



**An analysis of factors influencing the capital
structure of Small, Medium and Micro
Enterprises: A growth and survival
perspective**

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degree of

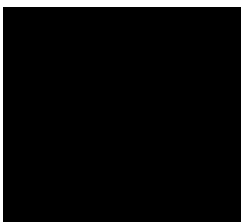
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DECLARATION

I, Sharon Zunckel, declare that the content within this dissertation is my own work. All sources that I have used or quoted have been acknowledged in text by the means of completed references. This study has not been previously submitted in any form to the Durban University of Technology or to any other institution for assessment or for any other purpose.




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DEDICATION

This dissertation is dedicated to my mother, Lindiwe Zunckel, and my late father, Cyril Trevor Zunckel, who has always believed in me and always provided me with opportunities to reach this point. I also dedicate this dissertation to my siblings, Norma, Trayc and Brian, not forgetting my nieces and nephew, Geraldine, Azanathi and Brighton. I could not have made it without your words of encouragement, stern warnings and never-ending question, "Have you finished typing yet?"

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ABSTRACT

In South Africa, there is a need for small, medium and micro enterprises (SMMEs) to become established and be sustainable. These organisations play a crucial role in the economy of South Africa, as well as across the globe. Empirical studies have acknowledged the contribution of SMMEs to the economy, as well as to the gross domestic product. However, the failure rate of these firms has also been emphasised in the same studies. The lack of finance has been identified as one of the contributing factors towards the discontinuance of small firms, hence, managing capital is an importance task for organisations. Managers need to understand the capital structure of the firm in order to make the best decisions regarding the finances of the firm. The growth of SMMEs is also crucial to all economies around the world.

Despite many empirical studies on capital structure decisions in large firms, minimal studies have investigated the capital structure decisions in SMMEs. Therefore, this study is expected to shed more light on the capital structure of SMMEs and enlighten owners/managers on the importance thereof. The aim of this study was to identify the factors influencing the capital structure in terms of the survival and growth of SMMEs in KwaZulu-Natal. The study addressed the following primary questions: what factors influence the capital structure of small, medium and micro enterprises in Durban, KwaZulu-Natal? Furthermore, what is the influence of the capital structure on the survival and growth of small, medium and micro enterprises in Durban, KwaZulu-Natal?

The study used a quantitative research design and was cross-sectional in nature. A survey questionnaire was the primary data collection tool utilised. The target population was 204 SMMEs from the retail and wholesale sectors. A convenience sampling method was adopted which resulted in a sample size of 136, with 103 responses received. The Partial Least Squares Structural Equation Modelling 5.0 software was utilised to determine the statistical results. The findings revealed that both managerial and firm-level factors influence the capital structure of SMMEs.

Managerial factors included individual goals and financing preferences of the owner/manager, network ties, attitude to debt, asymmetric information and maintaining control; whilst the firm-level factors were size of the firm, profitability and firm age.

The findings also revealed that personal savings was the most important financing choice at the initial phase of the firm, however once the firm was established, retained earnings was utilised more than any other source of finance. Retained earnings was also revealed to have a significant influence on the growth and survival of small, medium and micro enterprises.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION

Managing capital structure is an imperative decision made by all firms. The manner in which financing is organised is a strategic financial decision and managers must settle on the amount of debt in relation to equity that it requires. This chapter provides a background to the study, the research problem, aim and objectives of the study and also justifies the need for the investigation. The outline of the dissertation is also provided.

1.2 BACKGROUND

Amongst its African peers, South Africa (SA) is an industrialised economy facing the highest inequalities in the world, with unemployment being on the rise (FinMark 2015: 4). The South African government has recognised the importance of Small, Medium and Micro Enterprise (SMME) business activity as playing an essential function in the economy and that these firms are crucial drivers of economic growth, innovation, job creation and sustainability (Bureau of Economic Research 2016; Forte, Barros and Nakamura 2013; Mogashoa 2016; FinMark 2015; International Leadership Development Programme 2014). SMMEs, together with informal businesses, are estimated to contribute more than 50% to employment in SA (International Leadership Development Programme 2014: 6). In 2014, the Global Entrepreneurship Monitor (GEM) report indicated that a lack of access to finance and poor profitability are amongst the main reasons for firms discontinuing in SA, with banks and lenders in the country being more prone to provide funds to small firms during its maturity rather than its start-up stage (Bureau of Economic Research 2016: 7).

According to the International Leadership Development Programme (2014: 5), there appears to be inadequate support for new start-up firms in the current retail and wholesale sectors, especially in terms of long-term growth and sustainability. Abeywardhana (2015: 4), cited Fatoki (2012), in revealing that the SMME sector in SA is characterised by high failure rates and about 75% of new SMMEs do not become established businesses. This finding has been identified as one of the highest failure percentages worldwide. This study seeks to identify the factors influencing the capital structure of SMMEs and the influence of capital structure on survival and growth. Firms need to perform well in order to be sustainable and to grow.

1.3 RESEARCH PROBLEM

Due to SMMEs' heavy reliance on internally generated funds and a lack of access to external finance, these firms experience slow or stagnant growth (FinMark 2015: 1). According to Nawi (2015: 3), academics have begun to question the capital structure theories in explaining small and medium size enterprises' capital structure. A number of capital structure financial theories (Modigliani and Miller 1958; Kraus and Litzenberger 1973; Donaldson 1961; Myers and Majluf 1984) have attempted to explain a firm's preferences and behaviour according to the financing choice of that firm (Mokuoane 2016: 1). However, these theories existed before the establishment of SMMEs. Borgia and Newman (2012: 183), argued that these capital structure theories disregarded the role played by managers' characteristics and attitudes. They reiterated that identifying the factors that influence the capital structure is important for SMME firms. In addition, these capital structure financial theories explain the financing behaviour of large enterprises. Mogashoa (2016: 74), postulated that although SMME managers do not have a complete know-how of the financial theories, these managers understand the concepts embedded in the theories.

According to the International Leadership Development Programme (2014: 5), barriers and facilitators to growth and sustainability should be comprehended to drive economic growth amongst SMMEs. According to Nene (2014), SMMEs' importance lies in the fact that these firms are key to future growth, transformation and especially job creation around the world and within SA. The National Development Plan (NDP) document raised a need for further research in debt and equity finance for SMMEs (Mokuoane 2016: 2).

The current study seeks to identify the factors influencing the capital structure in terms of survival and growth of small, medium and micro enterprises in KwaZulu-Natal. It will be useful to determine whether or not all the factors have the same level of significance for the survival and growth.

1.4 RESEARCH AIM AND OBJECTIVES

The aim of this study is to identify the factors influencing the capital structure in terms of the survival and growth of small, medium and micro enterprises in the wholesale and retail sector in KwaZulu-Natal.

To achieve the research aim, the following objectives will be addressed: -

- To establish factors that influence the capital structure used by SMMEs in Durban;
- To examine the influence of capital structure on the survival and growth of SMMEs in Durban; and
- To suggest a capital structure that will endeavour to address the survival and growth challenges of SMMEs in Durban.

The objectives of the study led to the following research questions: -

- What factors influence the capital structure of SMMEs in Durban?
- What influence does capital structure have on the survival and growth of SMMEs in Durban?

- What capital structure will address the survival and growth challenges of SMMEs in Durban?

1.5 RATIONALE FOR THE STUDY

Although there are many studies (Abeywardhana 2015; Mireku, Mensah and Ogoe 2014; Mwangi, Muathe and Kosimbei 2014; Klimenok 2014; Lavorskyi 2013), that investigated the factors influencing capital structure, these empirical studies have focused largely on large enterprises and not small businesses. The whole and retail sector is the fourth largest contributor to GDP growth in SA, yet very little research is conducted in SA particularly in the wholesale and retail sector (Magoro and Abeywardhana 2017: 72). There is a lack of empirical studies in SA regarding factors that influence the capital structure around KwaZulu-Natal, amongst SMMEs. Minimal studies have been conducted on SMMEs and capital structure within South Africa and no studies have been conducted on capital structure and the survival and growth of SMMEs. Therefore, this study is expected to shed more light on capital structure and SMMEs in order to enlighten owners/managers on the importance thereof. There has been no empirical investigation on the factors that influence the capital structure of SMMEs in KwaZulu-Natal.

1.6 RESEARCH METHODOLOGY

When formulating the research design for the current study, the researcher was mindful of the type of study that would best address the research questions. Therefore, a quantitative research methodology was utilised, and the study was cross-sectional in nature. The target population was 204 SMME owners/managers in the retail and wholesale sectors listed on the Durban Chamber of Commerce. The sample of 136 SMMEs was selected using convenience sampling.

1.6.1 Data collection

A questionnaire was designed with closed-ended questions.

1.6.2 Data analysis

In order to aid the statistical analysis, the Partial Least Squares Structural Equation Modelling (PLS-SEM) 5.0 software was used for this quantitative study to identify the factors influencing the capital structure and the impact of the capital structure on the survival and growth of the firm.

1.6.3 Ethical considerations

No deception of any kind was used. Research respondents were provided with a letter of consent. All firms in the study were made aware that the information will remain confidential and anonymous and will only be used for the purpose of this research study. Participation was voluntary.

1.6.4 Validity and reliability

To ensure reliability and validity, the study made use of existing constructs that had been used in a similar study (Nawi 2015: 91). Moreover, it was validated through a pilot study that was carried out by a group of candidates. This added value to the research questions, as any comments from the pilot study were used to fine-tune the final questionnaire and ensured no ambiguity or misunderstanding regarding the questions. Internal consistency was measured, as well as efficient reliability utilising the composite reliability (CR) and Cronbach's alpha (CA) coefficient.

1.6.5 De-limitations of the study

The study focused on the factors influencing the capital structure in terms of survival and growth of the firms. The factors were both firm-level factors and managerial factors. Although the definition of SMMEs is very inclusive, the study focused on 204 SMMEs in Durban, KZN, selected through the convenience sampling method. The SMMEs were chosen from the wholesale and retail sector in Durban, KZN.

1.7 CHAPTER OUTLINE

This study comprises of five chapters as follows:

Chapter one provides an introduction and background to the study, as well as the aims and objectives of the study. It established a framework for the research to be undertaken and described the significance of the study and the manner in which the research would be conducted.

Chapter two contains the literature review. It was structured along the objectives of the study in order to establish factors that influence the capital structure used by SMMEs. It also identified the challenges faced by SMMEs in terms of survival and growth.

Chapter three discusses the research methodology utilised in this study. It provides information on the research paradigm, that is the quantitative research methodology, the research instrument, sample and the procedure for data collection and analysis.

Chapter four presents the findings made through the research inquiry. The data, from the questionnaires is analysed, interpreted and presented alongside the relevant literature.

Chapter five, the final chapter of the study, concludes the study, as well as provides recommendations to SMMEs.

1.8 CONCLUSION

A brief background to the study and the research problem were covered. The chapter also examined the aim, objectives, rationale of the study and delimitations, as well as the research methodology to be used in the study.

The next chapter provides a detailed review of existing literature relating to the factors influencing the capital structure, as well as the relationship between the capital structure and SMME growth and survival.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter of this study described the study's aim, objectives, scope, purpose and delimitation. The chapter also provided a brief background to the study. In this chapter, relevant literature that addresses the objectives of the study will be reviewed and their relationship highlighted. The literature review will examine, amongst other issues, factors influencing the capital structure of SMMEs. Firm-level and managerial factors will be reviewed. The review will also examine the influence of the capital structure on the survival and growth of SMMEs.

2.2 DEFINITION OF TERMS

This section provides an overview of definitions of terms relevant to this study.

2.2.1 Small, medium and micro enterprises

According to Jere, Jere and Aspeling (2014: 1), there is no universal definition of an SMME. The criteria used by the countries' national governments bring about the differences in the definition of SMMEs, with the most common criteria used for SMMEs being the number of full-time workers employed, annual turnover and the value of total net assets. According to Makhitha (2016: 258), SMMEs are referred to as Small, Medium Enterprises (SMEs) internationally. The National Small Business Amendment categorises "small businesses into survivalist, micro, very small, small and medium" (International Leadership Development Programme 2014: 9). The National Small Business Act of 1996 concurred with Jere *et al.* (2014), who prescribed three criteria when classifying a business as micro, very small, small and medium, namely, the number of full-time workers, total annual turnover and total gross value. The classification of the business is provided in Table 2.1.

Table 2.1: National Small Business Act definition

Description	Full-time workers	Total Annual turnover	Total Gross Asset Value
Micro	5	R0 – R200 000	R0 – R100 000
Small	20	R200 001 –R3 000 000	R100 001 – R500 000
Very small	50	R3 000 001 – R13 000 000	R500 001 – R3 000 000
Medium	200	R13 000 001 – R26 000 000	R3 000 001 – R5 000 000

Source: National Small Business Act 102 of 1996

The World Bank definition is presented in Table 2.2, also based on the number of full-time workers. However, micro retailers have 0 to 10 full-time workers; small business retailers more than 10 but limited to 50; and medium business retailers have above 50 but are limited to 300 full-time workers.

Table 2.2: World Bank SMME definition

Description	Full-time workers
Micro	10
Small	50
Medium	300

Source: Jere *et al.* (2014)

Schmidt, Mason, Bruwer and Aspeling (2017: 20), classified retail SMMEs according to the number of full-time workers employed, as shown in Table 2.3. Micro retailers have 0 to 50 employees; medium retailers above 50 to 200 employees; and large retailers have over 200 employees. However, this definition does little to distinguish between micro enterprises, small enterprises and medium enterprises (Soni, Cowden and Karodia 2015: 16).

Table 2.3: Classification of Retail SMMEs

Description	Full-time workers
Micro	0 – 50
Medium	51 – 200
Large	200 and above

Source: Schmidt *et al.* (2017)

For the purpose of this study, SMMEs will be defined using the number of full-time workers, as the total annual turnover and total gross asset value is not readily available, particularly amongst SMMEs.

2.2.2 Capital structure

Capital structure is defined by Gitman, Smith, Hall, Makina, Malan, Marx, Mestry, Ngwenya and Strydom (2016: 503), as the mixture of long-term debt and equity sustained by the firm. Popoola (2016: 7), further expounded on the definition of capital structure as the relationship between equity, preference share and debt capital. Popoola (2016), posited that determining the appropriate capital structure is one of the most important decisions of the financial management. Nirajini and Priya (2013: 36), concurred with Gitman *et al.* (2016), stated that, capital structure is a mix of financing approaches utilised by a firm. Capital structure also refers to the extent of debt and equity that makes up the liability section of a firm's balance sheet, often known as 'leverage'. The difference between debt capital and equity capital is that debt capital lenders do not become part owners of the firm, while equity capital suppliers can become part owners. Debt capital lenders are creditors who only receive fixed annual payments from the finances supplied (Gitman *et al.* 2016: 260). Debt may be short-term or long-term (Maina and Ishmail 2014: 213). According to Gitman *et al.* (2016: 259), a firm can acquire equity capital either internally through retained earnings or externally, by selling a certain percentage of ownership from the firm which results in these equity capital suppliers becoming part owners. Another difference between debt capital and equity capital noted by Gitman *et al.* (2016: 260), is that equity capital is a permanent source of financing, while debt capital has a maturity date.

From the term 'capital structure' has emerged 'optimal capital structure'. Defining the optimal capital structure is an essential and imperative decision. The ultimate goal of a financial manager is to maximise the shareholders' wealth, that is increasing the share price of the firm by ensuring an optimal mix of debt and equity in the firm (Gitman *et al.* 2016: 260).

According to Taiwo, Falohun and Agwu (2016: 46), one of the foremost sources of financing available to small firms is that of personal savings and informal loans from friends and lenders. Other sources include partners, informal financial markets and banks, which would make up the capital structure of a small business. Once the firm is established, retained earnings becomes imperative to these firms, particularly SMMEs (Taiwo *et al.* 2016: 46). Fourati and Affes (2013: 247), stated that, external funds are not available at the start-up stage for newly created firms. Due to this problem and given this difficulty, owners/managers rely heavily on internal funds.

Ebiringa (2011: 85), posited that external financing sources for start-up firms are limited to bank loans and trade credit and when these firms rely less on bank loans, they turn to leasing. In the same vein as Ebiringa (2011), Elomo (2014: 16), stated trade credit and leasing can be used by start-ups to finance the firm. Owners/managers of start-ups also rely on internal equity capital such as personal savings, funds from friends and family and personal debt (Cotei and Farhat 2017: 106). Another financing source suggested by Borgia and Newman (2012: 198), is informal sources of funds which stems from owners/managers forging good relationships with individual at other firms to allow for better access to resources. Other types of informal financial sources include financing from individual and employees which were essential and have become a vital of the financial infrastructure of Chinese firms in the private sector (Borgia and Newman 2012: 186).

2.2.3 Growth

Growth is a vital indicator of a flourishing firm. Growth has numerous indicators such as sales turnover, value addition and expansion (Gupta, Gupta and Krishnaswami 2013: 3). According to Sarwoko and Frisdiantara (2016: 37), growth determinants include the personal value of the owner/manager, namely, the personality traits of an entrepreneur; motivational growth; individual competence; and personal background.

Sarwoko and Frisdiantara (2016), divide the personality traits of an entrepreneur into two types, namely, attributes including age, gender, religion and family influence; and attained traits including education and the experience of the owner/manager.

According to Tundui and Tundui (2012: 145), the growth of any firm regardless of size, depends on the capital acquired at the firm's start-up. In addition to sustaining expansion, this amount can influence the capital structure and profitability of the entity. Blasco, Carrizosa and Llopis (2016: 200) suggested that firm growth can be defined in various ways, such as employment, sales turnover, profit, productivity and added value. Blasco *et al.* (2016), and Wang (2016), cited Eurostat-OECD (2007), in defining 'high growth' as average employment growth of at least 20 percent per annum over three years. Omar (2016: 35) concurred with Blasco *et al.* (2016), stated that, the two most important indicators for measuring SMME growth are turnover and employment. Empirical studies, by Moen, Heggeseth and Lome (2015); Lekhanya (2016) and Kovač, Šesnić and Krišto (2018), have agreed that change in turnover and employment are the most common indicators used for measuring growth. This is reiterated by Bryson and Forth (2016: 16), who stated that, both, growth in employment and sales turnover are important measures of growth. However, Omar (2016: 158), asserted that employment growth is a better measurement of growth than sales turnover, due to employment data being easier to gather and less sensitive.

2.2.4 Survival

Survival of a firm is critical for economic growth (Shin, Park, Choi and Choy 2017: 2). According to Okoye, Mbanasor, Okoye and Nto (2013: 64), firm survival is based on positive growth. Once growth stops, the firm is likely to not survive. Okoye *et al.* (2013), found that a firm's survival depends on size, age, employment of highly-skilled workers and leverage. On the other hand, Aigbavboa, Tshikudo and Thwala (2014: 351), cited Burke (2006), found networking skills are the most vital trait that an entrepreneur required to achieve success.

However, Liu and Pang (2015: 3), concurred with Okoye *et al.* (2013), and proposed that a firm's survival, tends to increase with age and size.

2.3 THE IMPORTANCE OF SMMEs IN THE SOUTH AFRICAN ECONOMY

The significance of SMMEs in the South African economy has been identified by many researchers as well as government. The future prospective of SMMEs, representing 40 percent of all businesses in SA, the National Development Plan (NDP), has predicted that SMMEs will employ 90 percent of the country's employment quota. The most recent Global Entrepreneurship Monitor report for 2016/17 shows SMMEs in SA contribute 36 percent to the total national economy. In the section below, this study recognises the contribution of SMMEs to economies around the world as well as South Africa. The section also takes note of the role of SMMEs in job creation.

2.3.1 SMMEs and Economic growth

Universally, the presence of small firms, uplift economies throughout the world (Zafar and Mustafa 2017: 195) and assumes a crucial role in developing countries, simulating worldwide economic success. Sitharam (2014: 6), stated that, a robust SMME sector, is what contributed greatly to the economy, thereby contributing to the gross domestic product (GDP). The economy in America has small firms which contribute 50 to 70 percent to the GDP of the country through job creation and entrepreneurship (Chughtai and Alam 2014: 45). According to Jere *et al.* (2014: 20), entrepreneurship is a crucial factor to start-up firms and it impacts the survival and growth of all small firms. Although entrepreneurship is perceived as an important source of improving economic growth and generating job opportunities, Mbele (2016: 9), contended that from a South African perspective, the scarcity of entrepreneurs is the highest constraint to economic development and growth. In terms of the economic and social development of a country, small firms play a significant role and these firms assist in resolving the issue of job creation and economic growth (Mungal 2014: 1; Ayandibu and Houghton 2017: 133).

Ngubane (2015: 1), pointed out that SMMEs in SA have been recognised as a main contributing factor to the steady growth of the nation's middle class. Ngubane (2015: 3), further pointed out that forming a sustainable market for small firms to flourish is vital to the economy of the country, failing which, that country run the risk of economic stagnation.

SMMEs' imperative role in developing countries can be considered the pillar of the economy. However, SMMEs face many challenges that may proscribe them from being successful. Cant, Erdis and Sephapo (2014: 566), established that small firms in SA contribute 30 percent of the country's GDP. They further cited IT Web (2011), in indicating the significance of small firms in SA, in that:

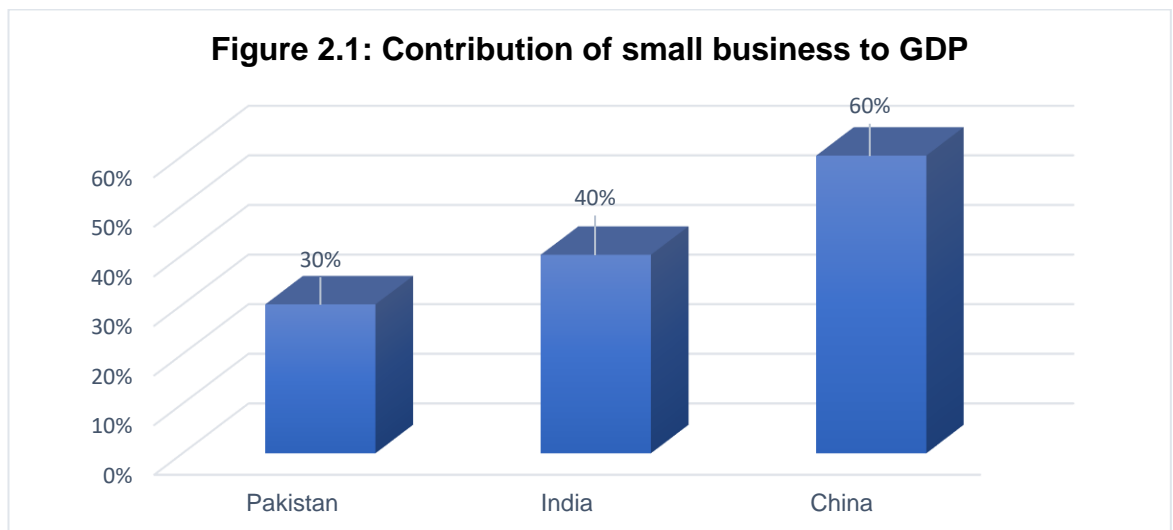
- These firms are the engine of development in the economy; and
- These firms are significant for reducing poverty.

Cant *et al.* (2014: 576), further indicated that most small firms in SA are survivalists, suggesting that their growth is limited, resulting in limited economic development and mildly alleviating poverty. Despite the contribution of new small firms to the South African economy, their failure rate in SA is one of the highest in the world, with a large percentage not becoming established firms. Ngubane (2015: 12), stated that this implies that these new businesses will not be able to fulfil their developmental role in SA and fail to grow. Cant *et al.* (2014: 576) found only 1.7 percent of participants received financial backing from government and the dearth of financial support was rated as the most sombre limitation faced by small firms.

2.3.1.1 SMMEs are the engine of development in the economy

A major economic driver, is the growth of small firms which contribute to employment growth at a greater rate than large firms. These firms are crucial, in promoting the social and economic advancement of a nation (Wiese 2014; Zafar and Mustafa 2017). Zafar and Mustafa (2017: 196), agreed that small firms are vital to the economic and socio-economic development of Pakistan and have become the main employment generators.

Zafar and Mustafa (2017), compared the contribution of small businesses towards the GDP of China, Pakistan and India, as given in Figure 2.1. They found China contributed the highest at 60%, followed by India at 40% and Pakistan at 30%. Similarly, Padachi and Bhiwajeem's (2016: 234) study found that the contribution of SMMEs towards the Mauritian economy cannot be overlooked.



Source: Zafar and Mustafa (2017)

The South African economy needs the small business sector to develop and grow, as these firms have a valuable part to play in economic development and growth. Sitharam (2014: 1), stated that, engineering the growth of this sector can lead to the growth objectives of the economy being achieved. The existence of SMMEs brings about the effective utilisation of local resources and boosts economies all over the world (Lekhanya 2016: 44).

