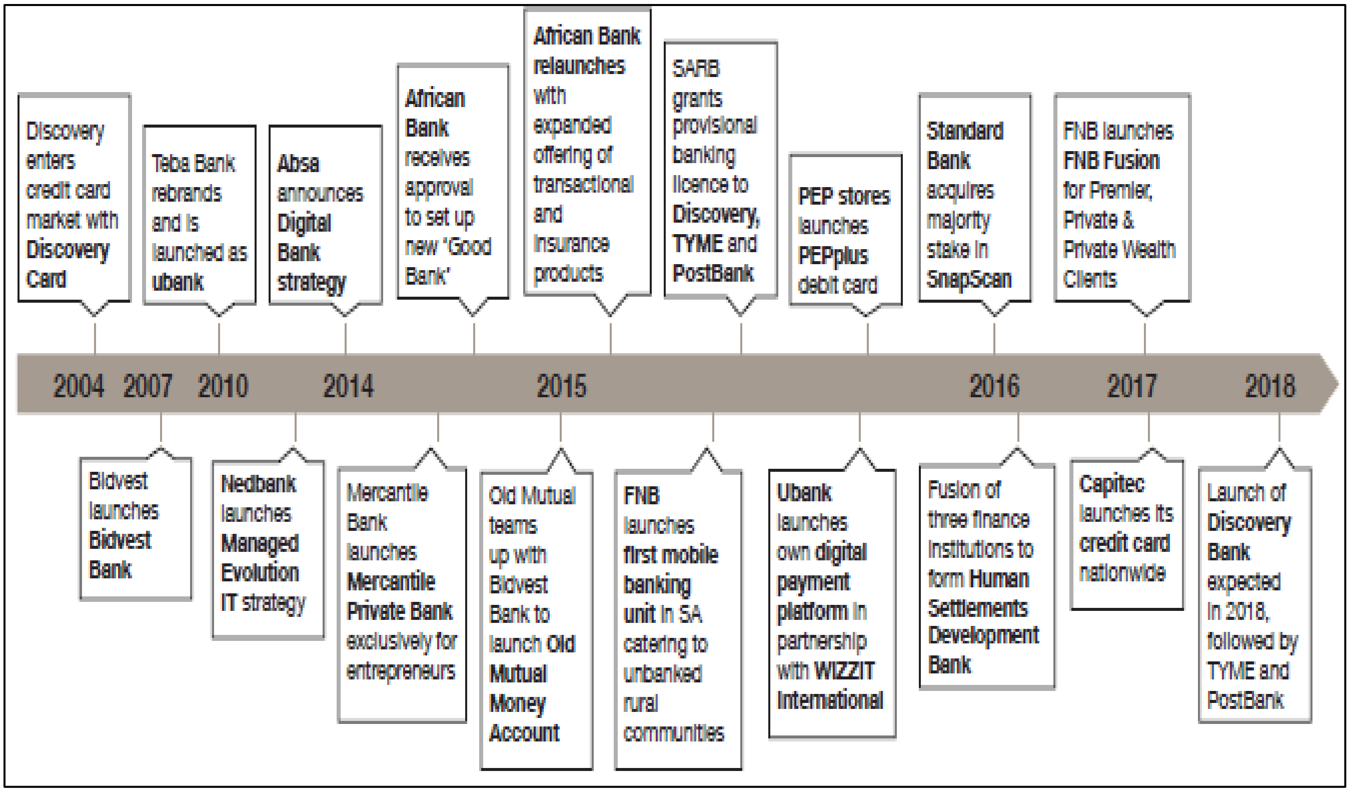
Source: The Banker database (2017).

ABSA, Barclays Africa is ranked under the UK, as it had not yet been sold off, during this review period. The group reported $6,275 in Tier 1 capital which would place it third as of September 2016.

2.6 RECENT DEVELOPMENTS IN SA BANKING INDUSTRY

The figure below indicates the recent developments within South Africa from 2004 until 2018. At least three new banking options are expected to be launched in South Africa before the end of 2018.

Figure 2-2: Timetable of developments in the SA banking industry



Source: Strategy & Analysis, 2017.

ThymeDigital by Commonwealth Bank SA has become the first bank since 1999 to receive an operating license from the SARB. This Bank will aim to provide accessible and affordable full-service digital banking service to all South Africans, with their main customer focus on retail and SMMEs. The new bank is 10% owned by Patrice Motsepe's African Rainbow Capital (ARC) and 90% by Commonwealth of Australia (CBA).

Discovery Bank will have an advantage as their cost base is expected to be much lower than the traditional banks, because they will not have to maintain ATMs and branches like the traditional four big banks (ABSA, Nedbank, FNB and Standard Bank).

Postbank South Africa is an associate of the South African Post Office (SAPO). The bank can be a disruptor in the financial sector market due to its ease of accessibility. The "market that is not being served at the moment" includes entrepreneurs which will be the bank's primary target market.

2.7 SUMMARY

The South African banking industry is considered one of the best in the world and very competitive as aforementioned. More financial institutions are entering into the South African market which will lead to even more competitive financial services.

CHAPTER 3: LITERATURE REVIEW

3.1 INTRODUCTION

The definition of SMEs differs among countries since it depends on the social conditions and the stage of economic development of a nation. Furthermore, the definition also differs regarding finance, size, ownership and sector (Dabo, 2006). Employee numbers are often viewed as a distinctive criterion when defining SMEs, while many definitions make use of financial indicators such as capital turnover, invested capital, and annual turnover (Debabneh & Tukan, 2007). Hence there is no global consensus or uniformly accepted definition of what constitutes an SME.

3.2 SMALL TO MEDIUM ENTERPRISES (SMEs) OVERVIEW

According to the Bureau for Economic Research (2016), Small to Medium Enterprises (SMEs) can be key drivers of economic growth, innovation and job creation and as such, they are vital to the economy of a country. In South Africa, these business ventures account for 91% of formalised businesses and contribute approximately 34% of GDP (Banking Association of South Africa, 2017).

Given the high rates of unemployment reported by Statistics SA (25% in 2015) (Statistics South Africa, Quarter 2: 2015) and the job creation strongly linked with SMEs (DTI, 2008), it is not surprising that government aims to facilitate the promotion and development of this segment of the business sector (Bureau for Economic Research, 2016). The drive for SME stimulus is further underpinned by the National Development Plan, which forecasts that 90% of new jobs will come from this sector by 2030 (SAICA, 2016).

Currently, around 6 million SMEs operate in South Africa, nearly a quarter of those in Gauteng alone, with the majority having an annual turnover of less than R5 million (Bidvest Bank (LEAP), 2017). Less than 25% (1.3 million) of those are registered with CIPC. Furthermore, a significant percentage (between 50 and 80%) lacks access to finance and credit (The World Bank, 2015) – a critical factor in the high rate of failure (85%) in the first 18 months of operation (Bureau for Economic Research, 2016).

3.2.1 Definition of Small and Medium Enterprises (SMEs) in South Africa

The most widely used framework for SMEs in South Africa is the definition of the National Small Business Act (102 of 1996) (SA, 1996). This act classified SMEs on three characteristics: number of full-time employee numbers, annual turnover and total assets excluding fixed property.

Table 3-1: South African SME classification

Industrial Classification	Size of class	The total full-time paid employees	Turnover (Millions)	Total gross assets value (fixed property excluded)
Agriculture	Medium	100	R 5 Mill	R 5 mill
	Small	50	R 3 Mill	R 3 mill
Mining and Quarrying	Medium	200	R 39 Mill	R 23 Mill
	Small	50	R 10 Mill	R 6 Mill
Construction	Medium	200	R 26 Mill	R 5 Mill
	Small	50	R 6 Mill	R 1 Mill
Retail and Motor Trade and Repair Services	Medium	200	R 39 Mill	R 6 Mill
	Small	50	R 19 Mill	R 3 Mill
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R 64 Mill	R 10 Mill
	Small	50	R 32 Mill	R 5 Mill
Catering, Accommodation and other Trade	Medium	200	R 13 Mill	R 3 Mill
	Small	50	R 6 Mill	R 1 Mill
Transport, Storage and communications	Medium	200	R 26 Mill	R 6 Mill
	Small	50	R 13 Mill	R 3 Mill
Finance and Business Services	Medium	200	R 26 Mill	R 5 Mill
	Small	50	R 13 Mill	R 3 Mill

(Source: The Banking Association of SA, 2017)

From Table 3-1 it is evident that different industry sectors have different dynamics regarding total full-time paid employees, annual turnover and total gross assets value which exclude fixed properties.

The following other broad definitions of SMMEs as per the National Small Business (NSB) Act are:

Survivalist enterprise: Revenue generated is less than the minimum revenue standard. This category is considered pre-entrepreneurial, which includes subsistence farmers, vendors and hawkers.

Micro-enterprise: Revenue is less than the value added tax registration limited. They, for example, include minibus taxis, household industries and spaza shops. These enterprises employ no more than five employees.

Very small enterprise: These enterprises employ fewer than ten full-time employees; however, 20 employees for the manufacturing, electricity, mining and construction industries. Enterprises have access to technology and operate in the recognised market.

Small enterprise: The maximum limit of full-time employees is 50. The major difference between very small and small enterprises are that small enterprises exhibit more complex business practices and are generally more established.

Medium enterprise: The maximum number of full-time employees is 100 and 200 for the following industries: electricity, construction, mining and manufacturing. These enterprises are often characterised by the decentralisation of power to an additional management layer.