2.3.1.2 SMMEs are significant for reducing poverty

According to Ayandibu and Houghton (2017: 135), SMMEs are nimbler and more ambitious than larger firms, which results in an increase in competitiveness, in turn driving the economy to be more efficient, thereby benefiting consumers. SMMEs empower consumers, provide competition amongst developing firms and offer a choice for customers.

SMMEs are considered a great potential sector for poverty reduction and source of income of millions of people in both developed and developing countries (Padachi and Bhiwajeem 2016: 233). SMMEs have elevated the status of jobless adolescents as they could secure a work space with small firms. SMMEs have also helped both individuals and communities to lift their status amidst the socio-economic emergencies they ended up in (Iwu, Gwija, Tengeh, Cupido, and Mason 2016). Confirmations comprise the change in wellbeing, food security, salaries, property and education amongst family members. SMMEs provide people with a means to meet their basic needs and survive, whilst also assisting in raising the standard of living for citizens within SA. (Iwu *et al.* 2016; Nxaba 2014). SMMEs are essential for individuals who earn the lowest income as which individuals can access numerous economic opportunities.

2.3.2 SMMEs and Job creation

Asah *et al.* (2015: 309), stated that, South Africans are pushed into entrepreneurship due to factors such as retrenchment, job frustration or job loss, while others are pulled into entrepreneurship due to the market opportunity gaps identified. Ngubane (2015: 1), cited Cant and Wild (2013), remarked that SMMEs have contributed immensely to reducing the country's unemployment rate, which led to the sustenance of families, across the nation. SMME undertakings, prompt the establishing of employment, the standard of living and economy advancement (Chughtai and Alam 2014: 46). The Mauritian government believe that SMEs can be a viable vehicle for job creation in the long-term (Padachi and Bhiwajeem 2016: 234). Padachi and Bhiwajeem (2016: 234), suggested that, expanding the prospects of SMMEs, will result in 46 percent of job creation in the economy, primarily in the retail and wholesale trade contributing 37 percent towards GDP. According to Mnisi and Rankhumise (2015: 73), around 40 percent of SA's economy originated from SMMEs, with 50 – 60 percent of new employment being formed.

Mnisi and Rankhumise (2015), cited Sharrif and Peou (2008), in describing SMMEs as reinforcing rising businesses. SMMEs contribute significantly, to the numerous job opportunities which have been generated universally (Nxaba 2014: 10).

2.4 CHALLENGES FACING SMMEs IN THE RETAIL AND WHOLESALE SECTOR

According to Makhitha (2016: 258), the South African retail and wholesale sector, particularly the retail sector, is controlled by four large retailers namely; Spar, Woolworths, Pick 'n Pay and Shoprite. These main retailers draw consumers away from independent, smaller retailers resulting in consumers spending less in small firms, as these large retailers have entered the township areas, which previously had more small firms. Ngubane (2015: 3), is of the opinion that many small firms within SA do not make it past the second year of operations, with failure rates as high as 63 percent. The biggest challenge facing most SMMEs in SA, in the author's opinion, is that of stringent government regulations that stifle rather than aid growth.

Makhitha's (2016: 265) study identified ten pressing challenges for independent retailers, including:

- competition from other businesses;
- the astronomical cost of purchasing products;
- inventory costs;
- taxation expenses;
- rental costs;
- lack of business proficiencies;
- insufficient products marketing;
- government regulations; and
- difficulty in finding proper premises.

It is important for retailers to deal with these challenges as well as for policy-makers to find ways to reduce these challenges in order that these businesses perform successfully.

A study conducted by Agwa-Ejon and Mbohwa (2015) examined the main challenges faced by SMMEs in Gauteng in financing their firm. The study identified lack of knowledge about the banking institutions and a lack of trust between SMME owners and the banking sector, are major challenges faced by these firms. Agwa-Ejon and Mbohwa (2015: 528), asserted that the negative perception of the SMME owners have, of the banking system, could be possible reasons for the prevailing challenges. The study also revealed cash flow, as another challenge faced by the SMME owners. Agwa-Ejon and Mbohwa (2015), further posited that, SMME owners do not fully understand the functions of the financial institutions, which results in their, not approaching financial institutions for assistance. Surprisingly, access to finance was not a major challenge, identified by the Makhitha's (2016: 265) study, which contrasts with most studies of SMMEs, which find poor access to finance as a being a major challenge (Zondo 2016: 219). Zondo's (2016: 224) study established that there are internal and external challenges facing rural small and micro retailers which have the potential to influence business' sustainable growth. In his study, he concluded that retailers need to be skilled in both business and financial management and should these challenges not be managed efficiently, this could ultimately lead to business failure.

According to Jere *et al.* (2014: 21), the retail environment is very competitive and, in order to be viable, the firm must have a clear grasp of the challenges and opportunities presented in the retail environment. Additionally, retailers must offer compelling value for money to succeed and be responsive to market dynamics. They argue that despite there being many programmes in supporting SMMEs, the growth and survival rates of small business in SA are lower than expected. Jere *et al.* (2014: 45), found that 70% of small business fail due the internal factors shown in Table 2.4.

Table 2.4: Main internal impediments

Internal factor	Description
Skills	Lack of executive skills across functional areas, which translates to the business being unable to survive.
Shelter and services	Shelter and services are inadequate or non-existent.
Business development resources	Accessibility to available resources are not extensively known.
Business management experience/mentorship	As most owners are forced into business by necessity, it is unlikely that they have management experience.
Collaboration	There is a tendency to work independently of others and perceive competitors as adversaries.
Funding	88% of buyers use their personal savings for initial capital.
Registration	Registering a small business is perceived as a disadvantage.

Source: Jere *et al.* (2014)

Table 2.4 above displays a summary of the findings of the study conducted by Jere *et al.* (2014). The reason for the firm failure was found to be the following internal factors as shown in the table 2.4 are skill, shelter and services, business development resources, business management experience, collaboration, funding and registration.

Soni *et al.* (2015: 16), investigated both the internal and external challenges faced by SMMEs. The major challenges identified by the study, included access to finance, high interest rates, load shedding, ineffective executive skills and poor understanding of consumer requirements. Although the study found the availability of government funding increased, this did not increase the access to finance by SMMEs. Both Jere *et al.* (2014), and Soni *et al.* (2015), found that the lack of executive skill and access to finance, to be a challenge amongst these firms. Adisa, Abdulraheem and Mordi (2014: 1), similar to Soni *et al.* (2015), investigated the characteristics and challenges of small firms, in a Nigerian context. The study examined 152 small firms, while Soni *et al.* (2015: 18), sampled 250 firms. Adisa *et al.* (2014: 6), revealed that the absence of satisfactory financing, inadequate record keeping and the inability to differentiate business capital from personal capital, to be the major challenge faced by these firms. The lack of adequate funding, was found to be a major concern, as the study indicated. Nigerian small firms face difficulties, not only in obtaining adequate funding, but also in the shortage of finances to sustain and grow. Acquiring a bank loan for the firm to be sustainable and to grow, is very challenging, as owners/managers find it formidable to provide collateral as a guarantee for banks. The challenges faced by Nigerian SMMEs (Adisa *et al.* 2014), are dissimilar, to those faced by South African SMMEs (Jere *et al.* 2014), as finance was the most crucial challenge.

Rankhumise (2017: 56), explored the realities and challenges faced by SMMEs in Mpumalanga. By conducting a qualitative study of 15 firms, the study also found a lack of access of finance, financial management training, managerial skills, access to the market, access to technology, taking pride in working hard and the need for start-up capital as challenges. The participants indicated the importance of access to finance. However, a major challenge for bank loans was the lack of collateral. Banks then, become a risk averse to these firms. The lack of collateral was found to have a major impact on the start-up capital of these firms.

Contrary to established businesses, that find it quite easy to obtain funding, since they have collateral and their financial positions are known. These findings are found to be similar to those of Jere *et al.* (2014), who suggested that most SMMEs in SA, face similar challenges. However, access to finance is identified as the most common challenge across all these studies.

2.5 THE CAPITAL STRUCTURE THEORIES

The initial theory of capital structure originated from the publication of the irrelevance theory by Modigliani and Miller (1958), which states that under perfect market conditions, – that is, no taxes, no transaction cost and all market participants have equal information (no information asymmetry) – the value of an unleveraged firm (a firm which is financed using equity only) is equal to the value of a leveraged firm (a firm which uses both debt and equity). This was known as the MMI theory (Nawi 2015: 12). This theory came about in an era where small business was not recognised for its contribution to the economy (Borgia and Newman 2012: 183). Several authors (Elomo 2014; Zhu 2014; Vo and Ellis 2016), criticised this model, as it failed to incorporate the real-world scenario, such as taxes, transaction costs and information asymmetry. Realising that there was no perfect market, and, contrary to their earlier theory, Modigliani and Miller (1963), revised the MMI model, incorporating taxes into their model and positing that firms that used debt financing have the benefit of a tax shield, with leveraged firms having a higher value. Thus, the MMII model was developed (Jaros and Bartosova 2015: 353). Several authors endeavoured to elucidate the capital structure choice of firms considering Modigliani and Miller's MMI and MMII models, including the trade-off theory, pecking order theory, agency theory, and asymmetric information, which were established, more so for large firms in developed economies (Borgia and Newman 2012). The trade-off theory, initiated from Modigliani and Miller's theory, posits that an optimal capital structure is attained through balancing the tax benefits received from debt financing with the costs relating to debt financing.

This theory supports firms that have a high debt ratio who can take advantage of the high tax benefit (Nawi 2015: 16). However, SMMEs face restrictions in obtaining credit, mainly long-term debt, due to asymmetric information and agency problems with lenders (Shahar, Bahari, Ahmad, Faisal and Rafadi 2015; Sardo and Serrasqueiro 2017; Adair and Adaskou 2015). Contradicting the trade-off theory, the pecking order theory proposes a financial hierarchy where firms utilise internal funds first. Thereafter, debt funds are explored, and the issuing of equity is the last option. Internal funds are considered cheaper as compared to debt financing as compared to issuing equity, which could result in the loss of control of the firm. Debt is considered before equity (Borgia and Newman 2012: 38). Adair and Adaskou (2015: 3) posited that SMMEs do not aim to achieve an optimal capital structure, utilising internal funds, as a first preference.

Several empirical studies have supported these theories under dissimilar circumstances, with some complementing and others contradicting each other. The debate to this day remains unsolved. Borgia and Newman (2012: 181), agreed with Balios, Daskalakis, Eriotis and Vasiliou (2016: 2) that the trade-off theory, pecking order theory and agency theory poorly explain the capital structure decisions and financing behaviour of small businesses, as these theories were developed for large businesses (Šarlija and Harc 2016; Omar 2016). However, small firms are not scaled-down versions of large businesses. Borgia and Newman (2012), examined the extent to which managerial characteristics and attitudes influence the ability to borrow externally, concluding that managerial theories of capital structure could assist in the explanation of the influence of owner/manager characteristics, rather than traditional financial theories. Šarlija and Harc (2016: 252), cited Daskalakis and Thanou (2010), disagreed, stating that capital structure financial theories can be applied to small firms, provided that the determinants have a different effect on small firms as compared to large firms.

2.5.1 Irrelevance Theory

The irrelevance theory developed by Modigliani and Miller in 1958 argued that the firm's capital structure does not have any impact on the value of the firm under perfect market conditions, including no taxes, no transaction costs, no bankruptcy costs, and no asymmetric information. That is, the market value is independent of its capital structure (Gwatidzo, Ntuli and Mlilo 2016; Onaolapo, Kajola and Nwidobie 2015; Borgia and Newman 2012). According to Onaolapo *et al.* (2015: 171), due to this theory suffering from its assumptions of a perfect market environment, the authors later revised their theory to introduce corporate tax. This they found to be significant to the capital structure of a firm. Onaolapo *et al.* (2015), concluded that firms should use debt only to maximise their value with the merit of taxes and the firm's value depends on debt employed by that firm. This implies that the firm's value increases with its debt-equity ratio.

2.5.2 Trade-off Theory

According to Gwatidzo *et al.* (2016: 278), the trade-off theory is inseparable from debt utilisation, which has both inherent costs and benefits. The aforementioned authors explain that debt can be advantageous because of the tax savings originating from finance cost tax deductions. However, the greater the debt used by a firm, the greater the cost of financial distress, including bankruptcy costs. Onaolapo *et al.* (2015: 171), presumed that the firm sets up a target debt ratio and progressively moves towards it using this target trade-off between the costs and benefit of debt. The study recommended that financial managers should be cautious when seeking debt or loans as the wrong capital mix may significantly raise the firms' operational and financial risks (Onaolapo *et al.* 2015: 178).

The core of the trade-off theory refers to balancing the benefits of debt through tax shields and the cost of debt, which would lead to the concept of an optimal capital structure (Balios *et al.* 2016; Šarlija and Harc 2016). Cole and Sokolyk (2017: 612), stated that, a company chooses how much debt or equity to use by balancing the costs of bankruptcy and benefits, tax savings, of debt.

Borgia and Newman's (2012: 182), study stated that, the trade-off theory was weak in supporting small businesses, particularly in China. These businesses had great difficulty in obtaining debt financing. The trade-off theory failed to explain the capital structure decision of Chinese SMMEs. Mogashoa (2016: 40), revealed that SMME managers in SA found the risk of utilising debt far outweighs the benefit. Firms would not take on debt for only for the sake of the interest tax benefit, but rather for expansion, growth and project financing. The trade-off theory predicts that growth has a negative relationship with leverage, whilst profitability, asset tangibility and firm size have a positive relationship with leverage (Sibindi 2017). Table 2.5 provides the predicted relationship between independent variables and leverage. According to the trade-off theory profitability, asset tangibility and firm size are predicted to have a positive relationship with leverage, while growth is predicted to have a negative relationship (Sibindi 2017).

Table 2.5: Predicted relationship of determinants to capital structure based on the trade-off theory

Determinants	Relationship
Profitability	Positive
Asset tangibility	Positive
Growth	Negative
Firm size	Positive

Source: Sibindi (2017)

2.5.3 Pecking order Theory

The pecking order theory was initially proposed by Donaldson in 1961 and then developed by Myers and Majluf in 1984 (Nawi 2015: 13). Contrary to the trade-off theory, this theory indicated that managers' preferred to use internal finances or retained earnings. Thereafter, external finances are chosen. When external finance is chosen, firstly debt is acquired, thereafter shares would be issued (Cole and Sokolyk 2017; Nawi 2015; Hashemi 2013; Forte *et al.* 2013;

Balios *et al.* 2016; Mota and Moreira 2017; Onaolapo *et al.* 2015). The firm has no well-defined target capital structure, as the firm does not aim for a target debt ratio, but a hierarchy of financial decisions will be followed (Balios *et al.* 2016; Gwatidzo *et al.* 2016). According to Fourati and Affes (2013: 247), the pecking order hierarchy of financing for a newly created firm, would be personal savings first; short-term debt (trade credit, lease) thereafter; long-term debt (loan). Then they would resort to external investors (external equity). External investors are the last option due to firms wanting to maintain control of the firm. The pecking order theory is found to explain the financing behaviour of small firms as these firms are more likely to face information asymmetry (Borgia and Newman 2012: 182).

Borgia and Newman (2012: 182), argued against the trade-off theory, stating that the pecking order theory offers a better elucidation of the financing behaviour of small firms as owners prefer to maintain control. Borgia and Newman (2012: 183) cited Allen (2005) and Ayyagari (2008) in stating that small businesses that are privately owned have restricted access to debt capital, and hence the trade-off theory cannot be applied to these businesses. Nawi (2015: 40), stated that, the pecking order theory predicts a negative association between a firm's size and leverage, while the trade-off theory proposes a positive association. Gwatidzo *et al.* (2016: 284), posited a negative relationship between profitability and leverage, confirming the pecking order theory. The pecking order theory predicts that growth has a positive relationship to leverage, while profitability, asset tangibility and firm size have a negative relationship to leverage (Sibindi 2017). Table 2.6 provides the predicted relationship between independent variables and leverage according to the pecking order theory. Profitability and asset tangibility are predicted to have a negative relationship, while growth and firm size are predicted to have a positive relationship (Sibindi 2017).

Table 2.6: Predicted relationship of determinants to capital structure based on the pecking order theory

Determinants	Relationship
Profitability	Negative
Asset tangibility	Negative
Growth	Positive
Firm size	Positive

Source: Sibindi (2017)

2.5.4 Agency Cost Theory

According to Fifer, Ross, Westerfield and Jordon (2012: 20), the agency cost theory came about from the separation of owner's and manager's in running the business and was the cost incurred by the owners to prevent managers from deviating from the goals of the firm. According to Jensen and Meckling (1976), the agency cost theory assumes that the separation between owners and managers can create conflict amongst principals (owners) and agents (managers) as managers place their objectives ahead of that of the firm. However, Jensen and Meckling (1976), found that there is less conflict between principals and agents, particularly amongst small and medium enterprises as these firms' managers and owner are one person. Hashemi (2013: 21), proposed that, where managers are not owners of the SMME, the agency cost theory can be very intense as there is no requirement for SMMEs to disclose financial information and financial statements. He found that the agency cost is higher in SMMEs than large listed firms. Monitoring would be harder for these small businesses, as large listed firms are more transparent about their financial information and financial statements. Balios *et al.* (2016: 3), reiterated Hashemi's (2013) thoughts, in stating that SMMEs have distinct specificities that must be considered as managers are most likely owners of the SMMEs. However, asymmetric information is considerably high.

2.5.5 Asymmetric Information

The assumption of asymmetric information is that managers in the firm have more information about the firm than external individuals (Ross 1977; Mota and Moreira 2017). Mogashoa (2016: 10), and Hashemi (2013: 21), described information asymmetry as the difference in the information that managers of a firm and outsider parties in the market have about the firm, resulting in managers (internally) having an advantage over outsiders regarding predictions about the firm. Cotei and Farhat (2017: 118), posited that firms characterised by high information asymmetry rely more on personal savings from the owner. Sibindi (2017: 23), asserted that information asymmetry is embedded in the pecking order theory, as it arises from internal stakeholders having additional information above external stakeholders and these internal stakeholders use this information to their advantage. According to Ebiringa (2011: 85), asymmetric information between entrepreneurs and outside financiers is high due to lack of availability of historical statistics on start-up firms, with these firms having more relaxed requirements concerning information disclosure than large firms that are listed. There is no reputation of these firms to reduce asymmetric information. Information asymmetry is found to be higher in small firms and lower in large firms as large firms protect their reputations by honouring their debt obligations (Gwatidzo *et al.* 2016: 282). According to Mutezo (2013: 157), where asymmetric information can be reduced by successful lending, and the decision to lend, by these providers, is based on the assessment of financial statements, provision of collateral and credit scoring. Ogubazghi and Muturi (2014: 635), posited that external financing is difficult for SMMEs to access due to asymmetric information. The unavailability of financial information forces the bank to use the owners'/managers' characteristics to assess the creditworthiness of SMMEs. Epure and Guasch (2017: 2), concurred with Ogubazghi and Muturi (2014), asserted that the lack of transparency in these firms would lead to outside investors being unable to identify reliable information on the firm. This is the reason that banks find it challenging to proffer finance to small firms (Nanyondo, Tauringana, Kamukama and Nkunabanyanga 2014: 326).

According to FinMark (2015: 2), informal finance can be used to remedy the information asymmetry faced by SMMEs. However, this form of finance has no impact on the firm's growth as much as formal finance. Due to information asymmetry, access to capital between Chinese stakeholders (management of small business and potential lenders) has worsened, resulting in these small businesses utilising more informal capital (Borgia and Newman 2012: 183). However, Borgia and Newman (2012) posited that informal finance could also be chosen due to owners/managers fearing a loss of control of the firm. According to Borgia and Newman (2012: 195), informal financing in the Chinese small business context refers to entrepreneurs borrowing capital from other small businesses rather than formal loans. This type of financing was found to assist small businesses to survive in most periods. These businesses act as guarantees on each other's loans. Silva (2015: 9), indicated that asymmetric information could also be reduced within firms by private equity investors who are actively engaged in the governance of the firm.

2.6 THE DETERMINANTS OF CAPITAL STRUCTURE

This section presents empirical studies investigating the determinants of capital structure, globally and broadly, of large firms.

According to Gwatidzo *et al.* (2016: 276), significant research has been disbursed in acquiring a superior understanding of firms' financing decisions. Onaolapo *et al.* (2015: 170), agreed with Chang, Lee and Lee (2009), explained that there is no consensus in the determinants of capital structure for developed and developing countries due to the adoption of different methodologies and choices in time frames. Handoo and Sharma (2014: 170), stated that, realising the correct capital structure to support it's operations and ventures has tested academics and experts alike. The capital structure choice is a vital financial issue, faced by firms (Handoo and Sharma 2014: 170). The capital structure of African firms is shown in Table 2.7. The table provides a summary of the findings of studies conducted in Africa.

A study conducted by Handoo and Sharma (2014: 171), examined 870 companies, in India to establish which factors influence capital structure choices, especially with India's emerging economy, using financial statements. The firm-level factors such as, profitability, growth, asset tangibility, size, cost of debt, liquidity, financial distress, tax rate, debt servicing capacity and age were investigated. The findings of the study reveal that profitability, growth, asset tangibility, size, tax rate, debt servicing produced a significant impact on total debt, while cost of debt, liquidity, financial distress and age had no significant impact on total debt. Their study concluded that capital structure management becomes a balancing act and firms must make a trade-off between financial flexibility and financial discipline (Handoo and Sharma 2014: 171).

Chipeta and Deressa's (2016: 649) study examined the effect of firm-level factors on the dynamics of the capital structure of 12 Sub-Saharan African countries. The study included country-specific factors by carrying out panel data estimate techniques on a set of 412 firms over the period 2008 – 2012. The *firm-level factors* investigated were size, growth, profitability, tangibility, risk and tax, while the *country-specific factors* are rule of law, control of corruption, legal rights index, contract enforcement days, cost of enforcement, stock market capitalisation to GDP, private sector credit to GDP, real GDP and real interest rate. The findings of the study established size to be positive and significant for half of the sampled countries, while growth was only significant for a quarter of the sampled countries. Profitability was found to be negative and statistically significant for 11 of the 12 firms, which confirms the pecking order financing theory (consistent with Thippayana 2014). Asset tangibility indicated mixed results across the countries, with SA showing a positive and significant correlation between asset tangibility and leverage. This result was consistent with the hypothesis that firms with tangible assets will be less exposed to potential costs of financial distress. This is contrary to the assertion that firms with high collateral value of assets have high debt ratios.

In terms of risk, SA and Tanzania displayed statistically significant and negative coefficients, suggesting that highly volatile earnings relate to lower leverage for firms in these two countries, while tax was also found to be statistically significant for firms in a third of the sampled countries (Chipeta and Deressa 2016: 661). Chipeta and Deressa's (2016: 649) found that the country-specific factors, display the rule of law in Nigeria and Zimbabwe provide a means for firms within these countries to increase their debt maturity. Choice of debt for firms in Ghana was significantly influenced by the strength of legal rights, time to enforce a contract and costs of contract enforcement. Firms with developed stock markets tend to have a lower debt ratio and firms in countries with strong legal mechanisms tend to have higher long-term ratios. Firm profitability and tangibility were found to be the most significant factor of capital structure, with profitability being more pronounced in countries with least developed stock markets, suggesting that these firms rely heavily on internal sources of finance, which may be due to limited financing options and high transaction costs associated with these markets (Chipeta and Deressa 2016: 667).

Table 2.7: Comparison of selected studies on the determinants of African capital structure

Author	Onalapo <i>et al.</i> (2015)	Gwatidzo <i>et al.</i> (2016)	Elomo (2014)	Bassey, Arene and Okpukpara (2014)	Sibindi (2017)
Sample	35 listed firms on NSE	239 listed firms on JSE	32 non-financial start-up firms	28 agro-listed firms	16 listed (JSE) and not listed
<u>Dependent variable:</u> Leverage measure (long term debt)	Book leverage (ratio)	Book leverage (ratio)	Book leverage (ratio)	Book leverage (ratio)	Book leverage (ratio)
<u>Independent variable:</u> Firm size Profitability Asset tangibility Growth Firm risk Other:	Positive Positive Positive Not significant Dividend payout: (not significant) Non-debt tax shield (not significant)	Positive Negative Positive Not significant Positive Tax (negative)	Negative Positive Positive Negative Positive Firm age (positive)	Positive Negative Significant Positive – Dividend payout: Taxation Firm age (positive)	Positive Negative Positive Positive Positive Dividend: (insignificant)

Source: Own compilation

Onaolapo *et al.* (2015: 178) examined the determinants of corporate capital structure using published annual reports that meet the Nigerian Companies and Allied Matters Act 2004, Nigerian Stock Exchange (NSE) and Securities and Exchange Commission over the period 2006 – 2012, using pooled ordinary least squares to estimate the coefficient of six firm-specific determinants: profitability, asset tangibility, growth opportunities, size, non-debt tax shields and dividend payout. The findings of the study, which examined the determinants of the corporate capital structure of thirty-five non-financial firms listed on the NSE, were that profitability, size and asset tangibility are important determinants of corporate capital structure, supporting the pecking order theory and not the MM1 theory. Additionally, the results of the study have shown that these firms relied extensively on retained earnings before opting for external financing. Onaolapo *et al.*'s (2015: 177) study indicated a positive and significant relationship between leverage and firm size, suggesting that larger firms can support higher debt ratios than small firms, which is consistent with the trade-off theory. Asset tangibility was commonly found to have a positive and significant relationship with leverage, was consistent with Gwatidzo *et al.*'s (2016) study which supported both the trade-off theory and pecking order theory. The remaining variables of, non-debt tax shield, growth opportunities and dividend payouts, were not significant to leverage and therefore unimportant factors of Nigeria's capital structure.