3.2.2 SMEs' contribution to the South African economy

SMEs contribute primarily to economic growth through creating jobs to semi-skilled individuals and to the unskilled labour force, whom would otherwise remain unemployed across the globe. According to an OECD (2009) statement, SMEs are key producers of income and employment and drivers of growth and innovation. The 2017 statistic that

SMEs employ 60% of the labour force and contribute to 34% of the GDP in South African is evidence thereof (The Banking Association of SA, 2017). A study done by FinScope in 2015 found that small and micro businesses are key contributors to Southern African countries.

Despite the numerous contributions of SMEs to economic development in both developing and developed economies, SMEs in many countries face numerous challenges. These challenges are indicated in the following section.

3.2.3 Challenges facing SMEs in South Africa

South African SMEs' contribution to fighting unemployment is feeble because most of the enterprises do not grow over time (Rogerson, 2004). DTI reported in 2008 most of the small enterprises file for business liquidation within a short period of operation. It was observed for instance those registered between 2005 and 2006, only 1% survived for 1.5 to 2.5 years. Also, a study done by Odeyemi and Fatoki (2010) indicated that 75% of SA small firms fail. Many factors hinder their growth, but lack of external finance access was viewed as a severe constraint (OECD, 2015b).

The above concurred that other Sub-Saharan economies, through research done by Nyarko and Dauda (2014), reported firms are constrained by lack of external funding access. SA financial constraints are one of the bigger challenges, 75% of small enterprise loans are rejected (Fatoki & Odeyemi, 2010).

Due to the lack of access to funding, SMEs rely heavily on internally generated funds which will not be adequate to grow and finance expansion (Hall & Chittenden, 1996) therefore they are experiencing either stagnation or slow growth. This was also observed by Carpenter and Petersen (2002) that companies who are dependent heavily on new share issues exhibit a growth rate above companies which are supported by internal finance, therefore concluding that companies who are constrained by external funds were most likely to show a slower growth rate.

SME admission to finance is believed to be determined by both factors on Micro and Macro level. SME access to external finance studies mostly focuses on the Macro level determinants, failing to account some important firm-level factors.

Examining Macro level factors of access to finance for SME it is essential to identify institutional and legal frameworks necessary to allow SMEs access to credit. A company attributing size and age are found to have a part in SMEs' access to finance. Similarly, owner characteristics such as gender, age and education are found to be essential in determining access and hence growth.

Further additional challenges faced by South African SMEs is difficulties due to poor infrastructure, high crime rate, corruption and problems such as the HIV/AIDS pandemic; all these have a strong negative economic impact.

A high incidence of HIV/AIDS (18% of adults) has a massive impact on the health of the South African workforce on how employees work having the disease (Ray, 2010). Corruption and crime also hampered South African SME development, which is believed to restrain investment. The crimes consist of break-ins, hijackings, vandalism and robbery.

SMEs are hence not pursuing alternative avenues to grow their market share within their respective market and therefore stay ahead of their competitors. As an alternative, SMEs are concentrating on operational matters relating to security due to South Africa's crime rate (Fatoki & Garwe, 2010).

3.3 FINANCIAL ACCESS AND FIRM SIZE

A company's capital structure is arguably one of its most important choices. From a technical perspective, the capital structure is defined as the careful balance between equity and debt that a business uses to finance its assets, day-to-day operations, and future growth. In the capital structure of a company, there are mainly two types of capital, i.e., Equity and Debt. Out of the two, debt is usually considered a cheaper source of finance because the interest payment is a tax-deductible expense.

Miller and Modigliani's (1958) theory of capital structure explain the importance of financial access to firm size which provides, albeit under restrictive assumptions, that companies' value remains unchanged regardless of the leverage amount used. Miller and Modigliani implied in their findings that credit access does not play a role in increasing growth. Nonetheless their revised theory found that a company's value increases with the increase in leverage, due to interest tax shield, therefore suggesting the importance of debt to a company's size. Therefore, Miller and Modigliani's hypothesis, postulate that companies with limited access to finance remain smaller in size and stagnant while companies grow faster and achieve optimal size sooner hence having access to finance. This hypothesis is supported through experiential evidence (Maksimovic, Demurguc-Kunt & Beck, 2006; Claeys & De Maeseniere, 2012).

SMEs' lack of ability to access finance from a formal financier force them to seek out alternative or informal financiers. Therefore, it remains fascinating to understand if there are any perceptible alterations on a company's size if informal financiers and formal financiers are used. Steel et al. (1997) performed past studies that stated the vitality of alternative or informal finance as an alternative route to SME access to finance.

Also, more recent studies by Sun and Lin (2006) showed that informal finance could enhance the efficiency of the credit market and also be a remedy to the information asymmetry problem that SMEs face. According to World Bank researchers Ayyagari et al. (2010), despite more SMEs are obtaining an alternative form of or informal finance it has been reported that it has no robust impact on a company's growth in comparison to formal finance. In China, companies now use informal finance rather than structured finance exhibiting slower growth.

This can be explained for two reasons:

- Firstly, informal loans are relatively small and therefore are mostly used to finance working capital and daily operations rather than expansion (growth) (Fanta, 2012)
- Secondly, alternative or informal financiers charge higher interest rates or commission which erodes a company's profits.

3.4 SOUTH AFRICAN SMEs' ACCESS TO FINANCIAL SERVICES OVERVIEW

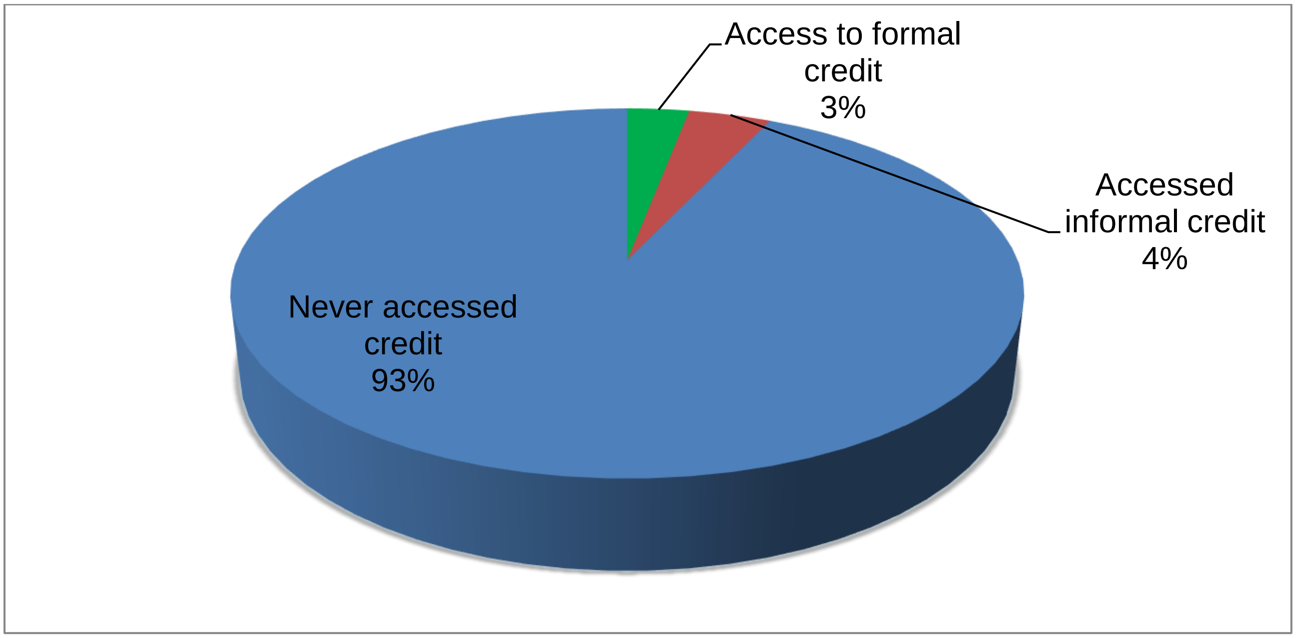
Of the African countries South Africa has the most industrialised economy; however, at the same time has the highest inequality in the world, second highest after Lesotho (World Bank, 2013). Unemployment is a significant concern and widely spread in South Africa and has increased during the post-apartheid regime. To address the situation of poverty and unemployment the South African government has been encouraging the development of SMEs. The national development plan is envisaging generating 90% of jobs through expanding small enterprises (NPC, n.d.).

South Africa has introduced a couple of SMEs support frameworks which include both non-financial and financial frameworks. Small Enterprise Development Agency (SEDA) is one of them. This agency was initiated to oversee and support the development of small businesses throughout the country. According to SBP (2015) in addition to SEDA, Apex Fund and Khule Enterprise Finance were structures with a primary objective of extending credit to start-ups. A total of R508 million was allocated to SEDA, Apex Funds and Khula Enterprise Finance. The Ministry of Small Business Development was established to underscore the importance of SMEs in 2014. Evidently, this has helped proliferation SMEs in various parts of South Africa. FinMark Trust conducted a study on 5676 SMEs in South Africa, 9% traced their origin in the apartheid regime and 91 post-apartheid.

However, South Africa is behind other developing economies in promoting sustainability and growth of small business and has one of the largest failure rates of start-up companies (SBP, 2015). SEDA acknowledges in a 2012 report that a lack of finance to SMEs is identified as one of the top three constraints to growth in South Africa.