SA is an emerging African economy considered more developed than its African counterparts. Gwatidzo *et al.* (2016), investigated the determinants which affect the capital structure of 239 firms listed on the Johannesburg Stock Exchange (JSE). The determinants investigated were size, profitability, asset tangibility, reputation (age), growth opportunities and tax. The study followed Canay's (2011) study and applied a quantile regression approach and found a negative and significant relationship between profitability and leverage corroborating Handoo and Sharma's (2014) work and contradicted Chipeta and Deressa's (2016) positive relationship.

Asset tangibility and leverage were found to display a positive and significant relationship, which was consistent with most studies (Gwatidzo *et al.* 2016: 281). While growth displayed a positive but statistically insignificant relationship, size and leverage were found to have a positive and significant relationship for firms. Large firms, have large projects, which required them to incur debt. This need, by large firms and the willingness of lenders to extend credit to these firms, resulted in a positive relationship.

Choi, Yoo, Kim and Kim (2014: 93), empirically analysed the determinants of the capital structure of listed construction companies in Korea over the period 2000 to 2010. Listed companies were chosen to determine the expansive impact on the national economy as far as their size, economic activities and financial data are more open when contrasted to non-listed companies. The independent variables used in the analyses included firm size, profitability, growth opportunities, non-debt tax shield, asset tangibility, liquidity and time dummy. The dependent variables included book value leverage ratios. Choi *et al.*'s (2014: 100) empirical results indicate that firm size was found to be positively related to leverage, supporting the trade-off theory. Profitability indicated a negative relationship, partially accommodating the pecking order theory. Growth, asset tangibility and liquidity, were found to have a negative relation with leverage. Liquidity had the strongest negative effect (Choi *et al.* 2014: 100). He reasoned that most construction companies used leverage to maximise profit, regardless of their financial capabilities.

Elomo (2014: 2), examined the determinants of capital structure for start-up firms in Africa, especially SA. The study also looked at identifying the factors affecting the capital structure decision of start-up companies, whilst exploring the different ways in which these firms can finance their activities. The sampled firms included those in the latest stage of start-up just before the initial public offering (IPO), due to the unavailability of the data from the early stage of the start-up, using balance sheets and income statements and pre-listing statements from 2002 and 2014 (Elomo 2014: 19).

The dependent variable for this study was book value leverage ratios, while the independent variables were tangibility, firm size, profitability, firm age, growth opportunity and firm risk. The empirical results indicate that only growth had a negative, statistically significant impact on short-term debt, suggesting that start-up firms with high growth opportunity tend to use less short-term debt. Firm risk displayed a positive, statistically significant impact on long-term and total debt. Elomo (2014: 36), concluded that growth opportunity and firm risk are the firm's most important characteristic in determining the capital structure of start-up companies in a South African context.

Basseey *et al.* (2014: 35), examined the determinants of capital structure of Agro-listed firm in Nigeria, during the period 2005 to 2010. They used the ordinary least squares (OLS), to analyse the identified firm-specific determinants. They found firm-specific variables of asset structure, growth and tax to be positive and significant to the short-term debt ratio, with size, age and growth also being positive and significant to the long-term debt ratio, with profitability having a negative relationship and asset structure being significant. Their study further found that the pecking order theory dominates the financing behaviour of listed agro firms in Nigeria. They argue that size and tangible assets are important for firms in securing long-term debt.

Sibindi (2017: 10), sought to establish the factors that determine what are important to the capital structure of South African financial firms in order to evaluate the efficacy of capital regulation. The banking sample consisted of 16 banks and the insurance sample comprised 26 firms for the ten-year period running from 2006 to 2015. The independent variables employed in this study were size, growth, asset tangibility, profitability, risk and dividends, while the primary dependent variable was book leverage. The results of the study displayed a positive relationship with growth, size, risk and asset tangibility (although insignificant) and a negative relationship with profitability and dividend (although insignificant) to book leverage (Sidindi 2017: 152).

Chaklader and Chawla's (2016: 267) empirical study investigated the determinants of capital structure of firms listed on the National Stock Exchange (NSE) in India. The period of the study was from 2008 to 2016 using a panel data regression analysis to understand the impact of various independent variables over leverage. The firm-specific independent variables were growth, liquidity, non-debt shield, profitability, size and tangibility which were used to understand their impact book value of leverage. The study found only two variables which were statistically significant: *tangibility* which was positively related and *liquidity* which was negatively related to leverage. Furthermore, they found five of the six variables, namely; size, tangibility, non-debt shield, growth (in sales) and profitability in accordance with the trade-off theory and only liquidity in accordance with the pecking order theory.

Although firm size, profitability, asset tangibility, firm risk, dividend payout and growth were the most common variables utilised in determining factors that influence the capital structure of African firms, the review of the literature revealed that the findings was inconclusive. Firm size, firm risk and asset tangibility were found to have a positive relationship with leverage amongst all the African countries except for the capital structure of start-up firms (Elomo 2014) which found firm size to have a negative relationship with leverage. The findings for profitability and growth varied amongst the African firms. While dividend payout was identified in most African countries, it was found to be insignificant in relation to leverage.

2.7 FACTORS INFLUENCING THE CAPITAL STRUCTURE USED BY SMMEs

This section presents the literature review on the factors influencing capital structures used by SMMEs internationally and nationally. The theme provides a broad overview by specifically presenting empirical evidence of studies conducted internationally.

A study by Nawi (2015: 1), investigated the factors of capital structure in SMMEs in Malaysia and their influence on performance. The study examined the factors influencing the capital structure of small businesses, including owner/manager traits, firm characteristics, management performance, external factors and ethnicity. The determinants investigated in the study were owner's age; race (ethnicity); education and experience; attitude; perceptions and beliefs; relationship and networking; objectives and goals; firm's age; firm's size; profitability; asset structure; business planning; and environment (Nawi 2018: 56). Capital structure was measured using retained earnings, funds from friends and families and debt. The study had a sample of 384 firms (67% sole proprietorship, 13% partnership and 20% limited liability), using a mixed method approach, with the main study using questionnaires. Semi-structured interviews were conducted at the preliminary stage to explore issues and finalise questionnaires (Nawi 2015: 84). Although limited research has been conducted on owners' preferences, views and attitudes influencing their financing decisions, the study included management preference in terms of risk propensity, control aversion and culture norm (Nawi 2015; Mac an Bhaird and Lucey 2014). According to Hilgen (2014: 2), the essence of culture is the way people think, feel and act, which can be distinguished through behavioural patterns, values, beliefs and assumptions. The results showed that all firm characteristics were found to be significant in at least one of the sources of finance. Retained earnings was found to be positively associated with a firm's age and profitability and inversely related to business planning and asset structure. However, in relation to funds from friends and family, a firm's age and business planning were negatively related (Nawi 2015: 202). Debt financing was found to be positively associated with business planning and asset structure, but negatively associated with firm age and profitability (Nawi 2015: 203). External equity was positively associated with firm size and business planning and negatively related to profitability. Owners' ethnicity, networking and relationships and attitudes to debt were found to influence Malaysia's small business capital structure, with the owner's age and education having no influence (Nawi 2015: 203).

The overall results indicate that there was no signal for the effect of owner's education and experience on capital structure decisions. The findings also revealed that managerial factors, firm characteristics, management performance and environment relate to all types of capital structure, supporting the pecking order theory (Nawi 2015: 202).

In addition, a study conducted by Matias and Serrasqueiro (2017: 20), analysed capital structure factors connected to the firm's intrinsic characteristics. Additionally, the study investigated the possible presence of dissimilarities in the capital structure and firm-level factors of SMMEs across the seven Portuguese regions. The study examined the period between 2007 and 2011 for 11 016 sample companies' financial data, which was provided by the Bureau van Dijk. The study focused on the following factors: size, profitability, age, asset tangibility, growth and debt (Matias and Serrasqueiro 2017: 20). Matias and Serrasqueiro (2017: 20), agreed with other studies that the modern financial theories do not fully explain the capital structure of these small firms' decisions as these theories are based on the decision making of maximising the firm's value. Although there has been large-scale empirical research on the relationship between capital structure and firm value, no consensus has been reached (Vo and Ellis 2016: 90). The findings revealed that Portuguese owners/managers fund small firms with a larger portion of debt rather than equity, which was observed in all regions (Matias and Serrasqueiro 2017: 26). Furthermore, the results showed that the average size was comparatively alike in the diverse regions, with a major difference in only two regions. Profitability averaged around 5%, with firms in the Lisbon region being the most profitable. In addition, the study found that the relationship between size and debt (short, medium and long-term) were positive and statistically significant for the majority of the regions for the sample. Profitability and long- and medium-term debt were found to be negatively related, with only two regions found not to be statistically significant. The relationship between age and debt was found to negatively affect total debt and short-term debt while it was found to positively affect medium-term debt.

Age was found to best explain the level of short-term debt in four regions. Tangible assets were found to positively affect levels of total debt and long-term debt, but negatively affected short-term debt (Matias and Serrasqueiro 2017). Tangible assets were found to be more important in explaining long-term debt as well as short-term debt. Lastly, growth showed a positive relationship with debt, yet it was not significant. The overall results propose that size, age, asset tangibility and profitability are trustworthy in elucidating Portuguese SMMEs' capital structure choices. Additionally, these choices are stronger in supporting the predictions of the pecking order theory in comparison to the trade-off theory (Matias and Serrasqueiro 2017: 31). However, this study did not consider managerial factors of SMMEs, which may deeply influence the understanding of SMMEs' capital structure choices (Matias and Serrasqueiro 2017: 31).

Similar to Nawi's (2015) study, Borgia and Newman (2012: 180), explored the importance of owner/manager traits in elucidating the capital structure choices of Chinese SMEs. The study conducted by Borgia and Newman (2012: 184), used the Van Auken's (2005), dynamic model, discovered primary factors that influence capital structure choices, namely; managerial traits (including network ties, education and experience) and attitudes (including managerial aversion to external control, risk-taking inclinations and growth intentions). Their sample included 300 private enterprises randomly chosen from the list of registered firms which met the definition of SMMEs in China. In order to attain an in-depth comprehension regarding how managerial factors influence the capital structure of Chinese small firms using a mixed research method (Borgia and Newman 2012: 187). A questionnaire was issued to investigate the effect of managerial factors on capital structure and semi-structured interviews were used to gain a deeper understanding of the findings from the questionnaire. The findings of the study showed that managerial traits and attitudes may elucidate the difference in capital structure more than firm-level characteristics, such as size, age, profitability, asset structure and

owner/manager age. The use of debt is influenced by owner/manager attitude, including aversion to external control and risk.

Hence, there is a negative relationship between aversion to external control and the use of debt. However, risk-taking inclinations were directly related to the risk inclinations of the owner/manager. A summary of the findings in the study of Borgia and Newman (2012) is shown in table 2.8. Growth intentions was found to have no relationship with leverage. Network ties was found to have a negative relationship while education had a relationship although it was not found to be significant to leverage. Managerial experience was found to have a positive significant relationship with leverage.

Table 2.8: Summary of findings of each independent variable to the dependent variable (leverage)

Independent variable	Relationship with leverage
Growth intentions	No relationship
Stronger network ties	Negative
Education level of owner/manager	Not found to be significant
Managerial experience	Significantly positively

Adapted from Borgia and Newman (2012)

In addition, a study conducted by Balios *et al.* (2016: 2), investigated how small and medium enterprises' capital structure changes during the period of economic crises in Greece. The sample consisted of 8 502 firms using financial statements and computed ratios related to capital structure, using panel data over the four-year period 2009 – 2012 (Balios *et al.* 2016: 5). The study revealed that asset structure and profitability is negatively related to leverage and positively related to size and growth, risk was not found to statistically significant to leverage. Supporting the pecking order theory is the negative relationship profitability and asset tangibility have with leverage.

Šarlija and Harc (2016: 252), conducted a study which analysed fundamental determinants, such as growth, size, profitability and tangible assets of the capital structure using non-listed small businesses. The results of the study found that small businesses in Croatia follow the pecking order theory, using primarily internally generated funds.

A study conducted by Mogashoa (2016: 3), explored the major factors that influenced SMME managers, when making capital structure decisions in South Africa. The study focused on the firm-level factors. The firm-level factors explored, were taxation and profitability. This was found to influence the capital structure of firms. The managerial role was explored, in relation to the trade-off and pecking order theory. The findings of the study revealed that SMME managers do not utilise debt for the tax benefit (according to the trade-off theory) to be valuable for the firm as the interest payments can disintegrate the firm's profitability and open the firm to potential bankruptcy. Business objectives were found to be the most important factor of capital structure decision-making. The pecking order theory was supported in this study, while the trade-off theory was found to have no influence on capital structure decision making.

Empirical studies on capital structure within the context of SMMEs has improved immensely over the years, however there are limited studies within the South African context. The empirical review on the capital structures of SMMEs support the pecking order theory, suggesting that the pecking order theory is reliable in explaining the financing behaviour of SMMEs in developed countries. Based on the empirical evidence in the above studies, factors selected in this study were among those factors investigated. Firm size, profitability, asset structure, business objectives, asset structure and firm size were the most primarily utilised variables in most of the empirical studies. Empirical studies (Borgia and Newman 2012; Nawi 2015) also investigated managerial factors that influence the capital structure of SMMEs, attitude to debt, networking, education and experience were variables used.

Other factors such as aversion to external control, age of owner and owner's ethnicity (race) were also included.

Borgia and Newman (2012), recognised the importance of SMME owners/managers in making financing decisions. In their study using Van Auken's dynamic model proposed to examine managerial characteristics and attitudes of Chinese firms. The study included several managerial factors such as managerial characteristics (managerial network ties, education and experience) and attitudes (managerial aversion to external control, risk-taking propensity and growth intentions). The study also considered firm-level characteristics such as size, age, profitability, asset structure and the age of the owner/manager to determine the extent to which managerial factors influence the capital structure of SMEs, above and beyond firm-level factors. Using the Borgia and Newman (2012) analytical framework and the Nawi (2015) preliminary framework, the research identified incorporated previous empirical studies on managerial traits and attitude to identify the managerial factors that influence the capital structure of SMMEs.

2.8 THE RELATIONSHIP BETWEEN THE CAPITAL STRUCTURE AND SMME GROWTH AND SURVIVAL

According to Ngubane (2015: 3), measuring growth has its own challenges because most countries are not consistent in their measurement or they do not measure it at all. Silva (2015: 18), asserted that growth in a firm is an intricate phenomenon and one determinant cannot fully explain this phenomenon as "alterations in perspective and interpretations, effectiveness, empirical contexts, modelling and analysis approaches" are likely to be the causes of the difficulty in coherent determinants of firms' growth. Entrepreneurs have different growth objectives and may be at different stages in their own lifecycles (Bhaumik, Fraser and Wright 2015: 73). Dimensions to measure growth can be, change in employees, sales and profit. Sales growth is used as the primary measure of growth in most empirical studies (Silva 2015), since most firms require sales to survive and grow.

Silva (2015), also stated that, small businesses have diverse needs and face different challenges as compared to large firms, whilst access to finance is a key factor for these businesses (Silva 2015: 4).

Cole and Sokolyk (2017: 622), established that decisions on the capital structure at the beginning of the firm's life are extremely significant for the survival and growth of those firms. The study found, that firms utilising business debt, as opposed to personal debt, are more likely to survive the first three years of operation and realise greater revenues. In their study, they found that firms are more likely to use credit at start-up when they have larger revenue and more educated primary owners, while black-owned firms are significantly less likely to use credit. Bhaumik *et al.* (2015: 74), argued that the use of external financing is influenced by owner/manager perceptions, which will also affect growth opportunities and the ability of owners/managers to exploit these opportunities. According to Nawi (2015: 34), growth seeking firms prefer debt financing however financial constraints can contribute to business failure and deter growth.

Due to start-up firms not having collateral and being charged high interest rates with no flexibility in the payment period, private banks are often perceived as inadequate financing source for start-up firms (Silva 2015: 11). Silva (2015: 11), cited the Organization for Economic Co-Operation and Development (OECD) (2004), stated, that firms can obtain greater flexibility by using initial public offers (IPOs) and by listing on the stock exchange, which can give the firm a stronger bargaining position. However, Silva (2015: 11), cited Baldwin (2002), revealed that the capital of new firms is limited. These firms will rely, more significantly, on internal sources of funds, such as internal sources, retained earnings and capital. Banks were then the second major source of funding and by utilising internal funds, the growth of these firm may be limited.

According to Šestanović (2015: 4), raising funds via stock exchanges represents one of the most renowned and promising sources of external long-term equity financing. In different countries, the lack of an alternative stock exchange for small firms has been felt and it has become essential that small businesses have a stock exchange (Jain, Shukla and Singh, 2013: 139). Equity financing can help small firms to avoid restraints related to bank financing, such as collateral.

The issuing of equity and debt securities provides small firms access to long-term constant sources of funding, which is not the case with bank financing (Kovač *et al.* 2018: 585). The main reason for establishing stock exchanges for small firms is for these firms to obtain public equity capital. However, small firms, in contrast to large firms, encounter certain difficulties in raising funds using the stock exchange. Difficulties include high transaction costs, listing requirements and frequent vastly complex legal and regulatory frameworks (Šestanović 2015: 4). Stock exchanges amongst small firms can assist in decreasing the asymmetric information on the market (Šestanović 2015; Kovač *et al.* 2013; Jain *et al.* 2013). According to Kulkarni and Chirputkar (2014: 433), listing SMEs on stock exchanges can add greatly to the creation and distribution of wealth in the economy.

Bhaumik *et al.* (2015: 75), stated that, start-up firms rely on internal financing, trade credit and the least used finance, angel finance. However, recently, crowd-funding and accelerators are used as sources of funding. As firms grow, it becomes more likely to access external funds, such as debt, venture capital and public debt/equity. Bhaumik *et al.* (2015: 75), stated that, firms that are growth-orientated will be more likely to seek external funds. Nonetheless, there is a major challenge of small firms' struggle to survive despite their immense importance to the economies of countries. Finance is a crucial matter for growing firms and the primary funds form a foundation from which other factors will be built on (Ngubane 2015: 26). According to Koropp, Grichnik and Kellermanns (2013: 114), access to adequate and suitable capital is one of the most crucial resources for a firm to grow and ensure survival.

2.9 CONCLUSION

This chapter explored the theoretical and empirical studies on capital structure. The theoretical review considered the founding theories on capital structure: irrelevance theory, trade-off theory, pecking order theory, agency cost theory and asymmetric information, which began with large firms in trying to explain their capital structure.

Although these theories were developed for large firms, some have been essential in explaining the capital structure of small firms. The empirical review looked at the importance of capital structure, the importance of SMMEs in SA, as well as the challenges faced by these firms in the retail and wholesale sector. Although there have been studies which investigated the determinants of capital structure, no consensus has been reached in both developing and developed countries.

The next chapter describes the research methodology used for this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In the previous chapter, the literature review described capital structure and theories relating to the concept. The chapter described the definitions and the importance of capital structure to SMMEs. The previous chapter also studied the challenges faced by SMME's.

In this chapter, the research methodology is described, including the target population, sampling methods, sample size, data collection and analysis procedure. The chapter also covers issues related to the reliability and validity of the instrument. The ethical consideration has also been presented. The study seeks to identify the factors influencing the capital structure in terms of the survival and growth of Small, medium and micro enterprises in KwaZulu-Natal.

3.2 RESEARCH METHODOLOGY

Research methodology cogitates and clarifies the reason behind the research methods and techniques (Welman, Kruger and Mitchell 2005: 2). Research methods refer to the process of collecting data, analysing and interpreting the data grounded on the theoretical contexts developed and the operationalisation of variables (Adetayo 2011: 104).

3.2.1 Research Design

Sekaran and Bougie (2011: 102) state that research should be designed to enable the researcher to gather the necessary information for it to be analysed in order to provide a solution. Saunders, Lewis and Thornhill (2012: 680), defined research design, as the framework, used for the research questions and objectives to be answered. These authors affirm that this framework must be justified in the choice of data collection method, analysis and data sources.

The key purpose of a research design is elucidating how the research questions will be answered (Kumar 2011: 41). The research design is a crucial element when research is conducted. It is the arrangement by which the researcher acquired respondents and gathers data from those respondents in order to reach a conclusion about the research problem (Welman and Kruger 1999: 46).

The reason for a choosing a specific data collection and analysis technique is constantly dictated by the idea of what the exploration needs to determine. The specific attributes of the exploration issue and the explicit sources of data. The research design was quantitative and cross-sectional in nature for this study. The survey questionnaire concentrated on issues surrounding the research objectives set out in chapter one.

3.2.2 Quantitative research methodology

In quantitative research, the research problem can be best tackled by realising what factors impact a result. Hence, substantial reviews of the literature, are incorporated to recognise and explore research questions, that need to be answered (Creswell 2005: 76). According to Leedy and Ormrod (2016: 389), quantitative research yields information that is naturally numerical in nature. It can be effortlessly diminished to numbers. Badenhorst (2013: 92), concurred with Leedy and Ormrod (2016) in defining quantitative research, as a particular research design that relies mostly on quantitative data, which is expressed in quantities or amounts.

Cross-sectional research includes the accumulation of the data on in excess of one case at a single point in time (Bryman and Bell 2014: 106). According to Sekaran and Bougie (2011: 119), cross-sectional studies, consider data, assembled once, over a period of days, weeks or months, to answer the research question.

The research design used in this study is a quantitative, cross-sectional study.

3.2.3 Data

Data sources can be primary or secondary in nature. Primary data, begins with information gathered by the researcher. The end goal being his or her own investigation, whilst secondary data will be data gathered by individuals, other than the researcher (Welman *et al.* 2005: 149). In this study, primary data will be used as the researcher will collect the data.

3.3 TARGET POPULATION

The target population is characterised as comprising all sampling units significant to the research question (Creswell, Ebersohn, Eloff, Ferreira, Ivankova, Jansen, Nieuwenhuis, Pietersen, Plano Clark and van der Westhuizen 2007: 147). According to Welman *et al.* (2005: 126), target population is the populace which the researcher in a perfect world might want to generalise his or her results to. The target population was 204 retail and wholesale SMMEs listed on the Durban Chamber of Commerce.

3.4 SAMPLING METHOD

According to Creswell *et al.* (2007: 147), a sample is defined as a subset of the population comprising prearranged numbers. According to Black (2013: 224), the advantages of taking a sample instead of conducting a study on the population includes:

- The sample can decrease costs;
- The sample can spare time; and
- For given resources, the sample can widen the extent of the investigation.

The two main types of sampling; are probability (random) sampling and non-probability (non-random) sampling. Four methods of sampling that fall under random sampling include simple random sampling, stratified sampling, systematic sampling and cluster sampling (Black 2013; Creswell *et al.* 2007).

According to Leedy and Ormrod (2016: 177), random sampling allows for each sample in the population to be represented and it is chosen so that every respondent from the population has an equivalent chance of being picked.

Non-random sampling selects elements from the population by any mechanism that does not involve random selection process, including convenience sampling, judgement sampling, quota sampling and snowball sampling (Black 2013: 233). Table 3.1 presents the different types of non-random sampling and the circumstances under which each type of sampling is applied.

Table 3.1: Non-random sampling

Quota sampling	It is entirely non-random and is often utilised for structured interviews. Depends on the preface that the sample will signify the populations as the changeability in the sample for various portion factors is equivalent to that in the population.
Judgement sampling	Judgement is used to choose circumstances that will allow the researcher to best answer the research question. Case study research often utilises this type of sampling method.
Snowball sampling	Respondents are offered to take part in the research study instead of being selected. This sampling method is usually utilised when it is problematic to detect respondents of the preferred population.
Convenience sampling	This sampling method comprises choosing respondents based on their accessibility (or most convenient).