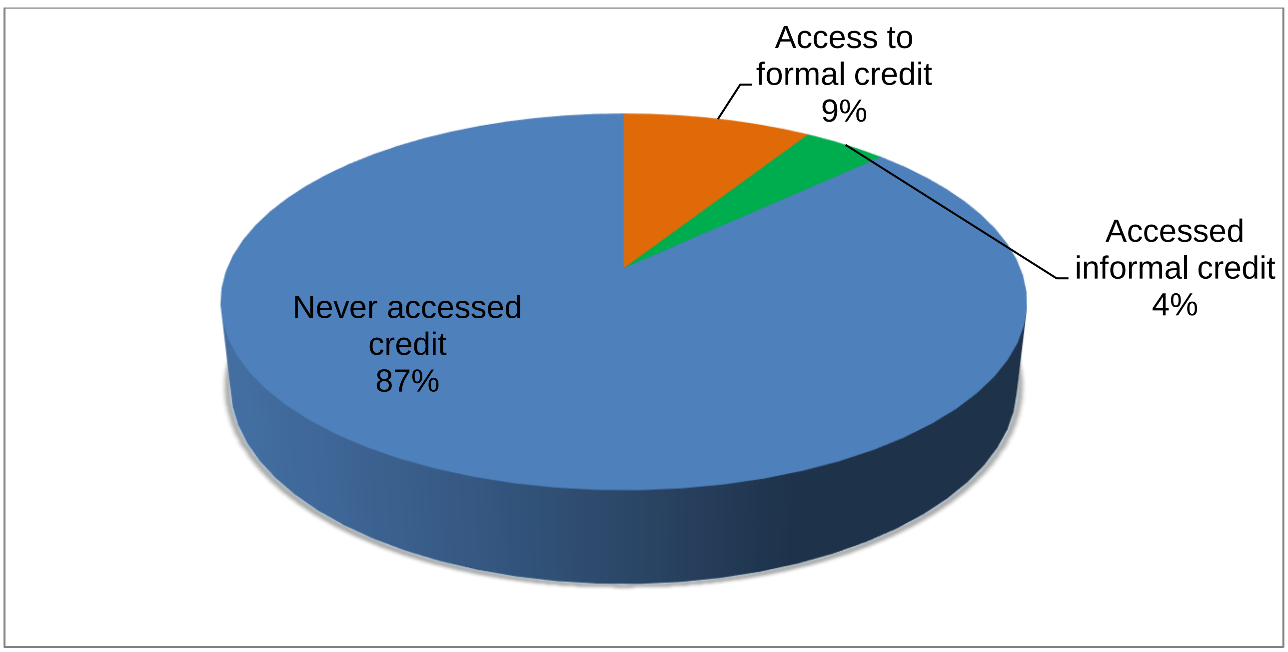
A survey conducted by FinScope of SMEs in South Africa came up with the same results. As indicated in Figure 3-1, 93% of SMEs in the survey never accessed formal or informal credit. This trend is almost identical among registered SMEs as shown in Figure 3-2, as 87% never obtained credit. While the percentage of the SMEs that accessed formal credit was slightly higher (an increase from 3 to 9%); however, the overall picture remains the same. The vast majority of South African SMEs do not have access to credit formally or informally.

Figure 3-1: South African SMEs' access to credit



Source: FinScope, 2015

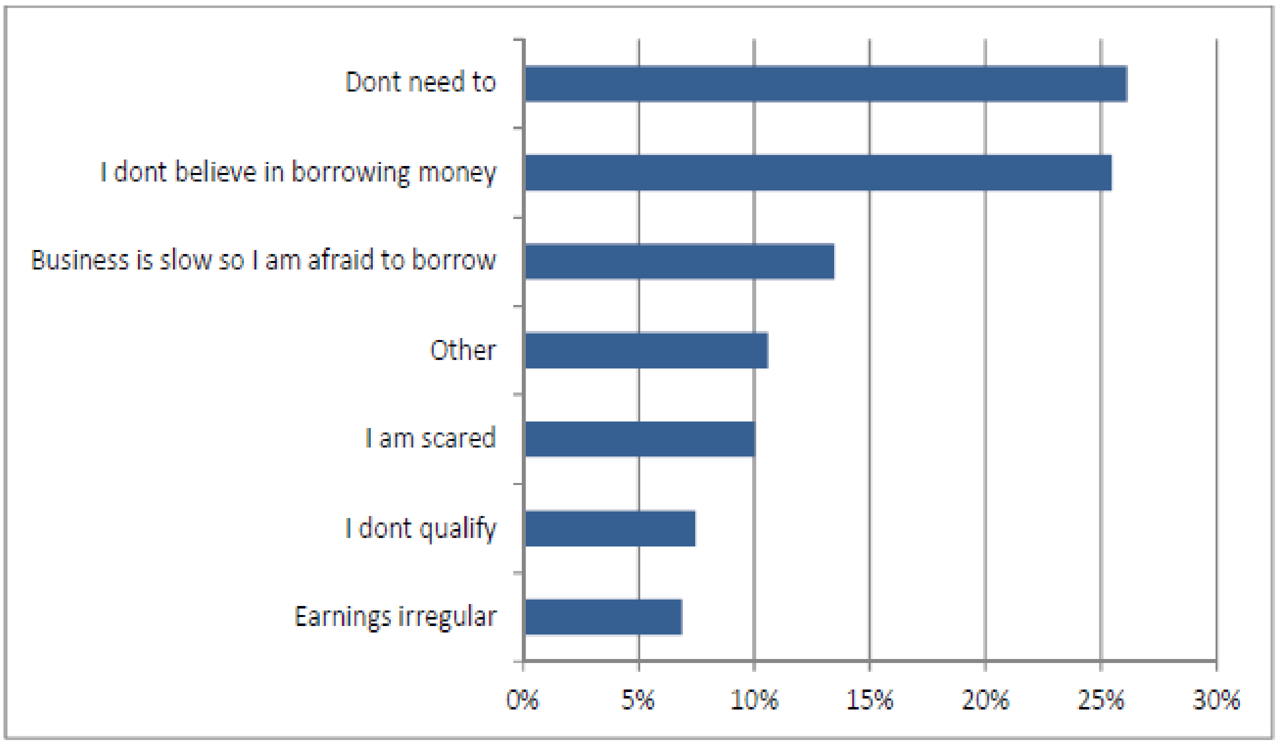
Figure 3-2: South African registered SMEs to access credit



Source: FinScope, 2015

FinScope also employed a study in regard to the reasons why SMEs do not borrow. The figure 3-3 shows that 52% don't need or don't believe in accessing finance through borrowing. Merely 31% of SMEs do not borrow because they are afraid or under the impression, they will not improve quality. Therefore, the survey also indicates that the majority of SMEs owners lack knowledge and adequate understanding of the benefits of borrowing short or long-term as a financial tool. The lack of knowledge and adequate understanding of the usefulness of credit leads to stagnation or liquidation of SMEs in South Africa. The survey also showed that one-third of the SMEs that was covered had interest in accessing borrowings but at the end of the day was discouraged though their experience of their peers or experience perhaps thinking applications would be rejected.

Figure 3-3: SMEs' reasons for not accessing credit



Source: FinScope, 2015

Generally, it is evident South African SMEs are financially constrained. Therefore, SMEs revert to informal finance to avoid the harmful effect of a lack of formal credit on their growth and operations. Informal finance usage is higher amongst young and new SMEs although older and mature SMEs rely more on formal finance. Older and mature business tend to seek out credit both formally and informally and is much lower than young and new firms. This can be because older and mature firms can generate adequate internal capital to fund growth and operations or it can be that they are at the mature life cycle of the business and do not need to fund growth (FinScope, 2015).

3.5 TYPICAL SMES FINANCING

SMEs financing consists of external or internal or both, the most commonly used external financial sources are (Urh, 2001):

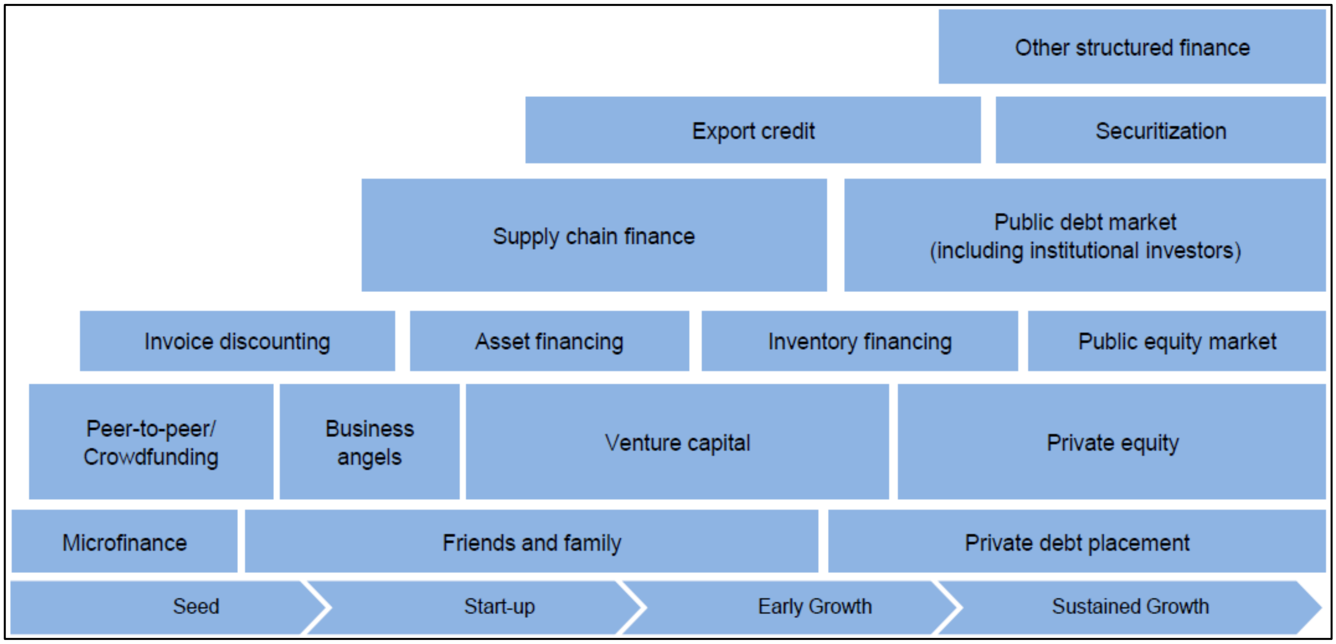
- Equity capital by means of venture capital, business angels, the process from close stock or initial public offering
- Debt capital by means of trade finance, bank loans, intercompany loans, factoring, leasing and issuance of debt subsidies
- A source from government subsidies and funds
- A source from development institutions and structured funds

Also, an essential source of finance is internal finance, which provides some buffer and safety against losses. Equity capital to be more specific is an important source of internal finance, it signifies solvency and if the company go into liquidation shows the ability of borrowers to repay the debt (Urh, 2001).

Most commonly used internal sources are:

- Owners' equity capital
- Retained income
- Capital invested by the shareholders
- Friends and families

Figure 3-4: Overview of the evolution of financing sources in SMEs



Source: Restoring Financing and Growth to Europe's SMEs, IIF and Bain & Company, 2013.

Figure 3-4, indicates from initiation phase, firms are relying exclusively on internal finance; for example, family and friends, microloans and owners' equity capital. Business angels and venture capitals represent the second tier of the initial external source of finance, especially high growth and risk potential companies (OECD, 2016).

Banks are less willing to provide finance to companies during the initiation phase due to asymmetries of information. Likewise, at this phase, a company doesn't hold valuable assets to offer as collateral, thus makes it more complicated for banks to provide finance. Acquired experience after time, companies become more transparent and therefore possess more assets for collateral and provide worthwhile financial statements which lead to banks approving and providing more finance.

Maksimovic, Demurguc-Kunt and Beck (2008) performed an investigation into the institution development and financial impact on financing matters on SMEs and larger enterprises in 48 countries. The conclusion was that SMEs use less external finance, in countries where the institutions are less developed. SMEs also use fewer alternative sources of finance such as trade finance, leasing informal and development finance.

Therefore, there is no suitable compensation for the absence of traditional commercial bank funding.

3.6 ALTERNATIVE FINANCE FOR SMES

The momentum of globalisation, liberalisation, and economic growth result in increased credit demand across the board, more so in developing and emerging economies like South Africa. Stagnated formal financial market would only slow down the economic gains that were made so far. The formal finance providers will seek to extend their product offering, therefore, to be more inclusive, the institutions or business that were affected sought informal or alternative sources of finance. Therefore, alternative financing is used for different reasons nonetheless at the end has one goal: to seal the credit gap. It is consequently vital for the formal and the alternative finance providers to understand determinants for choosing alternative finance models.

While bank financing will continue to be the leading funding channel for SMEs, a more diversified set of options is needed to finance their growth and enhance their resilience through the business cycle. These alternative financing instruments range from asset-based finance (asset-based lending, leasing, factoring etc.) and alternative debt (crowdfunding, private placement, debt funds etc.) to hybrid and equity instruments (private equity, venture capital, business angels, crowdfunding etc.) (OECD, 2015b). These diverse financing techniques are needed to serve adequately diverse types of businesses and their different financing needs along the business lifecycle. In particular, equity finance holds particular promise for firms seeking long-term investment to sustain innovation, value creation and growth.

Figure 3-5: Alternative financing instruments for SMEs

Low Risk/Return	Low Risk/Return	Medium Risk/Return	High Risk/Return
Asset-Based Finance	Alternative Debt	"Hybrid" Instruments	Equity Instruments
Asset based lending	Corporate Bonds	Subordinated Loans/Bonds	Private Equity
Factoring	Securitized Debt	Silent Participations	Venture Capital
Purchase Order Finance	Covered Bonds	Participating Loans	Business Angels
Warehouse Receipts	Private Placements	Profit Participation Rights	Specialized Platforms for Public Listings of SMEs
Leasing	Crowdfunding (debt)	Convertible Bonds	Crowdfunding (equity)
		Bonds with Warrants	
		Mezzanine Finance	

Source: OECD (2015a)

The above table of Alternative financing instruments defers from traditional instruments in the domain of risk and return degrees as well as borrowers' characteristics. Traditional debt is most suitable for borrowers with modest return preferences with a moderated to low-risk aversion. It is useful for sustaining ordinary operations and short-term borrowing needs of a company with a good business model and stable cash flow, collateral and modest growth (OECD, 2015a).

Asset-based finance entails the provision of cash, based on the value assets that will generate in the future course of operations, disregarding the credit standing of the company. The main difference between traditional lending and asset-based lending is the relationship between the borrowed amount and assets liquidation value. The borrowed amount and credit condition depend on the creditworthiness of the borrower. Assets based lending are more flexible terms in comparison to traditional lending (OECD, 2015a).

Alternative debt such as corporate, covered bonds and securitised debt, by which capital market investors provide the borrowings. Covered bonds and securitised debt are indirect while corporate bonds are a direct form of financing. SMEs' securitised debt are conducted through the sale of loans to specialised companies, hence create security connected to the SMEs' cash flow, transfer of credit risk from the bank to capital market and therefore enhance the debt capacity of the SME. A corporate bond is the less popular means of financing instrument due to regulations and issuing cost involved. During the last ten years, the securitised debt instrument has been used widely (OECD, 2015a).

Hybrid instruments are a mix between equity instruments and traditional debt; risk/return degrees are where the differences arise. The key characteristic of the instruments is the reward and risk shared between the investor and borrowers. Investors undertake higher risk and therefore expect the higher returns hence higher financial cost for the company. The risk and return degrees relationship are not equivalent in certain situations of equity financing due to the expected return and risk levels being somewhat lower (OECD, 2015a).

Equity finance is useful for SMEs for development and growth and other specialised platforms such as public listing, and also suitable for financing development and growth opportunities. Acquiring equity capital can be more expensive for SMEs than for large enterprises as the process of accessing the stock market through the IPO tends to be expensive and also the fixed cost of distribution, due diligence and securities registration. Also, SMEs owners will be less inclined to initiate an IPO due to the fear of loss of ownership dilution, under-pricing and control in the capital market (OECD, 2015b).

Furthermore, peer-to-peer or crowdfunding is some of the most innovative types of instruments. Peer-to-peer or crowdfunding is a form of loan transaction without commercial bank or financial institution; monies are borrowed through unsecured personal loans. These transactions involve personal contact and transparent exchange of visible information. The use of these alternative instruments has increased in some countries, hence has been attracting regulators, investors and policymakers' attention striving to assess transparency, consumer protection and risk-return awareness (OECD, 2015b).

3.7 DETERMINANTS FOR SMES CHOOSING ALTERNATIVE FINANCING MODELS

Erick (2014) did a study to determine the impact on alternative finance on the performance of SMEs in Nairobi, Kenya. In the study, he found the biggest hindrances to the access of alternative finance were the lack of collateral, audited financial statements as well as cost and guarantor requirements. The cost was ranked as the highest hindrance as sources of alternative finance and audited financial statements were ranked the least.

Trade Credit was the most used due to its availability and easy access, second was invoice discounting as an alternative source of finance in his study. Medium-size enterprises mostly preferred invoice discounting because of their complex nature. Erick (2014) outlined in his research that the factors and stringent requirements by formal financial institutions necessitate the use of alternative sources of finance. These rigorous requirements were audited through financial statement, guarantors and collateral.

Dancho's (2015) study identified the determinants for choosing alternative finance as the cost of finance, debt risk, level of decentralisation and level of development of infrastructure. The study also showed that security was a requirement for SMEs before a loan could be advanced. Therefore, capital requirements from formal financial institutions hinder SMEs to obtain additional debt burden. Hence the requirements form determinants for SMEs to seek out alternative finance. Level of decentralisation and level of development of infrastructure played a part in financial services as well as conditions available to SMEs in general.

Benthem's (2016) determinants for choosing an alternative source of finance can be due to various organisational characteristics. Benthem identifies these characteristics as structure and size of the SME, level of innovation of management, networking with consultants and innovation developers, and the enterprise readiness for change. Benthem's qualitative research study aim was to determine factors that led Dutch SMEs choosing alternative finance.

Regulations and government policy found to have no effect on the decision for choosing alternative finance. This was contrary to Mateev and Anastaov (2010), which showed a negative relationship between government regulations and policy and growth of SMEs.

The study concluded that SMEs' financing structures are in line with the pecking order theory.

Luu and Nguyen (2013) identified factors for choosing an alternative source of finance as strength and extent of social and official networks, geographical location and accounting book of SMEs. The study also states that when selecting alternative finance, the manager's network regarding ethnicity played a role in the decision. Managers that come from significant ethnic groups tend to increase their financial assistant chances from either formal or informal sources of business or, in some cases, both. The determinants of choosing finance from either formal or informal sources or a combination of both were strength and extent of the relationship between investor and lender, accounting book, shareholder and managers characteristics such as age, ethnic group and professional acumen.