Source: Adapted from Saunders *et al.* (2012)

The SMMEs chosen were wholesale and retail sector. The SMMEs were based in Durban CBD who qualified to participate in this study.

For this study, a sample of 136 SMMEs will be selected using convenience sampling (Sekaran and Bougie 2016: 264). The researcher selected firms that were willingly accessible or respondents that were keen to participate in the research study (Black 2013: 182).

3.5 DATA COLLECTION

Although there are many methods available for data collection under the quantitative research paradigm, it is imperative to choose the methods which are key to the objectives of the study.

In this study, a survey questionnaire was viewed as most suitable. According to Bryman and Bell (2014: 192), the following are the advantages and disadvantages of self-completion questionnaires:

3.5.1 Advantages of self-completion questionnaires

- Cheaper to administer, when compared to interviews;
- Quicker to administer;
- No interviewer variability; and
- Convenience for participants.

3.5.2 Disadvantages of self-completion questionnaires

- No one present to assist participants;
- No occasion to review participants to expand on responses;
- Long questionnaires are rarely feasible;
- Respondents with limited knowledge will not be able to respond to the questionnaire fully; and
- Partly completed questionnaires are more probable.

3.5.3 The Questionnaire

A questionnaire is an inscribed list of questions which are completed by the respondents (Kumar 2011: 138). The questionnaire used in this study is presented in Appendix A. This was the primary tool for data collection for this study.

3.5.3.1 Data collection tool: questionnaire

The questionnaire consisted of 5 sections and 54 questions. The 5 sections explored the following aspects relative to the objectives of this study. The objective of the study is to establish factors that influence the capital structure and to examine the influence of capital structure on the survival and growth of SMMEs in Durban, this objective will be achieved in the following sections:

Section A: This section focused on the demographic data of the owner/manager, including the race, educational level and experience. This section was included to determine whether managerial traits of owner/manager influence the capital structure of the firms.

Section B: This section focused on the demographic data of the firm, including the years of operation, the legal status and the type of premises utilised by the firm. This section was included to ascertain the number of years the firm has been operating and to determine whether firm traits that influence the capital structure of the firms.

Section C: This section focused on the financing information on the firm, including the type of financing utilised by the firm at the initial stage of the firm as well as once the firm was established. This section was included to determine the type of capital structure used by SMME firms and the factors that owners/managers consider to be important and the objectives that owners/managers want to achieve.

Section D: This section focused on the factors influencing the capital structure of the firm. This section was included to determine the managerial factors that influence and those firm factors that are likely to influence the capital structure of the firm.

Section E: This section focused on the influence of capital structure on survival and growth. This section considered the growth and survival of the SMMEs. This section was included to determine the influence of the capital identified in section C on the growth and survival of the firm.

The questions consisted of dichotomous, multiple-choice and Likert-scale questions. The questionnaire had closed-ended questions. Closed-ended questions offer a set of responses from which the respondents have to select one or more than one answer (Creswell *et al.* 2007: 161). Information retrieved from these types of questions are simpler to analyse. The advantages and disadvantages of closed-ended questions are listed below:

3.5.3.1.1 Advantages of closed-ended questions

- These questions are simple to answer and relatively quick and can be answered swiftly;
- These questions can be simple to code for statistical analysis; and
- Delicate questions are answered simply.

3.5.3.1.2 Disadvantages of closed-ended questions

- The responses given could provide information that the participants had not understood;
- The options provided by the questions may not be one of the options the participants want to select;
- Questions can be misunderstood despite being simple to answer;
- No description is required or provided to questions; and
- No opinions are required. A participant can respond even with having no knowledge (Creswell *et al.* 2007: 163).

According to Saunders *et al.* (2012: 432), closed-ended question types provide several options, which the respondents are directed to choose from. The layout of the questionnaire is crucial as it establishes whether participants will complete the whole questionnaire. The layout of the questionnaire must be appealing in order to urge participants to answer the questionnaire and return it. Saunders *et al.* (2012: 446) state that the layout of the questionnaire should also not be very lengthy, it ought to be easy to peruse and the order of the questionnaire must be simple to follow. The questionnaire must be formed in an interactive style (Kumar 2011: 138).

According to Creswell *et al.* (2007: 158), the questionnaire design needs the researcher to give care to the following:

- Presentation of the questionnaire;
- Arrangement of the questionnaire;
- Phrasing of words of the questionnaire; and
- Classification of response in the questionnaire.

The study made use of Likert-type scale questions. This scale provides an ordinal measure of a participant's attitude. The mostly commonly used Likert scale is agree or disagree. Two examples of the response categories in the questionnaire are:

Example 1

1	2	3	4	5
Strongly disagree	Agree	Neutral	Agree	Strongly Agree

Example 2

1	2	3	4	5
Not important at all	Not important	Neutral	Important	Very important

In choosing a technique for data collection, the biographical traits of the population play an important role, namely; educational level, age and ethnic background (Kumar 2011: 133).

Kumar (2011: 133) further states that individuals with a higher educational background may offer different responses than those with lower educational backgrounds.

3.5.3.2 Covering letter

A covering letter was attached to the questionnaire. The letter contained information such as the nature of the participants, purpose and the confidentiality aspect of the research study. Participants were assured of anonymity for answers provided as these would only be used for the research study.

3.5.3.3 Pilot Study

The purpose of pilot testing is to polish the questionnaire so that participants will not have any issues when responding to the questionnaire, which will remove problems when capturing the data (Saunders *et al.* 2012: 451). According to Bryman and Bell (2014: 209), pilot studies are crucial in relation to research based on self-completion questionnaires.

A pilot study was conducted prior to the questionnaire for this study being finalised. The participants with whom the pilot study was conducted had of the same attributes as the target population. However, these participants were not included in the sample population. The pilot study was conducted to determine whether the questionnaire needed to be modified, eliminated or if additional questions were required. It was also conducted to ensure that there were no ambiguous or perplexing questions.

3.5.3.4 Data collection procedure

Data collection proceeded after approval was received from the Durban University of Technology's (DUT), Faculty of Accounting and Informatics Research Committee. There are various ways of administering questionnaires, such as mailed questionnaires, collected questionnaires and administration in public places (Kumar 2011: 140).

According to Creswell *et al.* (2007: 157), the most commonly used methods to collect data from the sample of participants are group administration, postal surveys, telephone surveys and face-to-face surveys. The total questionnaires distributed by the researcher was 136. A letter of information was attached with the questionnaire explaining the essence of the study and assured anonymity and confidentiality. The questionnaires were left with respondents and collected at an agreed date and location. The researcher provided answers to questions asked by the respondents. The survey yielded 103 responses, which represents a 76 percent response rate.

3.5.3.5 Data collection preparation

When the questionnaires were received, coding of data took place. A categorization structure was set up prior to data capturing. This facilitated the capturing of inconsistencies and blank responses which were identified and removed (Sekaran and Bougie 2011).

3.5.3.6 Data entry

The data was captured onto Microsoft Excel spreadsheets which consisted of columns containing variables or question responses. Thereafter, data entry was undertaken using the computer software program PLS-SEM 5.0 software for data analysis.

3.6 DATA ANALYSIS

The section below examines the different ways in which data can be analysed. In this study, descriptive and factor analysis were explored. The section also discusses the type of descriptive statistics that this study used.

3.6.1 Descriptive

Descriptive statistics describe what data looks like, how large they extend and how closely variables within the data are intercorrelated (Leedy and Ormrod 2016: 235).

According to Sekaran and Bougie (2011: 437), descriptive statistics include statistics such as frequencies, the mean and the standard deviation, which provide descriptive information about a set of data. The following types of descriptive statistics were used:

3.6.1.1 Frequency tables

Frequency tables were used to summarise individual variables which were grouped into categories that reflect the research objectives. An example of a frequency table is a percentage table. Aaker, Kumar and Day (2012: 452), stated that, a percentage table is the ratio of the participants who answer a question in a certain way presented as a percentage in the table.

3.6.1.2 Percentages graphs

A variety of graphs, bar graphs, pie charts and clustered bars were used in the presentation of data to analyse the biographic outlines of the respondents, biographic outlines of the firm, financial information of the firm and the influence of capital structure on survival and growth. Generally, bar charts provide a more accurate representation and should be used for research reports, while the most frequently used graph is the pie chart (Saunders *et al.* 2012: 495).

3.6.2 Factor Analysis

Factor analysis examines the correlation amongst several constructs and pinpoints groups of highly interrelated constructs that reveal these underlying factors with the data (Leedy and Ormrod 2016: 259). Cooper and Schindler (2008: 289), maintained that factor analysis examines patterns amongst the constructs, to establish whether fundamental mixture of the original constructs would be able summarise the initial set. The objective is to decrease many constructs that fit together and have overlapping measurement characteristics to a controllable quantity. Hair, Babin, Money and Samuel (2003: 263), indicated that, factor analysis can reduce data as it finds a minute quantity of factors that elucidate the greatest inconsistencies detected in a greater quantity of constructs. The objective of this study is to establish factors that influence the capital structure, factor analysis will be used to summarise constructs which are highly interrelated. Exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) was used in this research. EFA explores and assesses the inter-correlations that occur amongst a group of items and diminishes the items into minor pools, while CFA confirms the factor structure of a set of constructs (Sprumont 2017; Hair *et al.* 2003).

3.7 VALIDITY AND RELIABILITY

The section below introduces the concept of validity and reliability. The definition of these concepts is provided, as well as how the study will address these concepts.

3.7.1 Validity

According to Cooper and Schindler (2008: 289), validity is the degree to which an investigation measures what it wishes to measure. According to Creswell *et al.* (2007: 151), for results to be trustworthy they should have a high degree of both internal and external validity. Convergent validity and discriminant validity were measured jointly for a set of related constructs.

3.7.1.1 Convergent validity

According to Forsberg (2017: 20), convergent validity is a measurement used to examine the proximity between two related constructs, describing how two constructs converge. It refers to how a construct differentiates from other constructs that it is not supposed to measure. The average variance extracted (AVE) is a measurement of convergent validity and is calculated as the mean variance extracted from the loadings of the items on the construct. It is a summary indicator of convergence. A construct with an AVE value of at least 0.5 has achieved sufficient convergent validity (Fornell and Larcker 1981).

3.7.1.2 Discriminant validity

According to Alkis (2010: 47), discriminant validity is performed to demonstrate that all the constructs are different from each other and is evaluated by considering the correlation amongst the constructs.

Using PLS-SEM 5.0 software, discriminant validity can be measured using Fornell-Larcker's criterion. Utilising Fornell-Larcker's criterion necessitates a latent variable (LV) to share more inconsistencies with its allotted indicators than with any other LV. Therefore, the AVE of each LV ought to be bigger than the LV's highest squares correlation with any other LV (Hashim 2012: 91).

3.7.2 Reliability

Reliability refers to whether the data collection methods utilised would yield constant findings if reiterated at another time or if duplicated by another researcher (Saunders *et al.* 2012: 192). According to Cooper and Schindler (2008: 236), reliability measures the degree to which consistent results will be supplied. It is also involved with estimating the degree to which a measurement is free of random or unstable error. According to Sekaran and Bougie (2011: 158), reliability reveals the degree to which a measure is error free and ensures constant measures across time and diverse items in the instrument.

Traditionally, Cronbach's alpha (CA) is one method utilised for determining internal consistency, whereby values of 0.7 or above indicate that the questions combined in the scale are measuring the same thing (Saunders *et al.* 2012: 430). Hashim (2012: 89), cited Chin (1998), stated that, utilising CA offers an estimate for the reliability based on indicator inter-correlations. Nevertheless, within PLS-SEM 5.0 software, internal consistency is measured using composite reliability CR. Although both CA and CR measure the same thing, i.e., internal consistency, CR considers that indicators have different loadings. According to Forsberg (2017: 20), CR indicates how-well constructs in the measurement model are described by the indicators and it provides a more suitable measure of internal consistency reliability than CA.

To confirm the reliability for this study, CA and composite CR were performed. The details thereof are provided in the next chapter.

3.8 ETHICAL CONSIDERATION

Ethical clearance was granted for this study by the Faculty Research Office of the Faculty of Accounting and Informatics at DUT. The researcher ensured that the anonymity and confidentiality of the participants was maintained and that participation was of a voluntary nature.

3.9 CONCLUSION

The research study used a quantitative research design. The data source comprised of only primary sources utilising a questionnaire. The sample method used was convenience sampling. The data collection tool was described, as well as the data collection procedure and analysis. The next chapter will present the findings of the data collected.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

The foregoing chapter outlined the research methodology, the data collection tool as well as the data analysis for this study. In the current chapter, empirical findings are presented, interpreted and discussed.

The aim of this study is to identify the factors influencing the capital structure in terms of the survival and growth of small, medium and micro enterprises in the wholesale and retail sector in KwaZulu-Natal.

4.2 RELIABILITY TEST

As stated in chapter three, CR was used to estimate the consistency of individual responses to items within a scale (Shin 2009). CR offers a retrospective method of the overall reliability measure of a factor in the questionnaire. It approximates the consistency, steadiness and uniformity of the factor (Roca, Garcia and De La Vega 2009; Suki 2011). Table 4.1 provides the reliability and validity tests. The measures used were CA, consistent reliability coefficient (rho_A), CR and Average Variance Extracted (AVE). As shown in Table 4.1, all values of CR and CA met the commended threshold of 0.70 to indicate good reliability for the factors (Fornell and Larcker 1981; Henseler, Ringle and Sinkovics 2009; Bagozzi and Yi 2012). The value with an asterisk (*) of 0.490, together with the rho_A is however suspect, but was maintained to ensure consistency for the rest of the factors (Henseler *et al.* 2009).

Table 4.1: Construct Reliability and Validity

	CA	rho_A	CR	(AVE)
CapStrFirm	0.490*	0.497*	0.796	0.662
CapStrSurGrth	0.851	1.005	0.904	0.761
FinInfoFirm_	0.741	0.877	0.826	0.548
InfoFirm	1.000	1.000	1.000	1.000

AVE is largely recognised as the measure of convergent validity for measurement models. The AVE establishes the amount of variance that a factor captures from its measurement items (Henseler *et al.* 2009). AVEs are expected to be greater than 0.50 of reflective constructs (such as the current study) to prove that the constructs are uni-dimensional (Henseler, Hubona and Ray 2016; Fornell and Larcker 1981; do Nascimento and da Silva Macedo 2016).

Suki (2011) states that discriminate validity is a test that measures reliability and it is the degree to which a known theory is truly different from other theories. A commonly used test for discriminant validity is to contrast the AVE with the interrelated squared root (Ibrahim and Shiratuddin 2015; Fornell and Larcker 1981). To pass this test, the AVE of a theory must be higher than the square root of the inter-factor relationships (Fornell and Larcker 1981: 49). In other words, when displayed in diagonal format, the diagonal values should surpass the inter-factor correlations to prove discriminant validity. Table 4.2 presents the discriminant validity test using Fornell-Larcker Criteria, this refers to the text in which the constructs is actually different from one another empirically. As evinced from Table 4.2, the diagonal values in bold exceed the inter-factor correlations. It can therefore, be concluded, that discriminant validity was acceptable. Therefore, the measurement scales have enough validity and demonstrate high reliability.

Table 4.2: Discriminant Validity: Fornell-Larcker Criterion

	CapStrFirm	CapStrSurGrth	FinInfoFirm_	InfoFirm
CapStrFirm	0.813			
CapStrSurGrth	-0.302	0.872		
FinInfoFirm_	-0.078	0.069	0.740	
InfoFirm	0.017	0.126	0.129	1.000

Recently, there has been a new criterion used to assess discriminant validity, namely; the Heterotrait-Monotrait (HTMT) ratio.

This ratio upholds that for a construct to pass this test, the scores of discriminant validity should be <0.85 amongst the square root of the inter-factor correlations (Ab Hamid, Sami and Sidek 2017: 3). Table 4.3 presents another method of testing discriminant validity using Heterotrait-Monotrait Ratio. From Table 4.3, it is again seen that this criterion is met. Hence, the constructs used for the current research are correctly different from each other (Henseler *et al.* 2016).

Table 4.3: Heterotrait-Monotrait Ratio (HTMT)

	CapStrFirm	CapStrSurGrth	FinInfoFirm	InfoFirm
CapStrFirm				
CapStrSurGrth	0.415			
FinInfoFirm_	0.137	0.087		
InfoFirm	0.190	0.142	0.152	

The study, therefore affirms, that the capital structure used by the firm is distinctly influenced by construct information of the firm (InfoFirm), financial information of the firm (FinInfoFirm), capital structure of the firm (CapStrFirm) and capital structure on survival and growth (CapStrSurGrth).

4.3 DATA ANALYSIS

Descriptive statistics were utilised to present a summary of the respondents' information. Descriptive statistics were also utilised in this study, using frequencies, with percentages and graphs to analyse the biographical data of the respondents and the information of the firm.

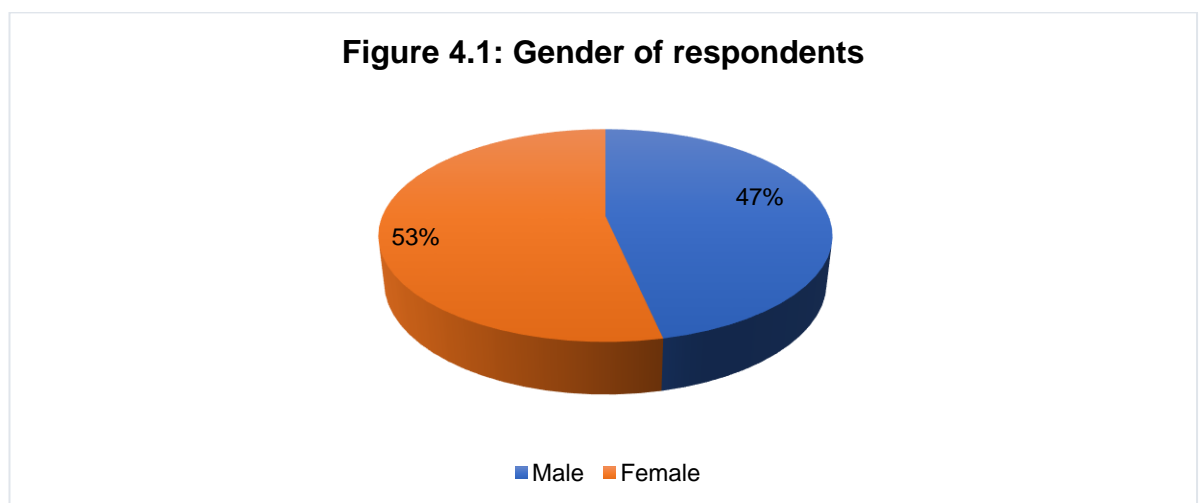
4.3.1 Biographical information

Previous studies (Borgia and Newman 2012; Nawi 2015), investigated managerial factors, such as education, experience, owner's ethnicity (race), education and owners age influence on the capital structure of firms. Section A of the questionnaire covered the biographical information of the business owners. This included gender, age, race, highest qualification, as well as managerial work experience, before starting their current business.

Section B of the questionnaire comprised questions soliciting information on the firm, such as the number of years the business has been operating, the legal status of the firm and the firm's premises. Below is a discussion of findings derived from sections A and B of the questionnaire.

4.3.1.1 Gender of respondents

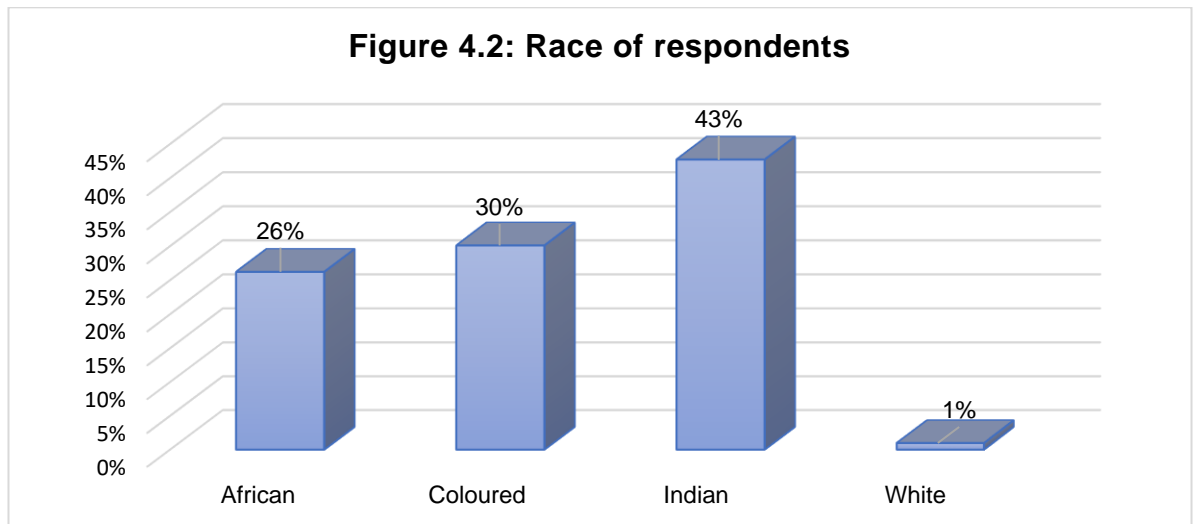
Ngubane (2015: 40), cited the Global Entrepreneurship Monitor GEM Report (2012), found that the report on South Africa's prospective entrepreneurs was 43% males, and 35% females. However, his study found the proportion of males to females was approximately 1:2 respectively. The results in this study are shown in Figure 4.1 below, which shows that 53% of the respondents are female and 47% are male. This finding indicates that there are slightly more female owners of SMMEs in Durban than males. This study agrees with that of Ngubane (2015: 40), which found that there were more female than male entrepreneurs.



4.3.1.2 Race of respondents

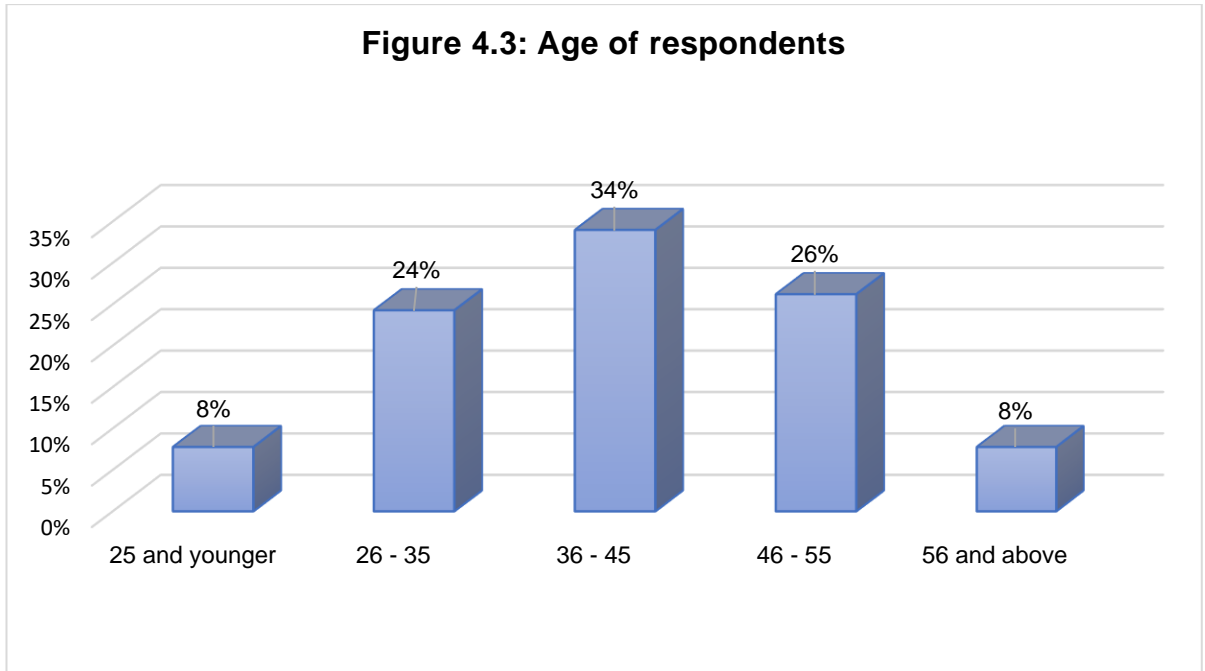
Ngubane (2015: 40), cited the GEM Report (2012), stated that, Black Africans possess the greatest rate of observed prospects of the race groups. However, they have the smallest rate of observed abilities. Ngubane (2015: 42), found that nearly half of the respondents were African.