Bett (2013) through using Fin access's National data report of 2009 recognised the determinants for choosing alternative finance sources in Kenya and SMEs attitudes towards formal financial institutions. The negative reactions to the formal financial institutions and internal regulation lead to SMEs resorting to alternative or informal finance resources. The negative attitudes should only go away once the Regulations and respective laws formed by the financial institutions as well as the internal financial rules are put in place to change or become more lenient.

Beside SMEs' attitudes towards formal financial institutions the other determinants for choosing alternative financiers were the individual level of education, age and distance to the formal institution. Borrowing from friends and family was the most preferred source of finance due to the little to no interest on the borrowed funds.

Casey and O'Toole (2014) identified bank constraints as a determinant for SMEs choosing alternative finance as a source of borrowing. The finding was identified during an assessment of financial constraints that are imposed by banks, usage of trade credit and alternative finance during the financial crisis in Europa. The study made use of the European Commission and European Central Bank data. This covered 11 counties in its examination. The study showed that bank constrained firms is more likely to seek out an alternative source of finance than firms which do not have any bank limits. These bank-constrained firms are more likely to seek out alternative trade credit than non-bank constrained firms. Therefore, the conclusion was made that bank constrained firms sought trade credit more than any other alternative finance.

Njeru (2013) did a study regarding the driving factors for entrepreneurial finance for SMEs. The study found that cost of finance, availability of information on numerous sources of alternative finance and purpose for which funds are intended for as the driving factors choosing of finance for entrepreneurial SMEs. Lacking information regarding alternative finance was a consensus among SMEs, and they believe they would be better off if they could obtain information at a fee or ideally free. Media of information such as magazines, television and radio were tested as various sources to relay information regarding alternative finance. Personal contact was rated the most sought after when communicating alternative sources of finance. In Njeru's (2013) recommendation he urged SMEs to seek out alternative finance with is less costly, when facing financial constraints. Another recommendation made was for SMEs to be made aware of their long-term and short-term goals to increase their chances for procurement financial assistance from formal financial institutions.

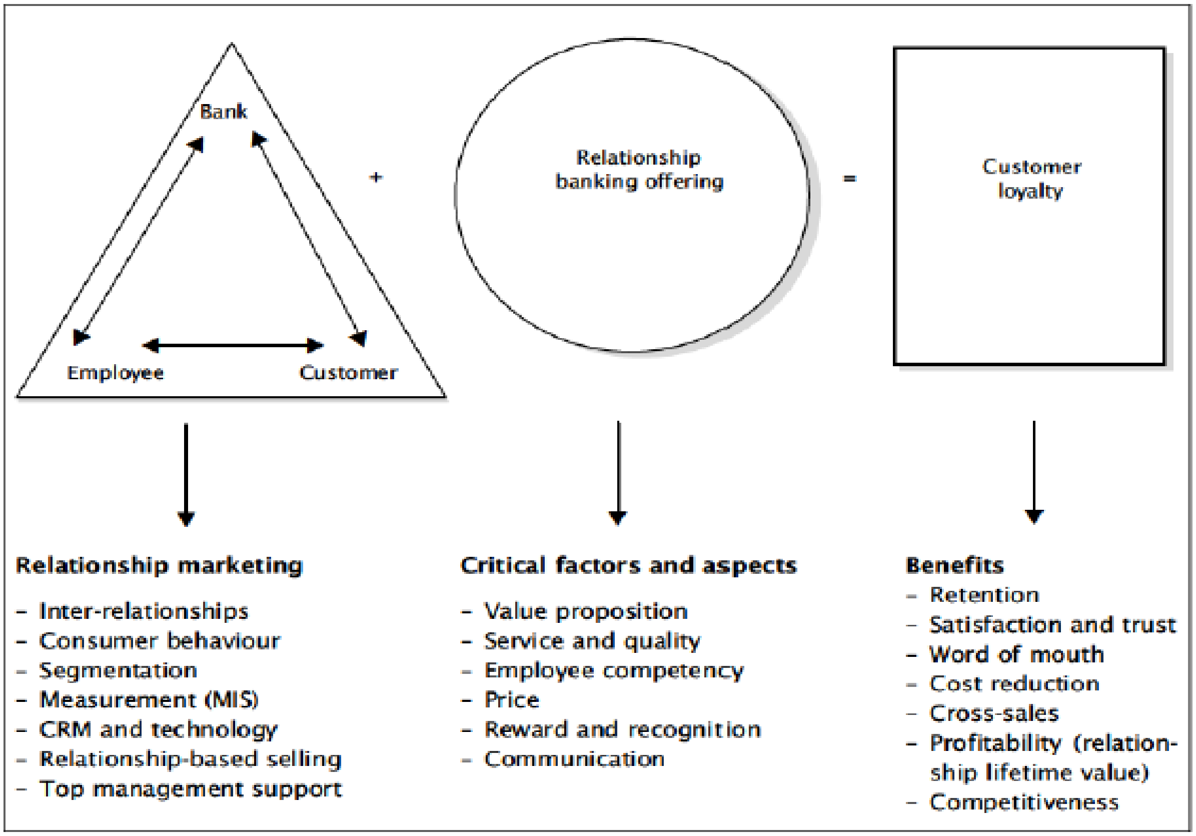
Harvie et al. (2010) establish through the use of a uniform questionnaire in six East Asian countries that stage of development of a country and size of a company are determinants of SMEs access to finance. The stage of development of a country impacts the discussion of the finance model through the influence on the stage of the country's financial sector development. Level of a country's financial sector determines products, services and the conditions of financial assistance to companies. Firm size was deliberated in relation to financial information given by SMEs in the pursuit to inquire about financial aid from formal financial institutions. SMEs were forced to revert to an alternative source of finance as they had little to no worthy information for convincing to obtain formal financial assistance. On the other hand, large firms were seen to have long-term relationships and therefore were in the position to receive formal financial aid easily.

3.8 RELATIONSHIP BANKING AND CUSTOMER LOYALTY

Relationship banking can be defined as a long-term, intimate and relatively open relationship that is established between a corporation and its bank. Banks often supply a range of tailor-made services rather than once-off services (Life Style Extra 2005). In the early 1980s, Levitt (1981) referred to a banking relationship as the process of becoming the designated supplier, which requires a successful passage through several consecutive stages in the sales process. Companies try to develop stronger bonds and loyalty with their customers (Kotler et al., 1998). Most bankers recognise the need to build and maintain a close relationship with customers (Rauch, 1993). Most banks have been unsuccessful in implementing relationship-banking strategies, as they have been unable to make the shift to a relationship-based sales culture (Schneider, 2003). Cheese (1994) relates the importance of relationship banking directly to the business growth and profit potential of companies. This is based on the effects of relationship banking and long-term relationships, which lead to customer retention, loyalty and lifetime customer value (Iniesta & SaÂnchez, 2002).

Customer loyalty means that customers are so delighted with a company's product or service that they become enthusiastic word-of-mouth advertisers (Bhote, 1996). Loyalty can also be defined as ``the willingness of someone – a customer, an employee, a friend – to make an investment or personal sacrifice in order to strengthen a relationship'' (Reichheld, 2003). Loyalty is much more than repeat. Loyalty has a far wider connotation than just customer behaviour. Rayner (1996) describes two dimensions of loyalty: one referring to the emotional aspect, for example, faithfulness and allegiance, and the other based on the behavioural aspect such as being constant, for example, frequently occurring behaviour. He defines customer loyalty as ``the commitment that a customer has to a particular supplier''.

Figure 3-6: Conceptual framework for linking relationship banking and customer loyalty



Source: Relationship marketing: the effect of relationship banking on customer loyalty, 2010

Figure 3-6 illustrates the link between relationship marketing, relationship banking and customer loyalty.

The first important aspect is the concept of relationship marketing. Relationship marketing involves the dimensions of interrelationships, consumer behaviour, segmentation, measurement, customer relationship management (CRM), relationship-based selling and top management support. The inter-relationship revolves around the bank, employee and customer interactions. Next, banks need to segment their market according to various demographic criteria and value propositions, considering both bank and customer requirements. A supporting activity for the segmentation process is the measurement of customer profitability, as value propositions must be financially feasible for the bank. CRM is part and parcel of relationship marketing and must be appropriately applied is the distribution network of banks. The principle of relationship-based selling is core to the relationship- banking offering which needs to be implemented, for any implementation support of top management is critical. The second aspect of the framework involves the relationship banking offering itself. The factors include value proposition, services and quality, employee competency (relationship banking), price, reward and recognition and communication. Relationship marketing and the relationship-banking offering are integrated, and relationship banking develops and flow from relationship marketing. The value proposition condenses the relationship value added or offering to the customer in totality. The relationship banker plays a critical role in the relationship banking offering as the relationship develops between customer and banker.

The last aspect of the framework concludes the principle of customer loyalty and the benefits. One of the main objectives of the relationship-banking offering is to create a higher level of customer loyalty and develop this loyalty over time. The benefits include retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability, relationship lifetime value and enhanced competitive advantage for the bank.

3.9 SUMMARY

In conclusion to the literature review chapter, the chapter gives an introduction, overview and definition of SMEs in the South African description as well as the economic contribution SMEs make to the South African economy. The social and financial challenges SMEs are facing in South Africa, an overview of alternative finance as well as alternative financing instruments for SMEs and determinates for SMEs choosing alternative financing models. The chapter also explains the importance of relationship banking and customer loyalty.