In this study, the racial analysis, indicated in Figure 4.2, reveals that 43% of the respondents were Indian, 30% were Coloured, 26% were African and 1% were White. Surprisingly, the findings indicate that the majority of the owners are Indians, despite Africans being the largest population group in KZN.



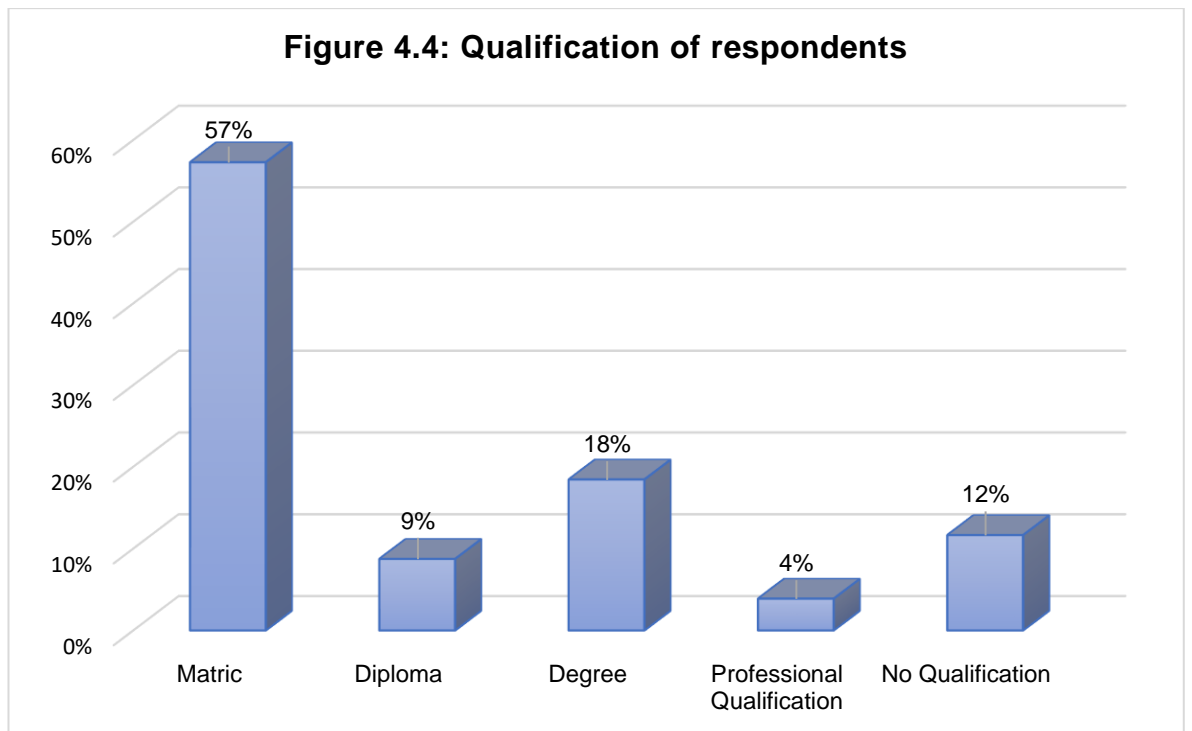
4.3.1.3 Age of respondents

Kalidin (2017: 77) pointed out that most respondents are middle-aged. In this study, Figure 4.3 below specifies the age group of the respondents. It indicates that 34% of the respondents were in the age group between 36 – 45 years, 26% were between 46 – 55 years of age; 24% were between 26 – 35; 8% of the respondents were 25 years and younger; and 8% represented respondents above 56 years. The findings indicate that majority of respondents are middle-aged, agreeing with Kalidin (2017:17).



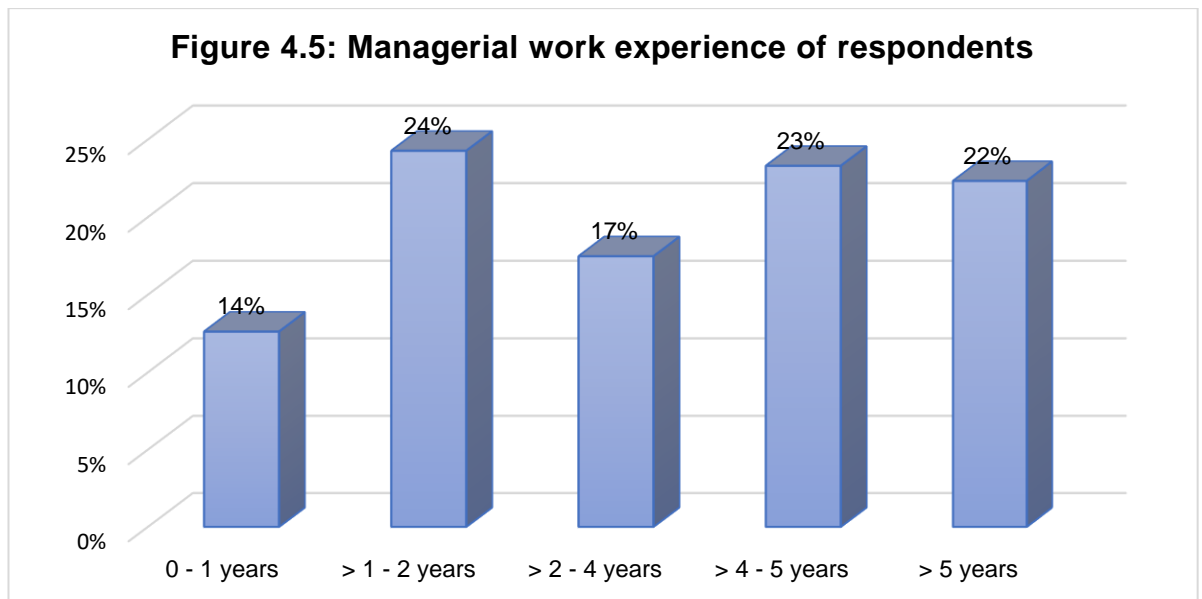
4.3.1.4 Qualification of respondents

Mungal (2014: 70), found that owners who had a matric qualification, accounted for more than 50% of the respondents, indicating that these owners were managing the firms based on high school education. Mungal (2014: 70) cited Salazar (2012), indicated that small firm owners lack formal business education. The questionnaire categorised qualifications as matric, diploma, degree, professional qualification and no qualification, which had to be specified. Figure 4.4 illustrates that the majority of respondents have matric (57%) while 18% of the respondents have a degree, 12% do not have a qualification, 9% of the respondents have a diploma and 4% of respondents hold a professional qualification. The findings concur with Mungal (2014: 70), stating a majority of owners have matric as their highest qualification.



4.3.1.5 Managerial work experience of respondents

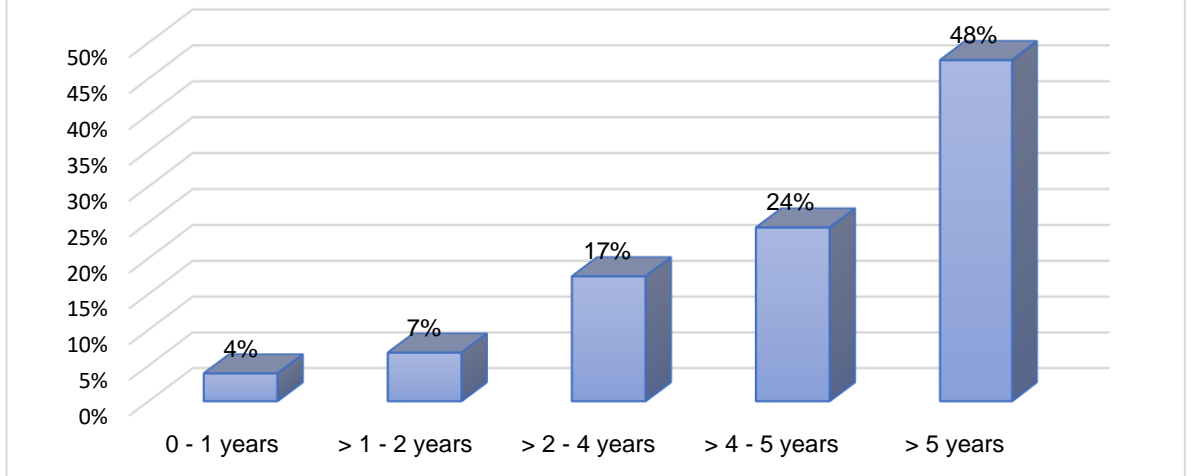
The respondents were required to indicate their managerial work experience before operating the current business. Figure 4.5 shows that 45% of the respondents have managerial experience above 4 years; 24% of the respondents have above 1 – 2 years' experience; 17% have above 2 – 4 years' experience; and 14% have 1 year and less managerial experience. The findings indicate that majority of owners had managerial experience before undertaking the current business.



4.3.1.6 Years in operation of firm

Ngubane (2015: 3), is of the opinion that many small firms within SA do not make it past the second year of operations. Mungal (2014: 74), found that the majority of businesses operated for 6 years and more. The number of years that the firm has been operating is reflected in Figure 4.6. The majority (48%) of respondents indicated that the business has been in operation for over 5 years. A further 24% of respondents indicated that the business has been operating for 4 to 5 years. The firms operating between two years to four years was 17% of the respondents, whilst 7% of respondents indicated operating for more than a year to two years and the firms operating less than a year were 4%. This finding indicates that 89% of the SMMEs operated for more than two years, surpassing Ngubane's (2015) findings.

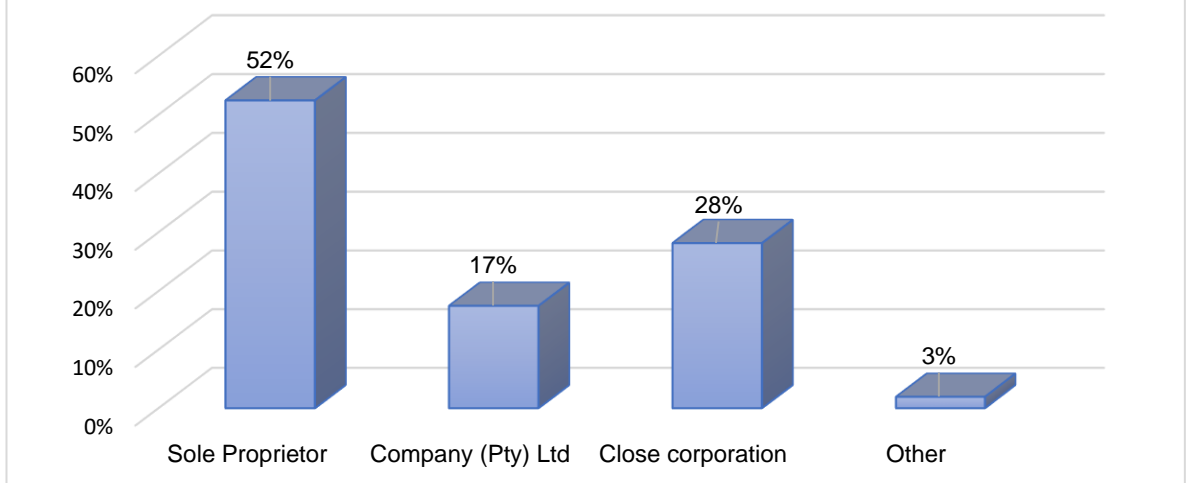
Figure 4.6: Years in operation of firm



4.3.1.7 Legal status of firm

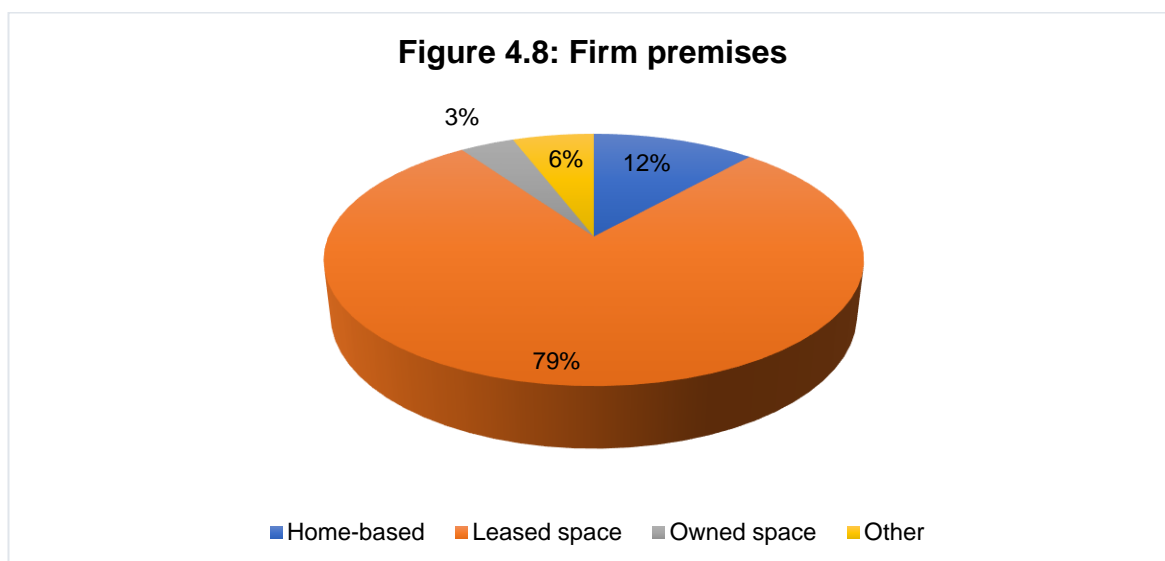
In a study conducted by Kalidin (2017: 76), it is reflected that a majority of respondents operate their business as a sole proprietor or a private company. The legal status of the firm is reflected in Figure 4.7. The majority (52%) of respondents operate as a sole proprietor. A further 28% of respondents operate as a close corporation; 17% operate as a private company and 2% operate as a partnership. This finding concurs with Kalidin (2017:16), and Nawi (2015: 117), in that the SMME sector is predominantly operated as sole proprietaries.

Figure 4.7: Legal status of firm



4.3.1.8 Firm premises

In Figure 4.8 below, the premises of the firm is presented. The majority (79%) of respondents indicated that the firm operates in a leased space. A further 12% of respondents indicated being home based; 6% operated on the street; and 3% utilise their own space. This finding indicates that majority of SMMEs operate in a leased space. The findings correlate with Cotei and Farhat (2017: 110) who asserted that the majority of firms operate in an urban location.



4.4 ANALYSIS PER RESEARCH OBJECTIVE

Sections C to E of the questionnaire were crafted in a way that addresses the objectives of this study.

4.4.1 Objective 1: To establish factors that influence the capital structure used by SMMEs in Durban

Questions 1 to 7 from sections C and D were used to address the above-mentioned objective. The findings are discussed below.

4.4.1.1 The firms' choice in raising finance at the initial stage

Table 4.4 displays the level of importance of personal savings, funds from friends and family, trade credit, lease, hire purchase, debt and external equity financing during the initial stage of the firm.

External equity financing included venture capital, private investors and government loans. This section (question C1) was to determine the capital utilised by the SMME firm at the initial stage.

Table 4.4: Initial financing choice of firms

	Not important at all	Not important	Neutral	Important	Very important
Personal savings	16%	0%	5%	17%	62%
Funds from friends & family	35%	9%	8%	28%	20%
Trade credit, lease, hire purchase	25%	13%	10%	35%	17%
Debt (loan)	50%	5%	14%	18%	13%
External equity financing	56%	12%	16%	11%	5%

Fourati and Affes (2013: 246) indicated that the majority of newly created firms utilise personal savings to finance the firm. As reflected in Table 4.4 above, personal savings is a very important financing choice at the initial stage of the firm, shown by 62% of respondents who find it to be very important and 17% of respondents who find personal savings important. Only 5% of respondents gave neutral responses and 16% of the respondents indicated that personal savings was not important at all. The findings agree with Fourati and Affes (2013), in that majority of SMME owners utilised personal savings at the initial stage of the firm.

Funds from friends and family were important according to 28% of the respondents and very important to 20% of the respondents. 8% gave a neutral response. 9% indicated that funds from friends and family was not important. 35% of the respondents indicated that funds from friends and family was not important at all. Although funds from friends and family were found to be a most significant source of financing at the initial stage (Nawi 2015: 136), this result did not concur with the findings above, which displays this source to be insignificant.

As regards trade credit, lease and hire purchase; 35% of respondents indicated the importance of this financing at the initial stage of the firm. 17% indicated this type of financing as being very important.

25% of them did not consider it of importance at all. 13% of respondents did not consider this financing as important at all, while only 10%, gave a neutral response.

Debt (55%) and external equity financing (68%) were considered either not important or not important at all amongst the respondents at the initial stage of the firm. A few (14%) respondents indicated neutral with regard to utilising debt, while 16% gave neutral responses with regard to external equity financing. A third (31%) of the respondents indicated that debt was either important or very important and 16% indicated that external equity financing was either important or very important. Previous studies by Nawi (2015: 182), and Fourati and Affes (2013: 252), maintained that debt financing is utilised minimally, while external equity was found as being the least preferred source of financing. This concurs with the findings of this study that debt and external equity financing was an insignificant source of financing at the initial stage of the firm.

4.4.1.2 The firms' choice in raising finance once the firm was established

Table 4.5 demonstrates the level of importance of the same aspects as Table 4.4, but includes retained earnings. This section (question C2) is to determine the type of capital utilised by the SMME firms.

Table 4.5: Financing choice of firms after being established

	Not important at all	Not important	Neutral	Important	Very important
Retained earnings	11%	1%	4%	14%	70%
Personal savings	18%	0%	8%	31%	43%
Funds from friends & family	44%	12%	14%	10%	20%
Trade credit, lease, hire purchase	33%	12%	9%	31%	15%
Debt (loan)	53%	17%	6%	11%	13%
External equity financing	60%	7%	13%	8%	12%

Most respondents (70%) in Table 4.5 agreed that retained earnings was very important after the firm was established. This finding concurs with Nawi (2015: 174), who also mentions that a majority of respondents utilise retained earnings post-start up; 14% of respondents indicated that retained earnings was important; 4% gave a neutral response and only 1% indicated that retained earnings was not important; whilst 11% of respondents indicated that retained earnings was not important at all.

Personal savings, although somewhat important, was not as important as retained earnings, with 43% of the respondents stating it was very important once the firm was established. Only 31% of respondents indicated that personal savings was important; 8% gave a neutral response and 18% indicated that personal savings was not important at all. Cotei and Farhat (2017: 113), affirmed that personal resources such as, personal savings were found to be an imperative form of funding at the start-up stage. Post-start up, the relative importance of this insider equity in financing the firm declines.

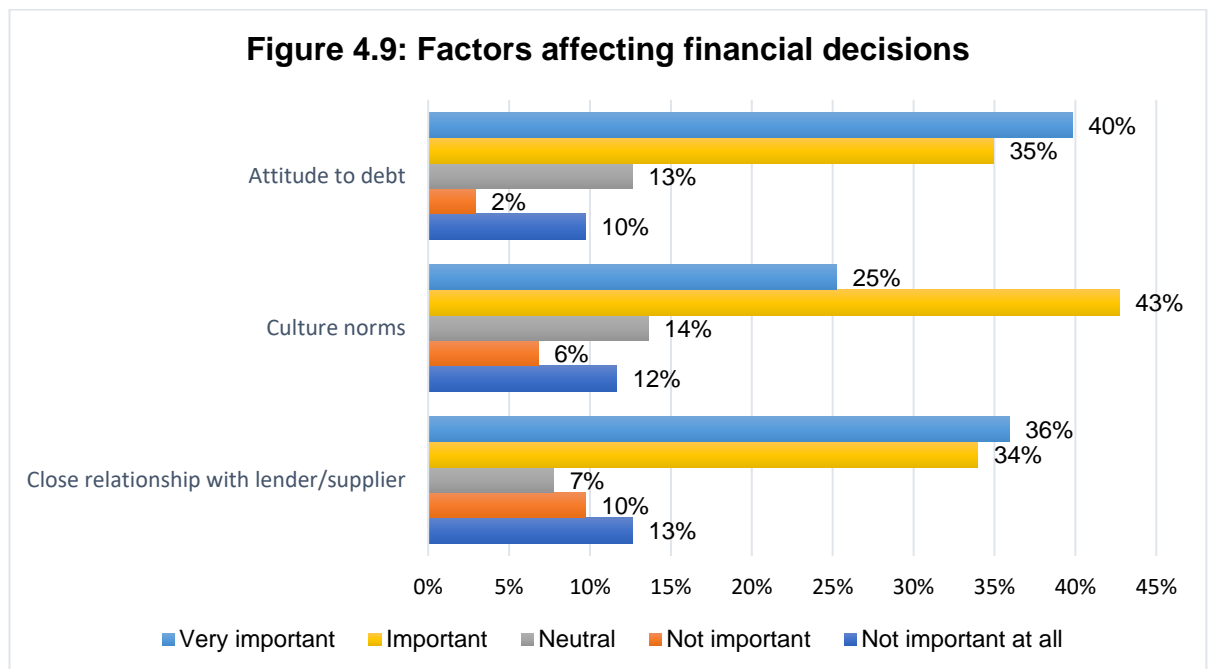
In terms of funds from friends and family, 44% of respondents consider this financing as not important at all; 12% indicated that this financing was not important; 14% indicated a neutral response; whilst 30% indicated this financing as either important or very important. For trade credit, lease and hire purchase, 33% of respondents considered this to be not important at all; 12% indicated that this financing was not important; 14% gave a neutral response; 31% indicated that this financing was important; and 15% indicated that this financing was very important once the firm was established.

Debt was indicated by, 70%, and external equity financing by, 67%, as not important and not at all important among the respondents, once the firm was established. A mere 6% and 13% of respondents indicated a neutral response with regards to debt (loan) and external equity financing respectively; whilst 11% of respondents indicated that debt was important and 13% indicated that debt was very important.

With regard to external equity financing, 8% of the respondents indicated that this financing was important and 12% indicated that this financing was very important. According to Nawi (2015: 183), a majority of the owners did not use debt financing after the firm was established.

4.4.1.3 Which factors are important when making a financing decision for the firm?

This section (question C3) is to determine the factors that owners/managers consider to be important that affect the financing decision of the firm.



➤ Attitude to debt

Figure 4.9 displays which factors are important when respondents are making financial decisions for the firm. From the figure above, it is seen that a majority of respondents (75%) indicated that attitude towards debt is either an important or very important factor. On the other hand, 13% gave a neutral response. Only 2% indicated that attitude towards debt is not important and 10% do not consider attitude towards debt was being important at all. The study claims that attitude to debt is an important factor that influences the financing decisions of the firm.

The results also confirm a study by Nawi (2015: 161), that discovered that the traits of the owner in terms of attitude to debt was an important factor in the financing choice of firms.

➤ **Culture norms**

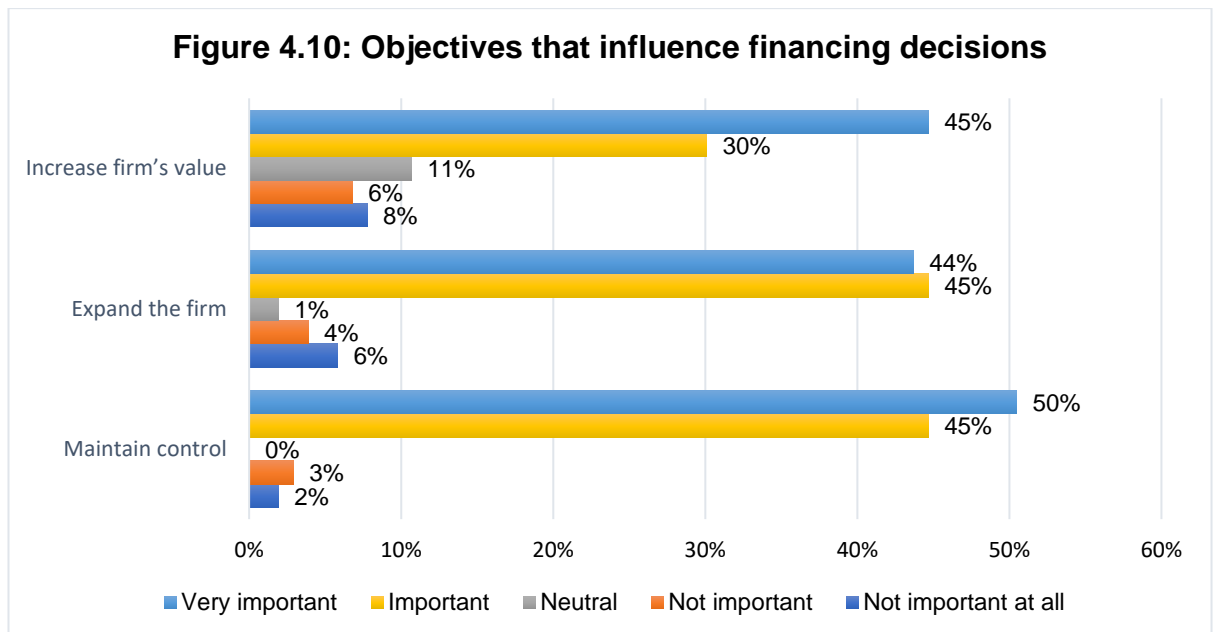
Figure 4.9 indicates that 68% of respondents indicated that culture norms are either important or very important to the financial decisions of the firm and 14% indicated a neutral response. Only 6% of the respondents indicated that culture norms are not an important factor affecting the financial decisions of the firm and 12% indicated that culture norms were not important at all. Hilgen (2014: 3), states that cultural influences have been recognised to be an important factor for firms. The findings correlate with Nawi (2018: 53), in that culture norms are the most important factor, to financing decisions of the firm.