CHAPTER 4: EMPIRICAL STUDY

4.1 INTRODUCTION

The chapter presents the results obtained from the data collected. Therefore, this chapter commences with a discussion in regard to the demographic of the sample profile, findings regarding the determinates why SMEs choose alternative finance and followed by the findings of relationship and services quality towards their primary bank. The chapter also concludes with the main findings from these results.

4.2 GATHERING AND ANALYSING THE DATA

The collection of data was conducted as follows: questionnaires were given to various SMEs situated in the Gauteng province of South Africa. A total of 65 questionnaires were gathered during the data collection process.

The data collected was processed and statistically analysed by the Statistical Consultation Services of the North-West University (Potchefstroom Campus). The processing of data involved coding of the information received from questionnaires followed by converting of the data into useful information such as frequency tables. The developed tables and trends will be used to draw conclusions and recommendations. Mean values are used to measure the central tendency and the standard deviation to indicate the distribution of the data.

4.3 RESULTS AND DISCUSSION

The research instrument selected for this study is a structured questionnaire (see Appendix B). The questionnaire consisted of four sections. Section A comprised the demographic profile of the respondents, section B comprised statements relating to the determinants that cause SMEs to choose alternative financing; section C is an open-ended question, and section D deals with questions relating to the relationship and service quality that respondents experience from their primary bank. Respondents were requested to indicate on a 4-point Likert scale the degree to which they strongly agree (4) or strongly disagree (1) with each of the statements for section B and for section D they were requested to indicate the extent to which they agreed with the statement with no extent (1) and great extent (4).

4.3.1 Section A: Demographic

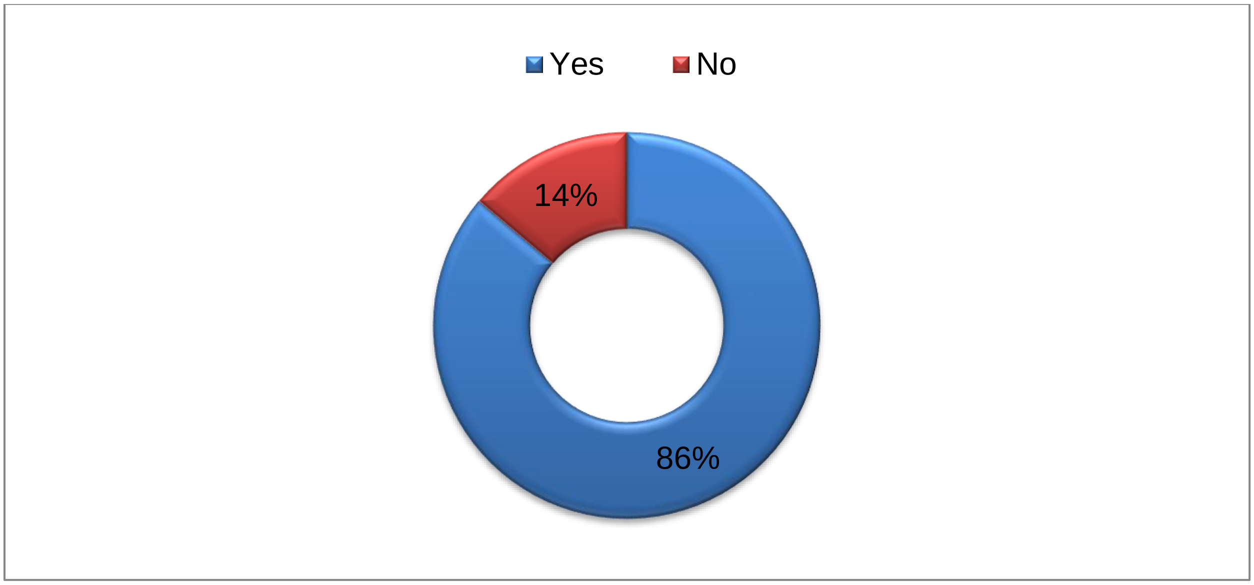
The study was conducted among SMEs who operate in the Gauteng Province of South Africa. The table below provides a summary of the sample's demographic, with its frequencies and percentages.

Table 4-1: Number of years at primary bank

Number of years	Frequencies	Percentages
0 - 1 years	0	0%
2 - 4 years	10	15.63%
4 - 6 years	17	26.56%
6 - 8 years	11	17.19%
8 - 10 years	10	15.63%
10+ years	16	25%
Total	**64**	**100%**
Note: one frequency missing		

Table 4-1 indicates that the majority of the respondents has been banking with their primary bank for 4 to 6 years (26.56%). None of the respondents has been in business for less than a year, hence no start-up respondents.

Figure 4-1: Multiple banking facilities with different financial institutions



As indicated in Figure 4-1, with regards to the question, Do you have any other facilities or products from other financial institutions? With regards to the 56 (86%) respondents' 56 (86%) they do have multiple banking facilities and only 9 (14%) have only facilities with their primary bank.

4.3.2 Section B: Determinants for choosing alternative finance

Table 4-2 entails the results of the respondents' indication to determinants for choosing alternative financiers as compared to their primary bank. Respondents were requested to indicate on a 4-point Likert scale the degree to which they Strongly agree (4), Agree (3), Disagree (2) or Strongly disagree (1) with each of the statements for section B. The determinants consist of five factors namely, Influence of constructs on financier's features level; Influence of constructs on financier's requirements level; Influence of constructs on an organisational level; Influence of pricing and cost efficiency level, and Influence of constructs on an emotional level. Accordingly, the mean and standard deviation was calculated for the abovementioned factors, except for the influence of constructs on an emotional level.

Table 4-2: Determinants for choosing alternative finance

	Mean	Std. Dev.
Influence of constructs on financier's features level	3.22	0.62
Flexibility in the facility offering has an influence when choosing alternative finance	3.39	0.79
Specialised facility offering from alternative financiers have an influence when choosing alternative finance	3.29	0.71
The infrastructure of the financier has an influence when choosing alternative finance	3	0.72
Knowledge of the financial facility from the financier has an influence when choosing alternative finance	3.2	0.79
Influence of constructs on financier's requirements level	3.18	0.46
Capital requirements from financiers have an influence when choosing alternative finance	3.21	0.50
Guarantor requirements from financiers have an influence when choosing alternative finance	3.29	0.46
Collateral requirements from a financier have an influence when choosing alternative finance	3.21	0.63
Regulation from the financier has an influence when choosing alternative finance	2.96	0.79
Internal financial requirements from banks have an influence when choosing alternative finance	3.11	0.79
Bank constraints are a determinant for choosing alternative finance	3.23	0.76

Influence of constructs on an organisational level	2.93	0.48
Your company's management innovation has an influence when choosing alternative finance	3.18	0.77
The business capital structure has an influence when choosing alternative finance	3.07	0.66
Our business model has an influence when choosing alternative finance	3.25	0.70
Level of development of the financier has an influence when choosing alternative finance	2.96	0.74
Advertisements have an influence when choosing alternative finance	2.18	0.82
Influence of pricing and cost efficiency level	3.65	0.42
Pricing has an influence when choosing alternative finance	3.71	0.46
Cost efficiency has an influence when choosing alternative finance	3.75	0.44
Additional fees have an influence when choosing alternative finance	3.50	0.58
Influence of constructs on an emotional level	-	-
Trust has an influence when choosing alternative finance	3.39	0.62
Extent of the relationship between your business and financier has an influence when choosing alternative finance	3.32	0.72

In regard to the Influence of constructs on financier's features level, the total overall mean for the factor is 3.22 and the overall standard deviation of 0.62. Flexibility in the facility was the highest mean under this factor at 3.39 with a standard deviation of 0.79. Hence there is a strong level of agreement with regards to this statement. Specialised facility offering is the second highest mean at 3.29 with a standard deviation of 0.71. The mean for knowledge of the financial facility from the financier as a determinant for choosing alternative finance is at 3.2. The lowest level of agreement was an infrastructure of the financier with a mean of 3 and standard deviation of 0.72.

In regard to Influence of constructs on financier's requirements level, Table 4-2 shows Guarantor requirements is the highest mean which is 3.29 and a standard deviation of 0.46. Bank constraints with a mean of 3.23 are the second highest; this is also identified as a determinant through a study done by Casey and O'Toole (2014). Capital and Collateral requirements from financiers jointly has the same mean, both requirements mean is at 3.21. Guarantor, Capital and Collateral requirements from financiers are also underlined in findings of previous studies done by Erick (2014) and Dancho (2015). An internal financial requirement has a mean of 3.11, and the lowest determinant was internal regulation from financiers with a mean of 2.96, which underlines in findings of previous studies done by Bett (2013) and Casey and O'Toole (2014).

With regards to Influence of constructs on an organisational level, the highest mean realised was the SMEs business model with a mean of 3.25 and Business capital structure with a mean of 3.07 (third highest) as important determinants for choosing alternative financing models which underline the finding of a previous studies done by Mateev and Anastaov in 2010. The results indicated that the company's management innovation has a positive influence as a determinant for choosing alternative finance with a mean of 3.18 and a standard deviation of 0.77. Advertisements are overall the lowest determinant for choosing alternative finance with a mean of 2.18 and standard deviation of 0.82 and perception towards the Level of development of the financier as second lowest overall determinant with a mean of 2.96.

With regards to Influence of pricing and cost efficiency level, as indicated in Table 4-3 in regards to the determinants for choosing alternative finance, the highest mean is cost efficiency (3.75) and second highest is pricing (3.71). Additional fees, such as annual review fees or setup fees was the third highest mean; these means underline the findings in previous studies done by Njeru (2013) and Dancho (2015). Influence of pricing and cost efficiency level has the overall highest mean at 3.65 and a standard deviation of 0.42 in Section B.