➤ **Close relationship with lenders/suppliers**

The factor of having a close relationship with lenders/suppliers indicated above in Figure 4.9 shows that 70% of respondents consider this as either important or very important factor to the financial decisions of the firm and 7% indicated a neutral response. Only 10% of respondents indicated that having a close relationship with the lender/supplier is not an important factor when financial decisions of the firm are made and 13% indicated that this factor was not important at all. These results reveal that a close relationship with lenders/suppliers is important to the financial decisions of the firm. According to Nawi (2018: 53), the relationship with outsiders plays a key role in shaping financial decisions.

4.4.1.4 Objectives influencing the financing decisions of the firm

This section (question C4) is to determine the objectives that owners/managers want to achieve influence the financing decisions of the firm.



➤ **Increase firm's value**

Figure 4.10 (Question C4) shows the objectives which influence the respondents when making the financial decisions of the firm. This figure indicates that 75% of respondents agree that increasing the value of the firm is an objective that is either important or very important, and this objective influences the financing decision of the firm.

Only 11% of respondents neither find this objective important nor unimportant and 6% indicated that this objective was not important. Only 8% of the respondents indicated that this objective was not important at all. According to Vo and Ellis (2016: 92), firms with a reasonable level of debt create value for shareholders.

➤ **Expand the firm**

Figure 4.10 indicates that expanding the firm was also found to be an important objective amongst the respondents. Most of the respondents (89%) indicated this objective as being either an important or very important financial decision to the firm.

A mere 1% of respondents gave a neutral response whilst 4% consider this objective as being not important and 6% of respondents indicated that this objective is not important at all in influencing the financial decisions of the firm.

➤ **Maintain control**

From Figure 4.10, maintaining control was found to be the most important objective amongst the respondents, with 95% indicating that this objective is either important or very important to the financial decisions of the firm. Only 3% of respondents indicated that maintaining control is not an important objective and 2% of respondents felt this objective was not important at all. None of the respondents indicated a neutral response. The findings concur with Borgia and Newman (2012: 194) whose results found that owners/managers desire to preserve independence and power over the decision-making of the firm.

4.4.1.5 Factors influencing the capital structure of the firm

The section (question D5) below is to determine the managerial factors that influence the capital structure of the firm. Table 4.6 reveals the managerial factors that influence the capital structure of the firm. The Likert scale for the table below is SD – strongly disagree, D – disagree, N – neutral, A – agree and SA – strongly agree.

Table 4.6: Responses on factors influencing the capital structure of the firm

	SD	D	N	A	SA
At the start-up of the firm, it was easy to acquire financing.	41%	13%	8%	18%	20%
As the owner/manager, I prefer to rely on internal sources of funds.	3%	4%	9%	37%	47%
To expand the firm, I would consider giving up a percentage of ownership.	24%	26%	9%	21%	20%
Risk-taking propensity has an impact in the financing choice of the firm.	3%	9%	21%	45%	22%
Managerial growth intentions influenced the firm to seek financing from external sources.	7%	6%	13%	52%	22%
The relationship between the firm's owner/manager and the bank results in preferential access to credit.	4%	11%	16%	43%	26%
My managerial experience reduces Asymmetric Information between the firm and external investors.	7%	10%	22%	41%	20%
In my firm, there is an aversion to external control.	7%	11%	12%	39%	31%
The individual goals of the owner/manager have an influence over the financing choice of the firm.	5%	8%	0%	44%	43%
The network ties that the owner/manager possesses with executives at other firms are an important influence on the finances of the firm.	0%	9%	8%	38%	45%
Informal financial sources (from individuals and employees) are a critical and essential aspect of the firm's capital structure.	11%	17%	30%	26%	16%
My preference in financing influences the firms financing decisions.	4%	3%	9%	50%	34%
The firm's profitability enables the owner/manager to use internally generated funds.	1%	5%	7%	50%	37%

From Table 4.6 above, the statement “At the start-up of the firm, it was easy to acquire financing” it was found that just over half of respondents (54%) either strongly disagreed or disagreed with this statement; 8% of respondents gave a neutral response; and 38% of respondents either agreed or strongly agreed with this statement. The results indicate that financing at the start-up of the firm is not easy to acquire. According to Elomo (2014: 15), one of the key restrictions for entrepreneurship is raising capital at the start-up of the firm.

The statement “As the owner/manager, I prefer to rely on internal sources of funds”, respondents agreed that internal sources of funds are preferred, with 84% either indicating that they agree or strongly agree with this statement; whilst 9% of respondents indicated a neutral response; 4% disagreed with this statement; and 3% strongly disagreed with this statement.

These results reveal that internal sources of funds are an important factor influencing the capital structure of firms. Silva (2015: 11) asserts that firms will rely more significantly on internal sources of funds.

At the statement "To expand the firm, I would consider giving up a percentage of ownership" 24% of the respondents strongly disagreed and 26% of the respondents disagreed with the statement, 9% of the respondents gave a neutral response. However, 41% of respondents agreed that they would consider giving up a percentage of ownership to expand the business. These results indicate that firms would not give up ownership of the firm even to expand the firm, with half of the respondents agreeing with an abhorrence to external control.

According to Bhaumik *et al.* (2015: 76), the goal of the entrepreneur, aversion to control and risk insights are crucial yet largely unnoticed in empirical studies on capital structure. Risk-taking propensity had a 21% neutral response. Most respondents (67%) indicated that the tendency of taking risks has an impact on the financing choice of the firm. 9% of respondents disagreed with this, while 3% of respondents strongly disagreed. These results reveal that risk-taking propensity does influence the capital structure of the firm. The findings of this study correlate with Borgia and Newman (2012: 191), who found that risk propensity influences the total leverage. With regard to the statement, "managerial growth intentions influenced the firm to seek financing from external sources," most respondents (74%) indicated that managerial growth intentions can influence the firm to seek external sources of funds; whilst 13% of respondents indicated a neutral response; and only 13% either disagreed or strongly disagreed with this statement. These results indicate that the manager's growth intention can influence the firm to seek external financing. The entrepreneur's perception of growth opportunities influences the decision to seek external finance (Bhaumik *et al.* 2015: 73), however in this study SMME owners/managers will not seek external financing that will result in giving up ownership.

More than half (69%) of respondents agreed that having a relationship between the owner/manager and the bank results in preferential access to credit; 16% indicated a neutral response; 11% of respondents indicated that they disagreed; and 4% strongly disagreed. These results indicate that the relationship that firms' owners/managers have with the banks results in preferential access to credit. This is in line with the findings of Borgia and Newman (2012: 196) that a strong banking relationship improved small firms' ability to access sufficient funding.

More than half (61%) of the respondents agreed that asymmetric information can be reduced by managerial experience; 22% indicated a neutral response, 10% indicated that they disagreed; and 7% strongly disagreed. According to Cotei and Farhat (2017: 118) firms with high asymmetric information rely more on personal savings. These results indicate that managerial experience has reduced the asymmetric information of firms, meaning that these SMMEs are not limited to utilising personal savings.

Most respondents (70%) agreed that there is an aversion to external control; 12% indicated that they neither agreed nor disagreed; and 18% disagreed to having an aversion to external control. These results indicate that these firms have an aversion to external control. This is in line with the findings of Borgia and Newman (2012: 197) that revealed a negative correlation between an aversion to external control and the usage of debt. Bhaumik *et al.* (2015: 74), asserted that preference in using internal financing, is due to an aversion to losing control of the firm. Most of the respondents, in this study showed an abhorrence to external control. They indicated preference to using internal financing due to the aversion to losing control of the firm.

With regard to the statement "The individual goals of the owner/manager have an influence over the financing choice of the firm"; 87% of respondents agreed with this statement, while 13% disagreed. These results indicate that the goals of the owner influence the capital structure of the firm.

The findings correlate with Nawi (2018: 53), who found that the goals of owners may influence the way in which firms choose their financing capital.

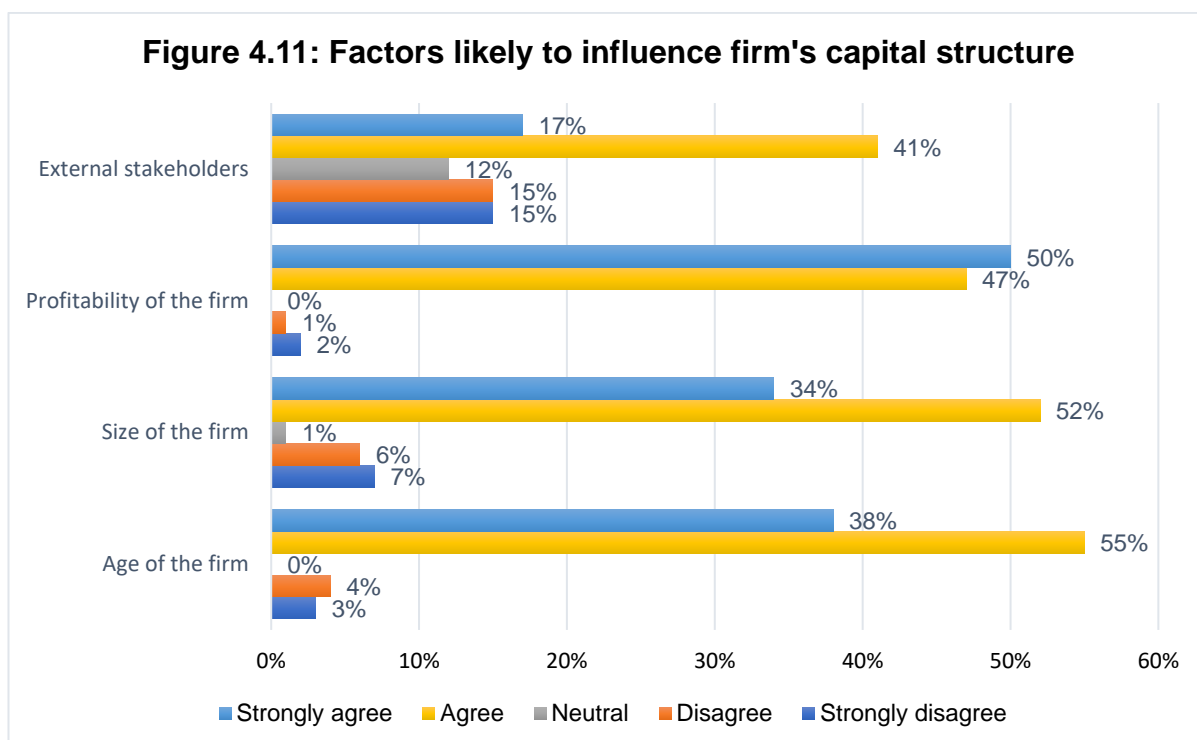
With regard to the statement “the network ties that the owner/manager possesses with executives at other firms are an important influence on the finances of the firm”; most respondents (83%) indicated that they agreed with this statement; 8% neither agreed nor disagreed; and 9% disagreed with this statement. The results indicate that network ties influenced the capital structure of the firm. The findings of this study agree with Borgia and Newman (2012: 195), who discovered the significance of relationships with other firms in obtaining capital through informal networks. Informal financing through these channels was a vital source of financing for Chinese small firms. Almost half of the respondents (42%) agreed that informal financial sources are an essential aspect to the capital structure of the firm; 30% of respondents neither agreed nor disagreed; and 28% disagreed with this statement. These results indicate that informal financing is important to the capital structure of the firm.

With regard to the statement “My preference is financing influences the firm’s financing decisions” 84% of respondents agreed with this statement; 9% neither agreed nor disagreed; and 7% disagreed with this statement. These results indicate that the preference of the owner/manager influences the capital structure of the firm.

87% of respondents showed that the firm’s profitability allowed the firm to use internally generated funds; 7% neither agreed nor disagreed; and 6% disagreed that the firm’s profitability allows it to utilise internally generated funds. The results indicate that the firm’s profitability influences it to use internal funds. The findings agree with Coeti and Farhat (2017: 13), that profitability lowers the need to use any type of personal debt injections. There was an agreement in most of the statements with regard to the factors that influence the capital structure of the firm.

4.4.1.6 Factors likely to influence the firm's capital structure

This section (question D6) is to establish firm factors owners/managers expect to influence the capital structure of the firm. The factors considered below are external stakeholders, profitability of the firm and the size of the firm.



➤ External stakeholders

In Figure 4.11 (question D6), it is seen that slightly above 58% of respondents agreed that external stakeholders are likely to influence the capital structure of the firm; 12% neither agreed nor disagreed; and 30% indicated that external stakeholders are not likely to influence the capital structure of the firm. The findings indicate that external stakeholders are likely to influence the capital structure of SMMEs.

➤ Profitability of the firm

From Figure 4.11, the majority of respondents (97%) indicated that they agreed that profitability was likely to influence the firm's capital structure and 3% of respondents disagreed with this statement. These results reveal that profitability is likely to influence the firm's capital structure.

According to Chipeta and Deressa (2016: 667), profitability was found to be the most significant factor of capital structure.

➤ **Size of the firm**

Figure 4.11 shows that the majority of respondents (86%) indicated that they agreed that the size of the firm is likely to influence the capital structure of the firm; 13% of respondents disagreed with this statement; and 1% neither agreed nor disagreed. The results reveal that the size of the firm is likely to influence the firms' capital structure. Thippayana (2014), established size to be significant for half of the sampled countries in the study.

➤ **Age of the firm**

From Figure 4.11, the majority of respondents (93%) agree that the age of the firm is likely to influence the firm's capital structure. Only 7% of respondents disagreed that age is likely to influence the firm's capital structure. This result reveals that the age of the firm is likely to influence the firm's capital structure. According to Bassey *et al.* (2014: 35), size is important for firms in securing long-term debt.

4.4.1.7 Collateral used by the firm

This section (question D7) is to establish if the SMME firm had used collateral. The collateral considered below include personal real estate, business real estate, business securities or deposits, business equipment or vehicles and inventory or accounts receivable.

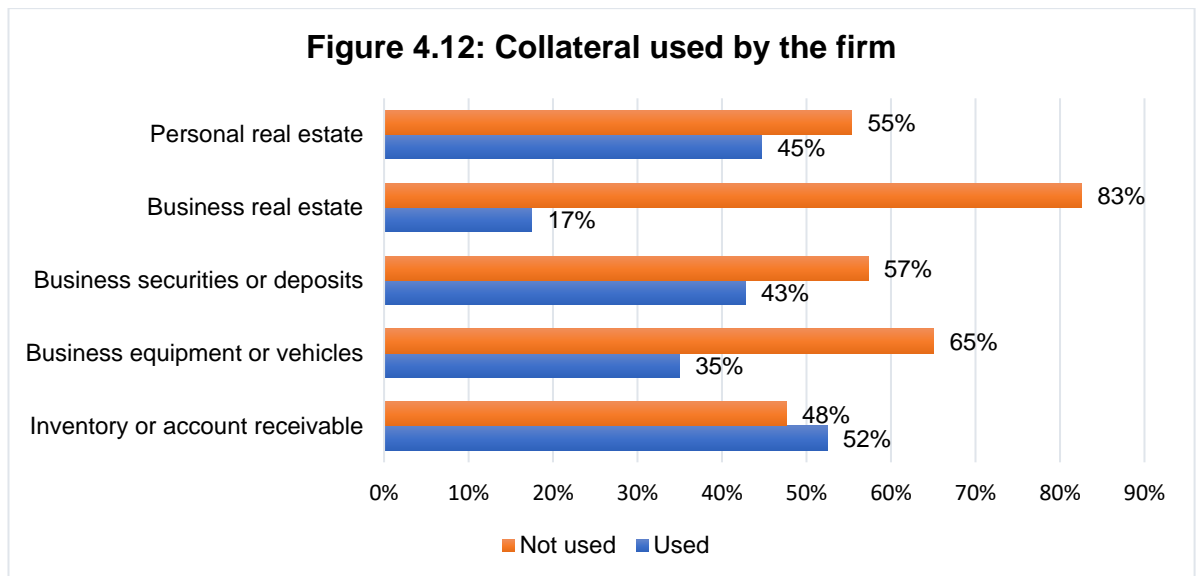


Figure 4.12 above indicates that about half of the respondents did not utilise personal real estate (55%), business securities or deposits (57%) and business equipment or vehicles (65%) for collateral.

The majority of respondents (83%) indicated having not used business real estate for collateral, which agrees with Figure 4.8 as a majority of the respondents operate in a leased space. With regard to inventory or accounts receivable, 52% of the respondents indicated to have used this for collateral.

The findings reveal that collateral for inventory or accounts receivable was used by the majority, while business real estate was the highest unused collateral item. According to Rankhumise (2017: 56), a major challenge identified was the lack of collateral by firms as collateral was required by banks for loans. Due to start-up firms not having collateral and being charged high interest rates with no flexibility in the payment period, private banks are often perceived as an inadequate financing source for start-up firms (Silva 2015: 11).

4.4.1.8 Conclusions to Objective 1

From the descriptive analysis above, it is found that personal savings at the initial stage of the firm proved to be the most important financing source. Once the firm was established, personal savings, although important, was not as important as retained earnings which was found to be the greatest source of capital for the firm's finances. Attitude towards debt was found to be an important factor that affects the financing decisions of the firm. Maintaining control was found to be the most important objective that influences the financial decisions of the firm. Individual goals, preference for financing and network ties of the manager, firms' profitability and age, as well as the size of the firm were found to be the important factors that influence the capital structure of the firm. With regard to collateral, business real estate was the least type of collateral used, while inventory or accounts receivable was used by firms as collateral.

4.4.2 Objective 2: To examine the influence of capital structure on the survival and growth of SMMEs in Durban

Questions 8 to 12 from section E were used to address the above-mentioned objective. The findings are discussed below.

4.4.2.1 Growth of firm over the last three years

This section (question E8.1) is to determine the growth of the firm over the last three years.

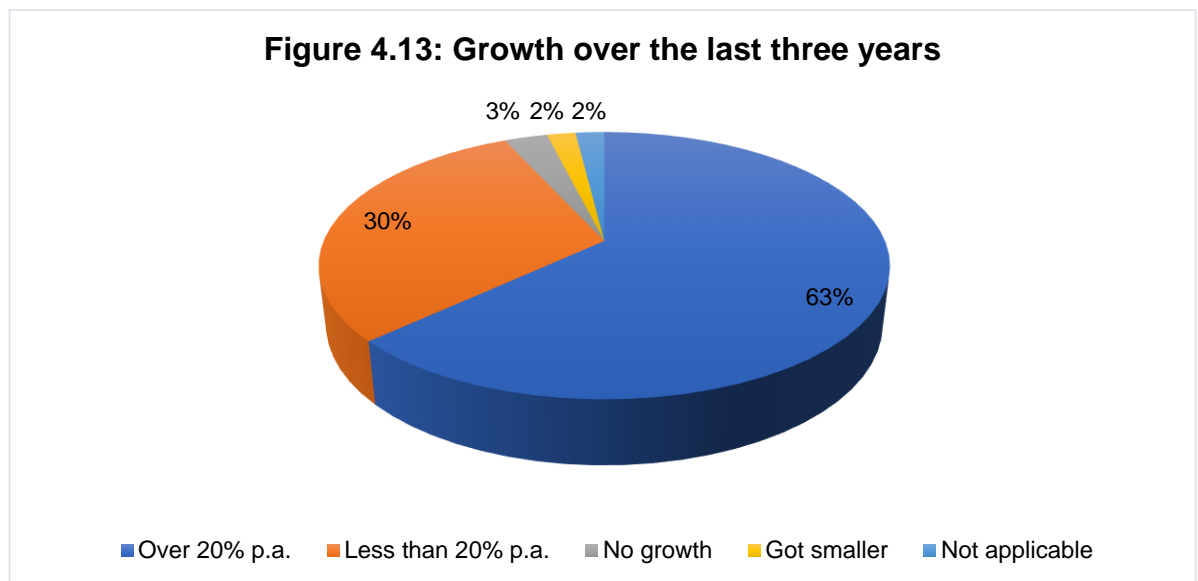
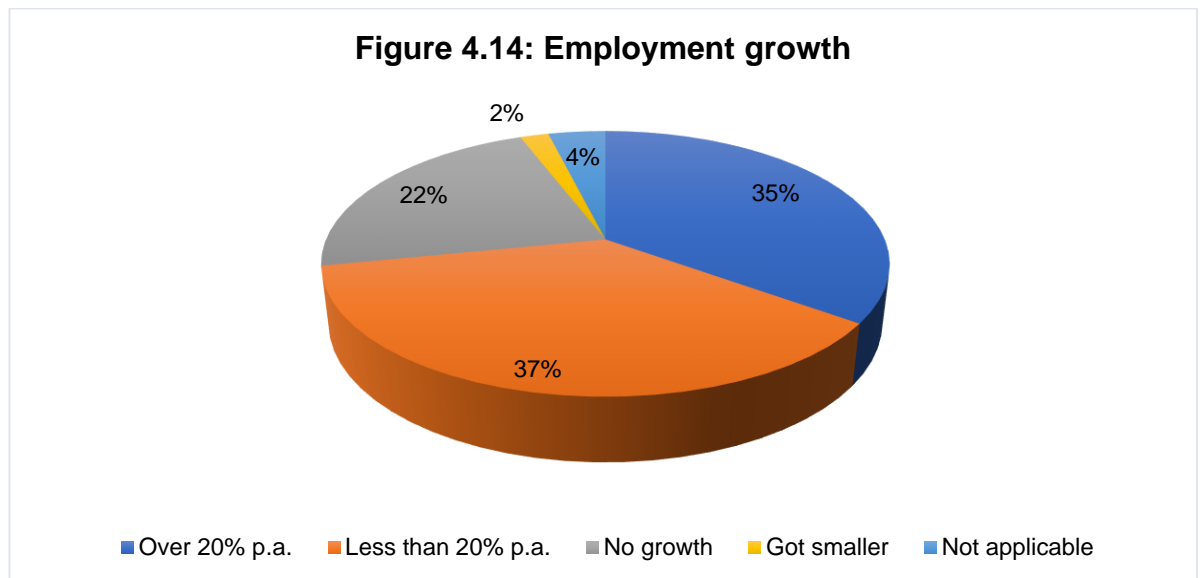


Figure 4.13 shows that a majority of the respondents (63%) grew over 20% per annum over the last three years. A further 30% of respondents grew by less than 20% per annum; and 3% of respondents had no growth. There was a minimal number of firms that had become smaller (2%); and 2% of the respondents stated that, growth did not apply to their firm. The findings reveal that the firms have grown over 20% per annum over the last three years. The annually average growth rate of micro and small enterprises (MSEs) in the town was 5.3 percent (Hagos *et al.* 2014: 76).

4.4.2.2 Growth of full-time employees

This section (question E8.2) is to determine the employment growth of the firm.

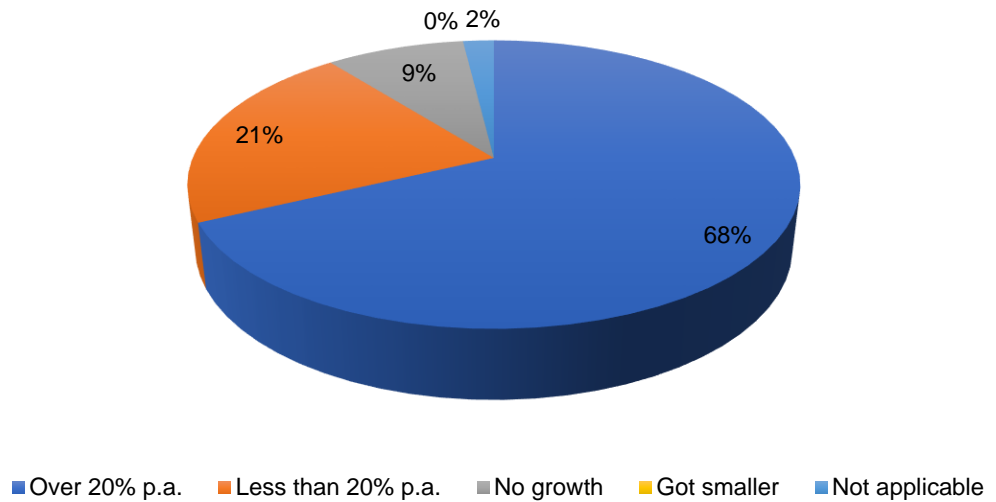


In terms of employment growth, as shown in Figure 4.14, 37% of respondents had less than 20% per annum growth; while 35% indicated growth greater than 20% per annum. A further 22% had no growth in the firm; 2% indicated employment decreasing and 4% indicated that this question was not applicable to their firm. The findings reveal that full-time employment grew less than 20% per annum for the firms. Omar (2016: 158) posited that an increase in employment indicates an increase in growth.

4.4.2.3 Growth in turnover over the next two to three years

This section (question E8.3) is to determine the expected growth that owners/managers expect to achieve.

Figure 4.15: Future growth of firm

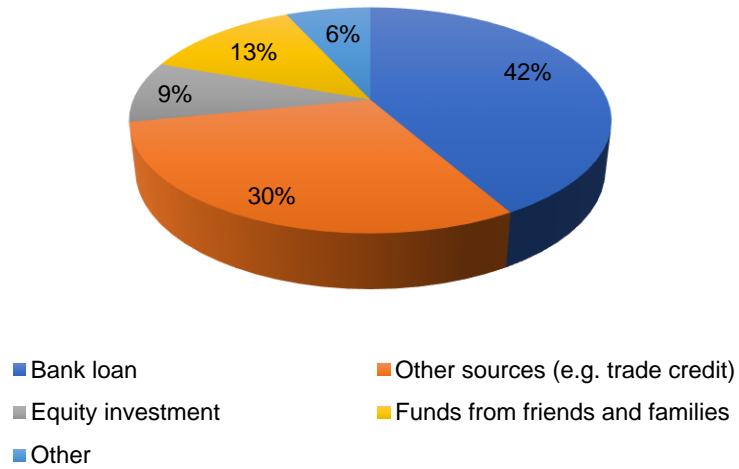


In Figure 4.15, the respondents indicated their expectations for turnover over the next two to three years. Majority of respondents (68%) indicated their wish to grow over 20% per annum; a further 21% expect to have growth less than 20% per annum; and 9% indicated that they did not have any expectation to grow over the next two to three years. None of the respondents expected the turnover to get smaller and 2% of respondents indicated this as not being applicable to their firm. None of the firms indicated getting smaller in terms of turnover. The findings reveal that SMME firms expect turnover to grow above 20% per annum. Lekhanya (2016: 115) found that the majority of firms agree that an increase in sales has a significant influence on survival and growth. According to Bhaumik *et al.* (2015: 82), an entrepreneur’s strong motivation for growth positively affects the succeeding years of turnover growth of the firm.

4.4.2.4 External financing preference

This section (question E9) is to determine the type of external financing owners/managers would utilise to realise their growth ambition.

Figure 4.16: Type of external financing preferred



In Figure 4.16, the majority of respondents (42%) indicated that they would prefer a bank loan over trade credit and funds from friends and family. A further 30% of respondents preferred trade credit; and 13% preferred funds from friends and family. Nine percent of the respondents indicated that they would prefer equity investments and 6% indicated 'other' with comments such as they prefer to "use the business service to government funds" and the other stating "no debt". The findings reveal bank loans as the most preferred type of external financing. Bhaumik *et al.* (2015: 75) stated that, firms that are more growth orientated will be more likely to seek external finance.

4.4.2.5 Financing aspirations

This section (question E10) is to determine from the external financing owners/managers would prefer to realise their growth ambition, what amount would they like to obtain.

Figure 4.17: Financing wished to be obtained

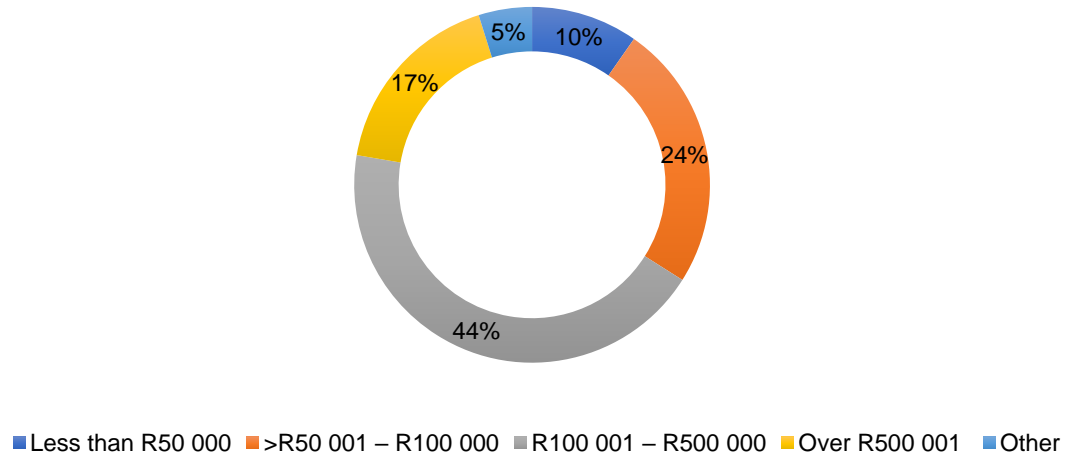
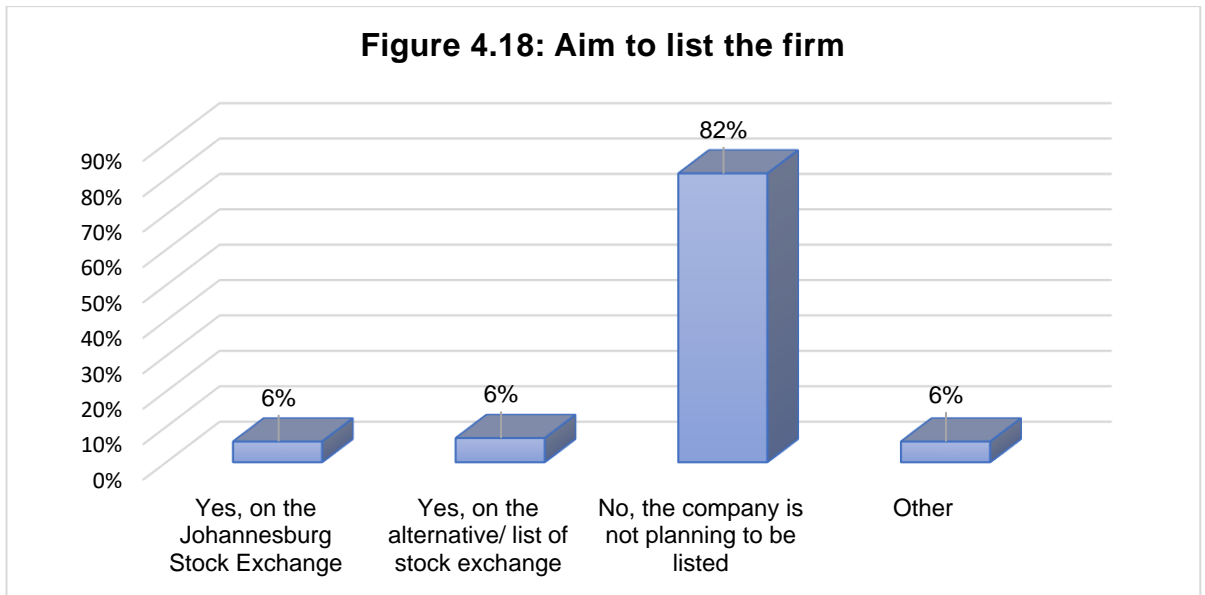


Figure 4.17 shows that the majority (44%) of respondents would aim to obtain R100 001 to R500 000. A further 24% would aim for R50 000 to R100 000; and 17% would aim for over R500 0001; while 10% would prefer less than R50 000 and 5% indicated other; with comments such as “R1 million and above” and “not applicable”. The findings reveal that SMME firms would aim to obtain financing of R100 001 to R500 000.

4.4.2.6 Aim for the firm to be listed

This section (question E11) is to determine whether owners/managers aim to list the firm on the stock market.



From Figure 4.18, one sees that the majority of respondents (82%) do not plan to have the firm listed. A further 6% indicated having the firm listed on an alternative stock exchange; another 6% indicated having plans to list on the Johannesburg stock exchange; and 6% indicated 'other,' with comments such as "they will consider this" and "not applicable". The findings reveal that the firms have no aim to be listed on a stock exchange.

4.4.2.7 Obstacles hindering the listing of firms

This section (question E12) is to determine the obstacle preventing the firm from listing on the stock market.

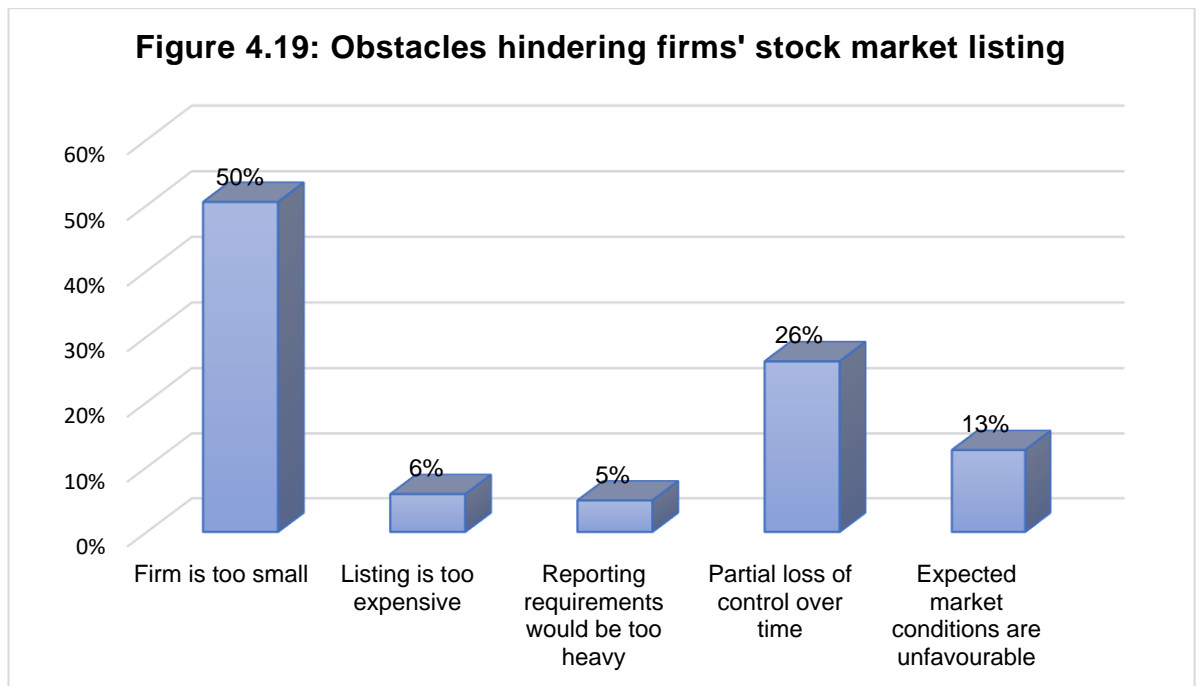


Figure 4.19 displays the main obstacles hindering firms from being listed on a stock market. A majority of respondents (50%) indicated the firm being too small as a hindrance to listing the firm. A further 26% indicated a partial loss of control as being a hindrance and 13% considered unfavourable market conditions. Six percent of respondents indicated that listing was too expensive and 5% indicated that the reporting requirements would be too heavy. The findings above reveal that the firm size being small is the largest reason for firms not planning to be listed on a stock exchange. This finding differs from Šestanović (2015: 586), who indicated that a loss of control over the firm is the most significant factor that deters SMMEs from listing.

4.4.2.8 Conclusion to Objective 2

From the descriptive analysis above, the findings indicate that the firms grew above 20% per annum. The employment of full-time employees grew for most of the firms, some growing over 20% per annum and other firms less than 20% per annum. The findings indicate that the firms expected the turnover to grow over 20% per annum over the next two to three years. The firms preferred to utilise bank loans and trade credit for external financing. The desired loan amount varied from R50 000 to R500 000.

The firms did not intend to be listed due to them being too small, while others did not want to be listed due to the fear of partial loss of control over time. The second objective of the study was to examine the influence of capital structure on the survival and growth of SMMEs in Durban. Table 4.7 shows that once the firm was established, retained earnings, was the most importance source of financing. This was followed by personal savings and trade credit, thereafter, by funds from friends and family. Debt and external equity financing were found to be the least source of financing. The majority of the respondents' firms grew over the last three years. It can be concluded that utilising retained earnings, personal savings, trade credit and funds from friends and family had a significant influence on the growth of the firm, while debt and external equity financing have an insignificant growth influence on the firm.

4.5 FACTOR ANALYSIS

The key objective of factor analysis, which is a statistical method, is to reduce data. According to Kalidin (2017: 120), survey research commonly utilises factor analysis, where a researcher wishes to characterise numerous questions with a smaller number of proposed factors. Firstly, an EFA was performed to ascertain the efficacy of the financial information of the firm under consideration. This experiment led to the elimination of thirty-two items. Thereafter, this was confirmed through another stage of evaluation. The CFA was utilised to establish the credibility of the commonly accepted criteria of reliability and validity.

An additional ten items were removed to settle on the final ten confirmed items for analysis. The reliability of the measurement items of the current study, was therefore established, with a ten items scale, as the extent to which factors were measured with a multiple item scale (such as the current study's model) indicated the true scores on the factors relative to the error (Hulland 1999; Aibinu and Al-Lawati 2010).

In this vein, the reliability was measured by the estimation of internal consistency and composition.

When factor loadings are higher than 0.70 at a significant level of 95 percent, it shows the factors are discriminant. The factor analysis is illustrated by the items and loadings in Table 4.7 are greater than 0.7. However, one item showed a communality below 0.7 but this was kept for face validity.

Table 4.7: Outer loadings of measurement items

	CapStrFirm	CapStrSurGrth	FinInfoFirm	InfoFirm
BFAge				1.000
CAttit			0.733	
CControl			0.751	
CFValue			0.872	
CREarn			0.572*	
DAsym	0.844			
DProfitF	0.782			
EEesGr		0.951		
EFGrow		0.885		
ETurnGr		0.771		

Multi-collinearity is used to measure if there are duplications of items amongst construct measures. It is measured by examining the variance inflation factor (VIF) values. When these values are greater than 10, it indicates multi-collinearity which should be a source of grave concern for any study. From Table 4.8, it is seen that all values are below 10. Therefore, multi-collinearity is not a problem in the current study (Cenfetelli and Bassellier 2009; Benitez-Amado and Ray 2012).

Table 4.8: Measurement of multi-collinearity

	VIF
BFAge	1.000
CAttit	1.736
CControl	1.490
CFValue	1.562
CREarn	1.298
DAsym	1.118
DProfitF	1.118
EEesGr	2.835
EFGrow	2.208
ETurnGr	1.867

4.6 DATA NORMALITY AND CORRELATION MATRIX

Data normality was scrutinized through the indicator analysis, the details of which are provided in Table 4.9. The rule of thumb demands that kurtosis and skewness fall within the range +/- 1.0 (Lomax and Schumacker 2004). The dataset statistics are provided to show how the study's responses felt. The ratio of 1:15 suggested by research regarding sample size in relation to manifest variables, especially in view of the co-variance matrix, clears this study from any doubt, given its sample size of $n = 103$. Non-normal distribution may cast some doubts on the result of a test. However, Boomsma and Hoogland (2001: 152), stated, the theory of normal likelihood, only works well under "practical" non-normality. Maximum likelihood solutions are robust to skewness with only small effects on the parameter estimation and standard errors (Jaccard and Wan 1996). Again, the PLS-SEM 5.0 software covariance analysis does not require normally distributed data to perform analysis (Gefen, Straub and Boudreau 2000; Henseler *et al.* 2009). Therefore, this study is absolved from any bias.

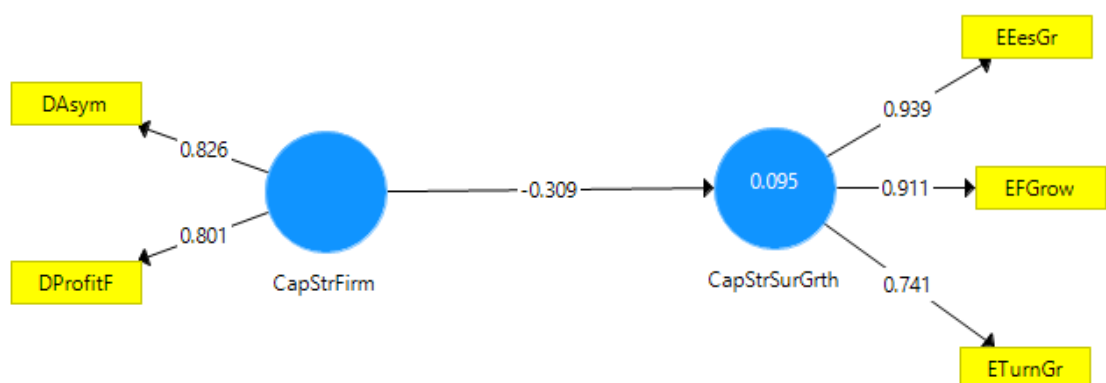
Table 4.9: Descriptive statistics of the empirical correlation matrix, mean and Standard Deviation

	BFAge	CAttit	CControl	CFValue	CREarn	DAsym	DProfitF	EEesGr	EFGrow	ETurnGr
BFAge	1.000									
CAttit	-0.082	1.000								
CControl	0.058	0.473	1.000							
CFValue	0.195	0.515	0.512	1.000						
CREarn	0.058	0.471	0.294	0.237	1.000					
DAsym	-0.087	-0.010	-0.109	-0.061	-0.076	1.000				
DProfitF	0.130	-0.019	0.020	-0.025	-0.085	0.325	1.000			
EEesGr	0.205	-0.014	0.046	0.056	0.038	-0.318	-0.195	1.000		
EFGrow	-0.021	0.077	0.024	0.086	0.061	-0.174	-0.310	0.736	1.000	
ETurnGr	0.117	0.007	0.032	0.066	-0.037	-0.131	-0.021	0.677	0.552	1.000
Mean	4.038	3.923	4.385	3.962	4.308	3.577	4.394	2.029	1.510	1.471
Std Dev	1.126	1.222	0.800	1.232	1.294	1.115	0.752	0.995	0.820	0.808
Min	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Max	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000
Kurtosis	0.213	0.689	5.963	0.341	1.958	-0.085	6.811	1.062	5.819	5.540
Skewness	-1.020	-1.229	-2.070	-1.144	-1.836	-0.702	-2.040	1.012	2.195	2.147

4.7 STRUCTURAL MODELLING

To test objective two, which was to examine the impact of the capital structure on the survival growth of SMMEs, this was modelled in a cause and effect manner and the structural model was assessed. Causal paths were then estimated to test the structural relationship. The value (0.095) shown in the oval CapStrSurGrth is variance (R^2) of the dependent factor CapStrFirm. This is an indication of how well the model fits the data. R^2 shows the amount of variance in the dependent factor that is explained by this objective and shows the predictive capability of the dependent factor CapStrFirm. The assessment of the impact of the capital structure (CapStrFirm) on the survival and growth of SMMEs (CapStrSurGrth) is to validate this objective's fitness, which is a measure of validity. Both R^2 and path coefficients (values on arrows) indicate the effectiveness of this objective and show how well this can be shown in a model perform, as seen below in Figure 4.20 (Hulland 1999). The overall fit and explanatory power of this objective were examined, together with the relative strengths of the individual causal path (values on arrows). Figure 4.20 shows the result of the structural model assessment, with the calculated R^2 values (explanatory power) and significance of individual paths summarised.

Figure 4.20: Empirical result of Objective two



As per Figure 4.20, the paths explaining the variance of the survival and growth of SMMEs (CapStrSurGrth), that is, CapStrFirm ($\beta=-0.301$, $p=0.01$), displayed negative contribution that is, the two constructs have an indirect relationship.

4.7.1 Effect size

The effect of the CapStrFirm factor on the dependent factor (CapStrSurGrth) is derived by computing the R^2 values for independent factors, when each factor is excluded $R^2(e)$ and included $R^2(i)$ to test for its significance. The effect size f^2 is calculated thus (Helm, Eggert and Garnefeld 2010):

$$f^2 = \frac{R^2(i) - R^2(e)}{1 - R^2(i)} \dots\dots\dots (1)$$

Table 4.10 shows the quality of effect size of the model factors. By investigating effect sizes, researchers are able to ascertain if the effects of the path coefficients are small, medium or large, according to these recommended values: 0.02, 0.15 or 0.35 respectively (Kock 2010). Kock (2014) state that values below 0.02 are too weak to be considered effective.

Table 4.10: Effect size quality

	CapStrFirm	CapStrSurGrth	FinInfoFirm	InfoFirm
CapStrFirm		-0.302		
CapStrSurGrth				
FinInfoFirm_		0.029		
InfoFirm		0.127		

The table also gives the effect of the financial information (FinInfoFirm) and information on the firm (InfoFirm) as 0.029 and 0.127. Thus, the values of these two factors are effective.

4.7.2 Model fit

Table 4.11: Model fit and quality indices

	Saturated Model	Estimated Model
SRMR	0.090	0.090
d_ ULS	0.442	0.442
d_ G1	0.224	0.224
d_ G2	0.183	0.183
Chi-Square	122.751	122.751
NFI	0.606	0.606

The power of the measurement model can be established through convergent and discriminant validity (Hair, Black, Babin and Anderson, 2010). Convergent validity has been shown using the reliability of questions, composite reliability of constructs and variance extracted by constructs (Fornell and Larcker 1981). Discriminant validity is assessed by looking at correlations amongst the questions (Fornell and Larcker 1981; Freitas, Simoes, Maroco, and Alves 2012), as well as variances and covariances amongst constructs (Igbaria, Badawy and Parasuraman 1994).

This quality of goodness of fit evaluates the correlation matrix and the model-implied correlation matrix. The lower the values, the better the fit between the proposed model and the data (Bollen and Long 1993). Overall, the Standardised Root Mean Residual (SRMR) value should be lower than 0.080 to accept the fit between the model and the data. However, Sprumont (2017), cited Ringle, Wende and Becker (2015), indicated that a value of 0.1 or below is good quality of goodness of fit.

4.8 CONCLUSION

In this chapter, the focus was on the analysis and interpretation of results presented graphically. Reliability and descriptive statistics were used to define the findings from the questionnaires completed by owners/managers of the SMMEs.

Tables, figures and graphs were used to exhibit data on the information supplied by the respondents. Exploratory and confirmatory factor analysis was used to denote a number of questions with a number of hypothetical factors. PLS-SEM 5.0 software was used for this study. Tables and graphs indicate the analysis by section. The study utilised closed-ended questions to stimulate more subjective evidence.

The following chapter will provide conclusions for the entire research, based on the aim and objectives of the research. It will also include recommendations by the researcher.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The preceding chapter presented the findings and interpretations of the data compilation. The results were presented in tables and graphical formats.

This chapter indicates how the aim and objectives of the current study were achieved. It indicates the conclusions associated with the findings and provides recommendations for practice based on the objectives. The limitations of the current study are emphasised and areas for further research are explored.

5.2 OVERVIEW OF THE STUDY

The aim of the study was to identify the factors influencing the capital structure in term of the survival and growth of SMMEs in KwaZulu-Natal.

In order to achieve the above aim, the following objectives were addressed in this study:

- To establish factors that influence the capital structure used by SMMEs in Durban;
- To examine the influence of the capital structure on the survival and growth of SMMEs in Durban; and
- To suggest a capital structure that will endeavour to address the survival and growth challenges of SMMEs in Durban.

The literature review explored the importance of SMMEs in the economy and the challenges faced by SMMEs in the retail and wholesale sectors.

The literature review discussed the capital structure theories and explored studies, both nationally internationally, on factors influencing the capital structure of large firm and SMMEs. The literature review explored the relationship between capital structure and SMME growth and survival.

The research methodology provided an overview of the research design, sample selection and data collection instrument used by the researcher to meet the research objectives. The study utilised a quantitative strategy, cross-sectional in nature.

A survey questionnaire was utilised, it concentrated on issues surrounding research objectives. The sample size comprised of 136 respondents in the Durban area. Non-random sampling, using convenience sampling, was adopted in order to attain the desired sample.