Regarding the influence of constructs on an emotional level, trust seems to be an imported determinant of which the mean is at 3.39. This result underlines the findings of previous studies (Watson, 2005 & Martinez-Solano, 2010). The extent of the relationship between investor and lender also indicates to be a key determinant at 3.32 which underlines the finding of previous studies done by Luu and Nguyen (2013).

4.3.3 Section C: Open-ended question for adopting alternative financial

Section C is an open-ended question, which asked SMEs' opinion what the main reason was for them acquiring addition alternative financials service elsewhere than from their primary commercial bank.

The trend directed to pricing, specialised and flexible product offering was the main reasons for acquiring alternative financial services elsewhere. However, not all participants provided and completed the necessary information needed in this section to provide a conclusion.

4.3.4 Section D: Relationship and service quality extent towards the primary bank

Table 4-3 indicates questions concerning the respondents' extent toward their primary bank in relation to the relationship and service quality experience. In section D the respondent was requested to indicate the extent to which they agreed with a statement with, No extent (1), Some extent (2), Large extent (3) and Great extent (4) on a 4-point Likert scale. The questions consist of three factors namely, service quality levels, loyalty levels and acquiring alternative finance. Accordingly, the mean and standard deviation was calculated for the above-mentioned factors.

Table 4-3: Respondents' relationship and service quality of their primary bank

	Mean	Std. Dev.
Service Quality Levels	2.51	0.69
To what extent does your primary bank meet your expectations	2.44	0.80
What is the extent of service quality from your primary bank	2.63	0.69
What is the extent of service efficiency by your primary bank	2.56	0.75
To what extent does your primary bank provide accurate transactions	2.96	0.76
To what extent does your primary bank understand your business operations	2.37	1.04
To what extent does your primary bank understand your business specific requirements	2.41	0.93
To what extent does your primary bank offer customised facilities to cater for your business requirements	2.30	0.82
Loyalty Levels	2.52	0.71
To what extent is a business affiliation with your primary bank important for your business	2.89	0.92
To what extent would you choose your current bank again if you started a new business from scratch	2.39	1.03
To what extent is your loyalty towards your primary bank	2.25	1.00
To what extent do you have confidence in your primary bank	2.79	0.79
To what extent will you recommend your primary bank to other businesses	2.50	1.04
To what extent is it important to have all your facilities with one bank	2.32	0.98
Acquiring alternative finance	2.25	0.73
To what extent will you entirely terminate your current relationship with your primary bank	2.07	0.98
To what extent will acquiring alternative finance be inconvenient to your business	2.11	0.99

To what extent will acquiring alternative finance be disruptive to your business	1.89	1.03
To what extent do you consider switching cost to move to another financial institution	2.93	0.98

As shown in Table 4-3, with regards to service quality factors from the respondents' primary bank, the highest mean is 2.96 on the statement, "To what extent does your primary bank provide accurate transactions" and standard deviation of 0.76. Service quality mean is 2.63 and service efficiency from the respondents' primary bank mean is 2.56. With regards to the statement of, "To what extent does your primary bank meet your expectations" the mean is 2.44 which indicate to some extent. The lowest mean is 2.30 which was recognised on the statement, "To what extent does your primary bank offer customised facilities to cater for your business requirements" and second lowest mean was 2.37 in regards to the statement, "To what extent does your primary bank understand your business operations". This gives an indication that the respondents' primary bank do not understand the business operations "what they do on a day-to-day basis" as well as their primary bank doesn't offer facilities customised specifically which caters for their business and operational requirements. This is also interpreted in the statement, "To what extent does your primary bank understand your business specific requirements" with a mean of 2.41. The overall mean for the service quality level factors is 2.51 and the overall standard deviation is 0.69.

In regard to loyalty levels, the highest mean is 2.89 on the statement, "To what extent is a business affiliation with your primary bank important for your business" and the second highest is the statement, "To what extent do you have confidence in your primary bank" with a mean of 2.79. A mean of 2.50 was recognised on the statement, "To what extent will you recommend your primary bank to other businesses". The lowest mean of 2.25 was recognised on the statement, "To what extent is your loyalty towards your primary bank". The statement, "To what extent would you choose your current bank again if you started a new business from scratch" and, "To what extent is it important to have all your facilities with one bank" also realised a low mean of 2.39 and 2.32 respectively. The overall mean of the six statements of Loyalty levels, 2.52 was recognized with a standard deviation of 0.71.

Regarding the acquiring of alternative finance factors, the highest mean is 2.93 on the statement, “To what extent do you consider switching cost to move to another financial institute” and the lowest level of extent was on the statement, “To what extent will acquiring alternative finance be disruptive to your business with a mean of 1.89. This mean is also the lowest overall. The statement, “To what extent will you terminating your current relationship with your primary bank” and, “To what extent will acquiring alternative finance be inconvenient to your business” also recognised a low mean of 2.07 and 2.11respectively. The overall mean of the four statements regarding acquiring alternative finance factors is 2.25 with a standard deviation of 0.73.

4.4 SUMMARY OF MAIN FINDINGS

This section presents a summary of the main findings of the chapter of Section A, B and D in the empirical study done.

4.4.1 Main findings regarding the demographic profile

Section A of the questionnaire was intended to obtain the demographic profile of the respondents. This section only acquired information on respondents’ number of years banking with their primary bank and do the respondents have multiple banking facilities. Table 4-4 present the main findings of Section A.

Table 4-4: Main findings regarding the demographic profile

Section A	
Main finding 1	The majority of the respondents has been banking with their primary bank for four to six years
Main finding 2	86% (56) of the respondents do have multiple banking facilities

4.4.2 Main findings regarding the determinants for choosing alternative finance

The section provides a breakdown of the main findings of Section B of the questionnaire, which measured the determinants for choosing alternative finance. Table 4-5 presents the main findings of Section B.

Table 4-5: Main findings regarding the determinants for choosing alternative finance

Section B	
Main finding 3	With regards to the influence of pricing and cost efficiency, respondents agree the most with these constructs
Main finding 4	With regards to Cost efficiency as an influence when choosing alternative finance, respondents agree the most with this statement
Main finding 5	With regards to Pricing as an influence when choosing alternative finance, respondents agree second most with this statement
Main finding 6	With regards to Additional fees as an influence when choosing alternative finance, respondents agree third most with this statement
Main finding 7	Overall respondents agree that flexibility in the facility offers an important determinant when choosing alternative finance
Main finding 8	Regarding trust, a trust relationship between investor and lender is an important determinant when choosing alternative finance
Main finding 9	Regarding advertisements, respondents agreed the least with this statement
Main finding 10	Regarding Regulation and level of development, respondents agreed the second least with these two statements

4.4.3 Main findings regarding relationship and service quality extent towards the primary bank

The section provides a breakdown of the main findings of Section D of the questionnaire, which measured the extent of relationship and service quality, that respondents experience from their primary bank. Table 4-6 presents the main findings of Section D.

Table 4-6: Main findings regarding respondents' relationship and service quality of their primary bank

Section D	
Main finding 11	Overall, respondents indicated they are not very loyal to their primary bank
Main finding 12	With regards to the primary bank providing accurate transactions, respondents agreed and had the greatest regard for this statement
Main finding 13	Overall, respondents indicated their primary bank doesn't understand their business specific requirements
Main finding 14	Respondents indicate their primary bank does not understand their business operations.
Main finding 15	Respondents indicated it is not very important for them to have all their facilities with one bank
Main finding 16	To no extent will acquiring alternative finance be disruptive to their business
Main finding 17	Respondents also indicated that acquiring finance will not be inconvenient for their business
Main finding 18	However, respondents consider switching cost to move to another financial institution at large extent

4.5 SUMMARY

This chapter indicated the gathering and analysis of the data as well as the results of the four sections of the questionnaire. To conclude the chapter a summary of the main findings for section A, B and D of the inquiry was provided. The next and final chapter will provide a conclusion and recommendations of the study. The chapter will also include the limitations of the study and recommendations for possible future studies in line with the research study.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter presents a conclusion and provides a recommendation on the main findings from Chapter 4. The limitations of the study are also discussed in this chapter as well as the recommendations for future studies are made.

5.2 CONCLUSIONS AND RECOMMENDATIONS

The main objective of the study was to explore the determinants of SMEs for choosing alternative financiers rather than their primary commercial bank in Gauteng.

- **Influence of pricing and cost efficiency level**

  The collected data indicated that pricing and cost efficiency is the furthermost imported determinants for SMEs to pursue alternative finance.

- **Influence of constructs on financier's features level**

  The influence for SMEs for choosing alternative financiers in regard to the financier's features influences financing choice. SMEs desire its financial provider to be flexible and specialised in the facility (product and service) offering as well as having the knowledge and infrastructure needs and expectations of SMEs.

- **Influence of constructs on financier's requirements level**

  The result of this research provided evidence that security and capital requirements from financiers appears to be key in the adoption of alternative finance. In addition to internal requirements and bank, constraints are also determinants for choosing alternative finance. Regulation from financiers was not seen as a likely determinant for choosing alternative financiers.

- **Influence of constructs on an organisational level**

  In the context of organisational level, several determinants seem to be relevant: Companies' management innovation, the SME business model and capital structure. The level of development of the financier and advertisement had little influence on pursuing alternative finance. Lastly, advertisements were indicated to be the least cause for pursuing alternative finance in the study.

- **Other findings**

  The results concerning the concept of trust having an association with finance appears to be unambiguous, as trust seems to be a key determinant in the study. Trust is built on long-term relationship, openness and insight. Also, trust seems to be equally important as the extent of the relationship between the SME and the financier.

When SMEs seek alternative finance compared to their primary commercial bank, the business is seeking specialised facility products and services.

Alternative financiers who are more known as “niche” financiers and generally provides for the specific facility in the financial market that is under-serviced by commercial banks or even banks don’t have the infrastructure or knowledge to adjust to SMEs’ specific financial requirements and needs.

The fundamental difference between a commercial bank and an alternative financier is essentially as follows: SMEs’ commercial banks are generally inflexible with their facility offering and cannot adapt to SMEs’ specific financial requirements and needs, where alternative financiers can be more adaptable and flexible to SMEs’ expectations.

Commercial banks found it difficult to react and change to a changing financial market where SMEs require individualised financial solutions instead of a vanilla product in the commercial banking finance environment. Therefore, open the door for alternative financiers to take advantage of the opportunities in the financial market to serve the needs and expectations of SMEs.

The question asked by SMEs is how their company decides on which financial institution they must select when it comes to their funding requirements as well as their capital structure of internal and external funding within their business. Some of the aspects that companies must take into consideration are the company's growth stage and the capital, collateral or security the SME has to offer for facilities offerings with financiers.

The finance facility flexibility as well as the cost which comes with the facility offering, as well as the financial impact it possibly will have on the business. The cost in regards of finance will always be relative to the benefits which it can bring to an SME. Cost of alternative finance can be considered high as compared to traditional bank lending, therefore understanding that the perceived benefits of alternative finance come at a cost and it needs to be considered before proclaiming a specific financial solution which is expensive.

A possible recommendation for commercial banks is to consider a relationship strategy based on different facility offerings. The value propositions have to represent the mutual requirements of the bank and the SME, as well as being financially feasible for the bank as well as beneficial for the SME. To support relationship strategies, banks need to understand the business and financial requirements of the SME as well as their buying habits and operations.

A recommendation to primary banks is that the market segmentation process is a critical aspect of relationship marketing, and the segmentation of SMEs must be in line with the different levels of relationship and facility offerings. Segmentation should be according to SME value or profitability, the complexity of financial needs and demands as well as the SME annual turnover and industry it operates in. Segmentation would allow commercial banks to provide the correct relationship financial offering to the right SME and therefore ensuring the SME stays loyal or do not seek alternative finance elsewhere.

5.3 LIMITATIONS OF THE STUDY

The section begins with the study's limitations and subsequently gives a discussion on future research opportunities that can be explored.

The limitations stem from the sample size and sample selection. The study only focused on established SMEs not determinants for new SMEs. Limitations stem from the geographical region, Gauteng province and the sample size and sample selection from only one-second-tier bank and its trade finance subsidiary. The study was conducted in

Gauteng province. Therefore, in addition, the study focuses on the demand side of finance, further study could investigate the determinants of credit approval from the supply side (i.e., banks)

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH

The results of the research have provided the following topics for future research. Firstly, the study focuses on the demand side of financing, future studies can focus on the supply side of why financiers will or will not supply finance to an entity. Secondly, research which focuses on what is the determinants for a relationship to be established based on trust between lender and borrower. Thirdly, research in regards the management and stakeholder's personal characteristics for example age, education as a factor which relates to the adoption of alternative finance. Lastly, pricing of capital has been noted as an important determinant for choosing alternative finance options. Future research could focus on the cost aspect of alternative finance initiatives.

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APPENDIX A: INFORMED CONSENT

Informed Consent: “MBA research study”

The Researcher

My name is Jaco Van Oordt, and I am an MBA student at North West University, Potchefstroom business school. I am conducting a quantitative research dissertation on the reasons for SMEs choosing alternative financiers as compared to their primary commercial bank.

The benefits of the research will be:

There will be no direct benefits to you for your participation in the study. However, I hope that the information obtained from this study will assist financiers to be more responsive to the financial needs and expectations of SMEs.

The Process

Your participation in the study will involve completing a self-developed questionnaire. Participant data will be kept confidential and locked in a file cabinet in the personal possession of the researcher.

Risk and Voluntary Participation

This study poses little to no risk to its participants. Your name and company name will not be associated with any part of the written report of the research.

Your participation in this study is voluntary. It is up to you to decide whether or not to take part in this study. After you sign the consent form, you are still free to withdraw at any time and without giving a reason. Your data will be returned to you or destroyed.

By signing below you agree that you have read and understood the above information, and would be participating in this study.

______________________ ______________________

Signature **Date**

APPENDIX B: QUESTIONNAIRE

MBA – Research Thesis – Questionnaire

Sir/Madam

I, Jaco van Oordt, student number 2115809, MBA student at North-West University (Business School), would like to seek your cooperation for my research dissertation. The fundamental aim of my study is to understand the reasons for companies choosing alternative financiers as compared to their primary commercial bank.

For the purpose of the questionnaire the primary bank is defined as the account from which salary payments and creditor payments are made and debtor payments received through. Alternative finance defined as any other facility that is not from your primary bank.

Your sincere response will be highly appreciated – Thank you

- *Please mark answer with an "X"*
- *Please complete all the questions as far as possible*
- *All information reflected in the questionnaire will remain completely confidential*
- *Please choose only one answer from Section A,B,C and D.*

Section A: Demographic

	Statement	Scale					
1	Number of years at primary bank	0-1 year	2-4 years	4-6 years	6-8 years	8-10 years	10+ years
2	Do you have any other facilities or products from other financial institutions?	Yes	No				
		1	2				

Section B: Determinants

	Statement	Scale			
		Strongly Disagree	Disagree	Agree	Strongly Agree
3	Your company's management innovation has an influence when choosing alternative finance	1	2	3	4
4	Capital requirements from financiers have an influence when choosing alternative finance	1	2	3	4
5	Guarantor requirements from financiers have an influence when choosing alternative finance	1	2	3	4
6	Collateral requirements from a financier has an influence when choosing alternative finance	1	2	3	4
7	Business capital structure has an influence when choosing alternative finance	1	2	3	4
8	Our business model has an influence when choosing alternative finance	1	2	3	4
9	Level of development of the financier has an influence when choosing alternative finance	1	2	3	4
10	Regulation from the financier has an influence when choosing alternative finance	1	2	3	4
11	Bank constraints is a determinant for choosing alternative finance	1	2	3	4
12	Internal financial requirements from banks have an influence when choosing alternative finance	1	2	3	4
13	Flexibility in the facility offering has an influence when choosing alternative finance	1	2	3	4
14	Infrastructure of the financier has an influence when choosing alternative finance	1	2	3	4
15	Knowledge of the financial facility from the financier has an influence when choosing alternative finance	1	2	3	4
16	Specialised facility offering from alternative financiers have an influence when choosing alternative finance	1	2	3	4
17	Pricing has an influence when choosing alternative finance	1	2	3	4
18	Cost efficiency has an influence when choosing alternative finance	1	2	3	4
19	Additional fees have an influence when choosing alternative finance	1	2	3	4
20	Trust has an influence when choosing alternative finance	1	2	3	4

21	Extent of the relationship between your business and financier has an influence when choosing alternative finance	1	2	3	4
22	Advertisements have an influence when choosing alternative finance	1	2	3	4

Section C: Open ended Question

In your opinion, what is the main reason for acquiring additional alternative financial services elsewhere than from your primary commercial bank?

Section D: Relationship & Service quality

	Statement	**Scale**			
		No Extent	Some Extent	Large Extent	Great Extent
23	To what extent does your primary bank meet your expectations	1	2	3	4
24	What is the extent of service quality from your primary bank	1	2	3	4
25	What is the extent of service efficiency by your primary bank	1	2	3	4
26	To what extent does your primary bank provide accurate transactions	1	2	3	4
27	To what extent does your primary bank understand your business operations	1	2	3	4
28	To what extent does your primary bank understand your business specific requirements	1	2	3	4
29	To what extent does your primary bank offer customised facilities to cater for your business requirements	1	2	3	4
30	To what extent is a business affiliation with your primary bank important for your business	1	2	3	4
31	To what extent would you chose your current bank again if you start a new business from scratch	1	2	3	4
32	To what extent is your loyalty towards your primary bank	1	2	3	4
33	To what extent do you have confidence in your primary bank	1	2	3	4

34	To what extent will you recommend your primary bank to other businesses	1	2	3	4
35	To what extent will you totally terminating your current relationship with your primary bank	1	2	3	4
36	To what extent is it important to have all your facilities with one bank	1	2	3	4
37	To what extent will acquiring alternative finance be inconvenient to your business	1	2	3	4
38	To what extent will acquiring alternative finance be disruptive to your business	1	2	3	4
39	To what extent do you consider switching cost to move to another financial institute	1	2	3	4

Your participating is much appreciated!

APPENDIX C: EDITOR'S CERTIFICATE

Dynamic Language & Translation Specialists

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Tuesday, 13 November 2018

To whom it may concern

Re: Confirmation of language edit, typography and technical precision

The dissertation **Exploring the determinants of SMES' choosing alternative financiers as compared to their primary bank** by **J van Oordt** (21158908) was edited for language, typography and technical precision. The referencing and sources were checked as per NWU referencing guidelines (Harvard Style).

Final, last minute corrections remain the responsibility of the author.

Antoinette Bisschoff

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Member of SA Translators Institute (no. 100181)

Precision … to the last letter