The data were analysed through PLS-SEM 5.0 software. Descriptive statistics provided a summary of the respondents' information. The results were contrasted to previous literature cited in the literature review. The results were presented in numerous ways, such as tables, pie charts and bar graphs.

5.3 PRESENTATION OF CONCLUSIONS BASED ON THE FINDINGS

The following section presents a brief discussion on the achievement of the research objectives:

5.3.1 To establish factors that influence the capital structure used by SMMEs in Durban

It was the researcher's aim to determine the factors that influence the capital structure of SMMEs in Durban. This objective was addressed by the literature review in chapter two and achieved by the descriptive statistics and factor analysis in chapter four. To address this objective, chapter two explored the literature on factors influencing the capital structure of small firms, both internationally and nationally.

The literature considered studies that investigated both firm-level factors and managerial factors. Although many empirical studies (Predkiewicz and Predkiewicz 2015; Jiang, Dong and Du 2018; Koksai and Orman 2014; Acaravci 2015; and Pacheco and Tavares 2017) investigated the influence of firm-level factors on the capital structure of listed SMME firms, while a minute number of empirical studies (Mogashoa 2016; Borgia and Newman 2012; Nawi 2015) investigated the influence of managerial factors on the capital structure of small firms. The findings of this study indicate that managerial factors, such as individual goals and financing preference of the owner/manager, network ties, attitude to debt, maintaining control and asymmetric information; and firm-level factors such as size of the firm, profitability and firm age are factors that influence the capital structure of the firm. The findings of this study concurred with the literature in terms of the firm-level factors that influence the capital structure. A few findings on the managerial factors investigated were unique to this study, such as asymmetric information.

5.3.1.1 Attitude to debt

Capital structure decisions are made by the owners/managers of the firm. The findings indicate that attitude to debt is an important factor when making financial decisions for the firm, with a majority of the respondents indicating its importance. The use of debt is dependent on the owner/manager, which will impact how much debt the firm will use. Mogashoa (2016: 65), in his empirical study of SMMEs in Gauteng, found that this was not regarded as a factor. This finding might explain why SMME owners/managers utilised internally generated funds more as compared to other forms of capital.

5.3.1.2 Maintaining control

It was discovered that a large portion of the respondents concur that keeping control was a very crucial target that affected the capital-related choice of the firm. Owners'/managers' desire to keep all business plans without impact from the pariahs.

SMME owners that seek to maintain control of the firm should settle on a decision on whether to forgo beneficial investment with the goal of maintaining control or acquire external equity. However, this would result in SMME owners not maintaining full control of the firm. One way that SMME owners can continue to maintain control of the firm and take hold of beneficial investment is by acquiring debt. However, SMME owners must ensure that the firm does not face financial distress.

5.3.1.3 Profitability

Almost all respondents concurred that profitability is a factor impacting the capital structure of the firm. The more lucrative a firm is, the more probable the firm is to utilise reserves created from inside. Firms that create reserves internally will possibly not look for outside financing. Low profits may result in financial distress for the firm. The pecking order theory posits that firms are in favour of utilising retained earnings produced from profitability, above external financing. However, these firms do not desire to utilise external finance. The study uncovered profitability as a factor that impacts the organisation's capital structure. The discoveries concurred with the findings in the literature.

5.3.1.4 Firm age

The longer the firm is established, the more experience it procures. The notoriety of the firm ends up being set up, which can prompt more noteworthy trust in the firm. The more extended the firm operates, the more internal financing the firm generates. Start-up firms need to rely on internal financing, while developed firms are able to access more external financing as compared to recently formed firms. The findings of this study indicated that most SMMEs have been operating over five years, revealing that these firms are not compelled to utilise internal financing, yet they choose to do so.

5.3.1.5 Asymmetric Information

Asymmetric information is probably going to be higher in small firms as opposed to large firms due to the lack of information divulged by small firms and due to these firms having a smaller reputation as compared to large firms. Although owners/managers within the firm trust that managerial experience reduces asymmetric information, outside investors require more than the owner's/manager's word. By SMMEs utilising debt, this sends positive signals to outside investors of the firm and attracts external equity, thus reducing asymmetric information. This is due to the rigorous requirement of lenders of finance and the financial information that needs to be provided by SMMEs.

5.3.1.6 Size of the firm

Empirical studies concurred with the findings that the size of the firm influences the same firm's capital structure. Larger firms have a better market share and greater chance in acquiring funds as compared to small firms. The size of the firm has an impact on the majority of the items in the firm, such as the assets the firm will utilise and the premises the firm will operate from, which will, in turn, influence the financing required by the firm. Larger firms tend to be more indebted than small firm, and these firms have diversified sources of funds as compared to small firms. One reason for this could be due to asymmetric information.

5.3.2 To examine the influence of the capital structure on the survival and growth of SMMEs in Durban

This objective was likewise attended to by the literature review in chapter two and accomplished by the descriptive statistics and structural modelling in chapter four. The findings of the study indicate that capital structure does influence the survival and growth of SMMEs. A very limited number of studies (Cole and Sokolyk 2017; Robb and Robinson 2014), investigated the influence of capital structure on the survival and growth of new firms. The findings of the current study indicate that SMME owners/managers utilise more retained earnings in the capital structure once the firm was established.

By utilising retained earnings the firms have growth substantially. The capital structure utilised by these SMMEs also included personal savings, trade credit and funds from friends and family.

In order to examine the causal relationships amongst the constructs, a structural model was built. Capital structure of the firm ($\beta=-0.301$, $p=0.01$) poses a significant relationship with the survival and growth of SMMEs. Empirical studies (Muritala 2012; Siddik, Kabiraj and Joghee 2017), investigated the impact of capital structure on growth. Despite these studies using performance as a determinant of growth, the findings were consistent to the findings this study.

5.3.3 Capital structure that will endeavour to address the survival and growth challenges of SMMEs in Durban

Chapter two explained that capital structure is the amount of debt and equity that the firm uses to fund the firm. The findings revealed that retained earnings is the highest used capital by SMMEs in Durban. Retained earnings is internally generated and reliant on the profit made by the firm. Attitude to debt and maintaining control were found to be factors that influence the financial decisions of the firm. This is likely to hinder the owners/managers of the SMMEs in Durban to utilise these sources of capital. The study recommends that owners/managers in Durban continue to utilise retained earnings as this has resulted in significant growth, however this is recommended if the firm continues to be profitable. To continue growing external financing such as utilising debt and/or external equity (giving up a percentage of ownership) should only be considered if the firms encounters a loss. By utilising debt, this can build the credit-worthiness of the firm. Although there are benefits to utilising debt, there are also disadvantages. These include the ability of the firm to repay the loan and interest during economic downturns. Besides debt, the firm can also utilise external equity to grow the firm. External equity involves investors investing in the firm.

The benefit of utilising external equity is that there is no obligation to repay the capital amount received. However, a certain percentage of the firm would have to be given up.

5.4 RECOMMENDATIONS FOR SMMEs

Based on the findings, the following recommendations are offered to SMMEs in KwaZulu-Natal in order to address the challenges of survival and growth:

5.4.1 Attitude to debt

The findings revealed that the owner's/manager's attitude to debt has an influence on the financial decisions of the firm. Therefore, owners/managers need to determine whether the attitude they have towards debt is hindering the firm from acquiring debt which can assist it to finance the growth aspirations of the owner/manager. The study recommends that owners/managers build a relationship with lenders to better understand the benefits and difficulties of using debt for the firm and the owner/manager. This exercise can better assist owners/managers to make more informed decisions with regard to debt, not basing financing decisions on their attitude, while providing managers with the financial assistance they require to grow and for SMME survival. The study also recommends that lenders of debt build relationships with owners/managers of SMMEs and become more transparent on the processes involved in acquiring debt in order to change the perspectives of the owners/managers towards debt being bad for the business. Improving relations relies on all parties desiring to bridge the gap between lenders of debt and borrowers of debt. Once owners/managers are better informed, this may assist these individuals to make better informed decisions and prompt owners/managers to build a reputation, which can address some of the challenges identified in the literature review. This can also assist owners/managers to make informed decisions and not be burdened by debt.

5.4.2 Maintaining control of the firm

The findings revealed that maintaining control of the firm has an influence on the financial decisions of the firm. One reason that owners/managers may want to maintain control is to manage the firm' their own way. Owners/managers need to determine whether this is hindering the growth and survival of the firm in the future. Maintaining control and managerial independence is a key aspect to all businesses. SMMEs rely greatly on retained earnings for the firm to continue for the foreseeable future. This is mostly due to owners/managers wanting to maintain control of the firm. In order for the firm to grow substantially in the future, capital investment would be required over and above the retained earnings that the firm produces. Due to firms' heavy reliance on retained earnings, the growth that they experience may be limited (Bhaumik *et al.* 2015) and Silva 2015), however in this study it was found that SMME firms grew despite utilising internal financing. The study recommends that owners/managers continue utilising internal financing as the firm continues to grow. Owners/managers should only consider relinquishing control of the firm if growth has stopped or if the firm runs into a loss. Relinquishing control would require the dilution owner/manager to consider external equity and embrace dilution of ownership in order to acquire capital for the firm.

5.4.3 Profitability

The findings revealed that profitability is a factor influencing the capital structure of the firm. Maintaining and growing the profitability is crucial when seeking external financing, whether equity or debt. This can indicate the financial health of the firm, as well as the market position of the firm and the ability to survive. A firm must be profitable to continue operating and the more profit a firm generates the more retained earnings the firm will have. The study recommends that firms work out strategies to increase their profits.

5.5 IMPLICATIONS

The section below examines the implications of the study. This was broken into the implication relating to the capital structure theory and the implication of capital structure on the SMME survival.

5.5.1 Implication of capital structure theory

The results of this study have implications on the capital structure theories. The key theories of capital structure are the trade-off theory and pecking order theory which are based on firm-level factors. The findings of the study revealed that both managerial and firm-level factors affect the capital structure. Current empirical findings suggest that SMME owners/managers utilise internally generated funds in the capital structure. Findings revealed that traditional capital structure theories may not clarify the financing conduct of SMMEs. Capital structure decisions are made by owners/managers of SMMEs, driven by the attitudes of the owners/managers.

5.5.2 Implication of capital structure for SMME survival

Owners/managers must know the factors that impact the capital structure choice of the firm. Access to external financing requires formal financial information on the firm. Utilising these funds could reduce asymmetric information of SMMEs. This might lead to outside investors and lenders of debt having greater confidence in the firm. Owners/managers of SMMEs should realise utilising internal financing such as retained earnings can result in the growth of the firm. Growth of SMMEs is not dependent on utilising external financing. SMME owners/managers should also be aware that any loss faced by the firm may affect the survival of the firm over the long-run. The high failure of SMMEs may be due to loss experienced by the firm and not necessarily lack of access to finance. SMMEs can continue to grow and survive should the firm continue to be profitable and owners/managers reinvest the profits into the firm.

5.6 LIMITATION OF THE STUDY

The sample was restricted to retail and wholesale SMMEs located in Durban, KwaZulu-Natal. The findings can be generalised with care to SMMEs in other cities and/or provinces, as the conditions and characteristics may differ considerably.

5.7 RECOMMENDATIONS FOR FUTURE RESEARCH

The results of this study have highlighted concepts that should provide a basis for further research. Recommendations for future research are discussed below:

- The current study was limited to the retail and whole sector. Hence, this study recommends that future studies should include other sectors to determine whether SMME capital structures are influenced by the same factors:
- A comparative study is recommended of SMMEs in different regions and countries to enrich an understanding of SMMEs capital structure patterns.
- The findings of this study revealed that attitude to debt is a factor influencing capital structure. Therefore, further research may possibly also be executed to resolve the relationship between bank lenders and SMMEs.
- The findings of the study recommended that a better, transparent relationship be established between owners/managers and lenders of debt. Thus, this study recommends future research to explore the impact that this relationship will have on the growth and survival of the firm.
- The study recommended that SMME owners/managers forgo maintaining control of the firm in for the firm to survive and grow. Future research could be done to establish the effectiveness of this strategy; and
- The study was quantitative in nature. Therefore, a mixed approach is suggested in order to increase rigour.

5.8 CONCLUSION

This chapter explained how the aim and objectives of this study were accomplished. The chapter provided recommendations grounded in the research objectives. The limitations of the study were emphasised and the areas for future research were provided. This study was efficacious in realising its specified aim and objectives. It is the researcher's confidence that this study will provide motivation for other studies to be performed on SMMEs at the DUT and other universities in order to enhance knowledge of SMMEs within the South African economy.

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APPENDICES

Appendix A



**DURBAN UNIVERSITY OF TECHNOLOGY
FACULTY OF ACCOUNTING AND INFORMATICS
MASTERS IN ACCOUNTING: COST AND MANAGEMENT ACCOUNTING**

21 AUGUST 2017

Dear Participant

I, Sharon Zunckel, am a Master's student at the Durban University of Technology.

Your valuable input is required for a research study on ***an analysis of factors influencing the capital structure of Small Medium and Micro Enterprises in Durban CBD: A growth and survival perspective***. This study is undertaken to identify the factors influencing the capital structure on the survival and growth of these business.

Please assist by completing the attached questionnaire which will not take more than 20 minutes to complete. The findings of this study would contribute towards assisting small business in managing their capital structure.

Your participation of this study is voluntary. You may refuse to participate or withdraw from the study at any time with no negative consequences. Confidentially and anonymity of records identifying you as a participant will be maintained by the University.

Thank you for participating
Your assistance is greatly appreciated.

Miss S Zunckel
Student no.: 20517924
Cell no.: 0839731605

Appendix B



LETTER OF INFORMATION

Title of the Research Study: An analysis of factors influencing the capital structure of Small Medium and Micro Enterprises in KwaZulu Natal: A growth and survival perspective

Principal Investigator/s/researcher: Sharon Zunckel, Btech: Cost and Management Accounting

Co-Investigator/s/supervisor/s: Celani Nyide, DBA

Brief Introduction and Purpose of the Study: The purpose of the study is to identify the factors influencing the capital structure on the survival and growth of Small Medium and Micro Enterprises in KwaZulu-Natal.

Outline of the Procedures: You will be responsible for completing a survey questionnaire and interview which will be handed out personally by the researcher to the small business owner or a suitable representative of the business owner at their business. The estimated time taken to complete the questionnaire is 20 minutes.

Risks or Discomforts to the Participant: There are no risks or discomforts to you.

Benefits: You will receive advice on capital structure and advice on how to enhance your entrepreneurial capabilities and improve your growth and sustainability of your business. The benefit of the researcher will be research publications in both conference proceedings and accredited journals.

Reason/s why the Participant May Be Withdrawn from the Study: There will be no adverse consequences for the participants should you choose to withdraw from the study.

Remuneration: You will not receive any remuneration for participating in the study.

Costs of the Study: You will not be expected to cover any costs towards the study.

Confidentiality: All information released would remain confidential. The information will not be used for any other purpose other than this research study. There will be no business names mentioned in the write up of the dissertation.

Research-related Injury: There will not be any compensation for any research related injury because it is very unlikely that there will be any injury occurred while answering of the questionnaire.

Persons to Contact in the Event of Any Problems or Queries:

Please contact me on 083 973 1605, my supervisor Dr. C. Nyide on 033 8458882 or the Institutional Research Ethics Administrator on 031 373 2375. Complaiñts can be reported to the Director: Research and Postgraduate Support, Prof S Moyo on 031 373 2577 or moyos@dut.ac.za

General:

Potential participants must be assured that participation is voluntary and the approximate number of participants to be included should be disclosed. A copy of the information letter should be issued to participants. The information letter and consent form must be translated and provided in the primary spoken language of the research population e.g. isiZulu.



CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Sharon Zunckel, about the nature, conduct, benefits and risks of this study.
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

**Full Name of Participant Date Time Signature/Right
Thumbprint**

I, _____ (name of researcher) herewith confirm that the above participant has been full informed about the nature, conduct and risks of the above study.

Full Name of Researcher Date Signature

Full Name of Witness (If applicable) Date Signature

Full Name of Legal Guardian (If applicable) Date Signature

Please note the following:

Research details must be provided in a clear, simple and culturally appropriate manner and prospective participants should be helped to arrive at an informed decision by use of appropriate language (grade 10 level - use Flesch Reading Ease Scores on Microsoft Word), selecting of a non-threatening environment for interaction and the availability of peer counselling (Department of Health, 2004)

If the potential participant is unable to read/illiterate, then a right thumb print is required and an impartial witness, who is literate and knows the participant e.g. parent, sibling, friend, pastor, etc. should verify in writing, duly signed that informed verbal consent was obtained (Department of Health, 2004).

If anyone makes a mistake completing this document e.g. a wrong date or spelling mistake, a new document has to be completed. The incomplete original document has to be kept in the participant's file and not thrown away, and copies thereof must be issued to the participant.

References:

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Appendix C

The research instrument - Questionnaire

A. Biographical information on the business owner:

1. Please indicate your gender:

Male	Female
1	2

2. Please indicate your racial background:

African	Coloured	Indian	White	Other (please specify): _____
1	2	3	4	5

3. Please indicate your age:

25 and younger	26 – 35	36 – 45	46 – 55	55 and above
1	2	3	4	5

4. Highest qualification by owner:

Matric	Diploma	Degree	Professional qualification	No qualification
1	2	3	4	5

5. Duration worked as manager before current business operated:

0 – 1 years	>1 – 2 years	>2 – 4 years	>4 – 5 years	>5 years
1	2	3	4	5

B. Information on the firm:

1. Indicate the number of years the business has been operating:

0 – 1 years	>1 – 2 years	>2 – 4 years	>4 – 5 years	>5 years
1	2	3	4	5

2. Indicate the legal status of the firm

Sole Proprietor	Company (Pty) Ltd	Close corporation	Other (please specify): _____
1	2	3	4

3. Indicate the firms' premises:

Home-based	Leased space	Owned space	Other (please specify): _____
1	2	3	4

C. Financing information on the firm:

Please tick based on your experience: the level of importance of the following statements:

1	2	3	4	5		
Not important at all	Not important	Neutral	Important	Very important		
1. Indicate when firm was started, which number best reflects the firms' choice in raising finance.						
1.1	Personal savings	1	2	3	4	5
1.2	Funds from friends & family	1	2	3	4	5
1.3	Trade credit, lease, hire purchase	1	2	3	4	5
1.4	Debt (loan)	1	2	3	4	5
1.5	External equity financing ¹	1	2	3	4	5
2. Indicate after firm was established, which number best reflects the firms' choice in raising finance						
2.1	Retained earnings	1	2	3	4	5
2.2	Personal savings	1	2	3	4	5
2.3	Funds from friends & family	1	2	3	4	5
2.4	Trade credit, lease, hire purchase	1	2	3	4	5
2.5	Debt (loan)	1	2	3	4	5
2.6	External equity financing includes venture capital, private investors, government loans	1	2	3	4	5
3. When making a financing decision for the firm, which of the following factors do you consider as important for each of the statements?						
3.1	Close relationship with lender/supplier	1	2	3	4	5
3.2	Culture norms	1	2	3	4	5
3.3	Attitude to debt	1	2	3	4	5
4. Which of the following objectives influence the financing decision of your firm?						
4.1	Maintain control	1	2	3	4	5
4.2	Expand the firm	1	2	3	4	5
4.3	Increase firm's value	1	2	3	4	5

D. Factors influencing the capital structure of the firm:

Please tick based on your experience the statement which reflects your choice

1	2	3	4	5				
Strongly disagree	Disagree	Neutral	Agree	Strongly agree				
5.1	At the start-up of the firm, it was easy to acquire financing.			1	2	3	4	5
5.2	As the owner/manager, I prefer to rely on internal source of funds.			1	2	3	4	5
5.3	To expand the firm, I would consider giving up a percentage of ownership.			1	2	3	4	5
5.4	Risk-taking propensity has an impact in the financing choice of the firm.			1	2	3	4	5
5.5	Managerial growth intentions influenced the firm to seek financing from external sources.			1	2	3	4	5
5.6	The relationship between firm owner/manager and bank results in preferential access to credit.			1	2	3	4	5
5.7	My managerial experience reduces asymmetric information between firm and external investor.			1	2	3	4	5
5.8	In my firm, there is an aversion to external control.			1	2	3	4	5
5.9	The individual goals of the owner/manager have an influence over the financing choice of the firm.			1	2	3	4	5
5.10	The network ties that the owner/manager possess with executives at other firms are important influence on the finances of the firm.			1	2	3	4	5
5.11	Informal financial sources (from individual and employees) are critical and essential aspect of the firms' capital structure.			1	2	3	4	5
5.12	My preference is financing influences the firms' financing decisions.			1	2	3	4	5
5.13	The firms' profitability enables the owner/manager to use internally generated funds.			1	2	3	4	5
6. Factors likely to influence the firms' capital structure.								
6.1	Age of the firm			1	2	3	4	5
6.2	Size of the firm			1	2	3	4	5
6.3	Profitability of the firm			1	2	3	4	5
6.4	External stakeholders			1	2	3	4	5

7. Please tick the type of collateral used or not used by your firm for debt financing.

	Used	Not used
1. Inventory or account receivable	1	2
2. Business equipment or vehicles	1	2
3. Business securities or deposits	1	2
4. Business real estate	1	2
5. Personal real estate	1	2

E. Influence of capital structure on survival and growth:

Please tick based on your experience the statement which reflects your choice

1	2	3	4	5
Over 20% per year	Less than 20% per year	No growth	Got smaller	Not applicable, the firm is too recent
8.1	Over the last three years, how much did your firm grow on average per year?			1 2 3 4 5
8.2	In terms of employment, regarding the number of full time or full-time equivalent employees. How much did it grow?			1 2 3 4 5
8.3	Considering the turnover over the next two to three years, how much does your company expect to grow?			1 2 3 4 5

9. If you need external financing to realise your growth ambitions, what type of external financing would you prefer most?

Bank loan	Other sources (e.g. trade credit)	Equity investment	Funds from friends and families	Other (please specify):
1	2	3	4	5

10. And what amount of financing would you aim to obtain?

Less than R50 000	>R50 001 – R100 000	R100 001 – R500 000	Over R500 001	Other (please specify):
1	2	3	4	5

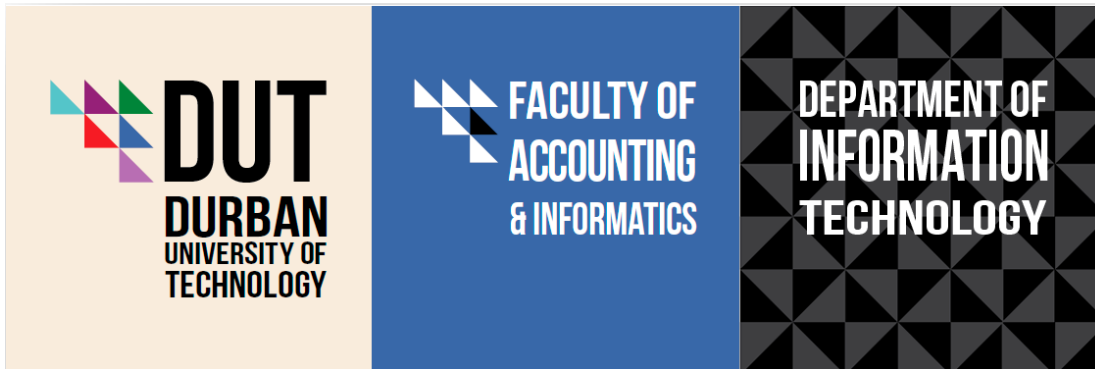
11. Does your company aim to be listed on a stock market within the next 2 years?

Yes, on the Johannesburg Stock Exchange	Yes, on the alternative/ list of stock exchange	No, the company is not planning to be listed	Other (please specify):
1	2	3	4

12. What do you see as the main obstacle for your company being listed on a stock market?

Firm is too small	Listing is too expensive	Reporting requirements would be too heavy	Partial loss of control over time	Expected market conditions are unfavourable
1	2	3	4	5

Appendix D



Faculty Research Office
Durban University of Technology
7 February 2018

Ms S Zunckel

Student Number: 20517924

Degree: Masters in Accounting

Email: sharonz@dut.ac.za

Dear Ms Zunckel

PERMISSION TO CONDUCT RESEARCH

I am pleased to inform you that the Faculty Research Committee (FRC) at its meeting in 31 August 2017, has granted you ethical clearance to conduct your research "***An analysis of factors influencing the capital structure of Small Medium and Micro Enterprises in Durban CBD: A growth and survival perspective***"

You would require permission from the institution(s) at which you intend to conduct your research. These permission letters have to be submitted to the Faculty Research Office for filing with your approved proposal.

We would be grateful if a summary of your key research findings can be submitted to the FRC on completion of your studies.

Kindest regards. Yours sincerely



Dr Delene Heukelman

Faculty Research Coordinator (Acting)

Tel +27 31 373 5562

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