

SESSION 6: GENERAL ISSUE OF GOVERNANCE AND
REGULATIONTHE INTRODUCTION OF A CONCEPTUAL
FRAMEWORK FOR IMPROVING SMALL
AND MEDIUM-SIZED ENTERPRISE
START-UPS' ACCESS
TO EXTERNAL FINANCENkombe Herman Bamata^{*}, Maxwell A. Phiri^{*}

^{*} School of Management, Information Technology and Governance,
University of KwaZulu-Natal, Durban, South Africa



How to cite: Bamata, N. H., & Phiri, M. A. (2022). **Received:** 14.04.2022
The introduction of a conceptual framework for **Accepted:** 20.04.2022
improving small and medium-sized enterprise start-
ups' access to external finance. In G. M. Mantovani, **Keywords:** Entrepreneur,
A. Kostyuk, & D. Govorun (Eds.), *Corporate Entrepreneurship, New*
governance: Theory and practice (pp. 105–108). **Enterprise, New Firm**
<https://doi.org/10.22495/cgtapp18> **Growth, Start-Up, Start-Up**
Financing, Management
Skills, Start-Up Awareness

Copyright © 2022 The Authors

JEL Classification: M130,
M530, M210
DOI: 10.22495/cgtapp18

Abstract

Most countries' small and medium-sized enterprises (SMEs) recognize the critical role of SMEs in economic growth (Lekhanya, 2016). Small businesses are at the heart of many countries' growth and the primary source of state revenue (Bongini, Ferrando, Rossi, & Rossolin, 2017). According to Domeher, Abdulai, and Yeboah (2016), SMEs contribute approximately 60 percent of global gross domestic product (GDP) and more than 95 percent of total global jobs. SMEs account for more than 99 percent of all non-financial commercial enterprises in the European Union, with 93 percent being micro-businesses, less than 6 percent being small businesses, and less than 1 percent being medium businesses (Rotar, Pamić, & Bojnec, 2019; Bongini et al., 2017).

To demonstrate the difficulties that start-up SMEs face in accessing external financing, the World Bank Task Team (The World Bank, 2017)

has described a variety of reasons known as limitations for start-up SMEs to access foreign funding. Factors such as a lack of financial skills, financial industry abuse, intelligence asymmetry, and the high risk of lending to start-ups were all considered (Osano & Languitane, 2016; Zondi, 2017). According to EVA Financial Solutions (2019) and Fatoki (2016), the majority of South African small businesses fail after the start-up stage, and their failure rates of 75% are among the highest in the world.

In view of the above situation, the aim of this study is to investigate how start-up awareness (SUA), management skills (MS), and financial provider requirements relate to the primary drivers of business success in an experimental setting. A framework was developed to improve the ability of start-ups to secure external investment (Bamata, 2019). A simple random sample of 253 SMEs in Pietermaritzburg, South Africa, was used to collect data. The data from the questionnaire were analyzed using the statistical tool SmartPLS, which included descriptive and inferential analyses as well as structural equation modeling. It has been demonstrated that start-up awareness and management skills improve SMEs' access to government, corporate, and personal/social financing sources. The results were obtained after evaluating seven hypothetical connections. The proposed framework connects a start-up entrepreneur's startup awareness and management skills with funding provider needs and provides an idea of the type and optimal funding options to be used for the business (Bamata, Govender, & Fields, 2019).

The financing framework for start-up SME access to external finance has three components, namely: entrepreneurial awareness, key requirements, and financing options. It emerged from the findings that these components are related to access to external financing for start-up SMEs.

Entrepreneurial awareness: This first component of the framework reflects the determinants that directly impact SME access to external finance. The findings of this study show that all the key determinants of SME success do not directly impact start-up SME access to external finance. SUA emanates from determinants, such as market research, business strategy, business plan, amount and source of seed capital, and location, and management skills are made of determinants, such as general management skills, strategic management skills, financial management skills, communication skills, and marketing skills. It was ascertained in this study that the above determinants, which were clustered as start-up awareness and management skills, affect access to different sources of business financing.

Key requirements: This second component of the framework reflects the key criteria for accessing government grants, commercial bank financing, and/or private equity finance.

Financing options: The third component of the framework reflects three sources of external finance, namely: government grants referred to

as government financing (GF); bank finance, referred to as corporate finance (CF); and private equity finance, referred to as personal/social source of finance (PSF). These three sources of finances were considered in this study since they broadly constitute the principal sources of finance for SMEs. It was ascertained in this study that there is a relationship between the start-up awareness and management skills of the owner-manager and access to these sources of finance.

By utilising this framework, SME owner-managers would become aware of their financing needs, develop the necessary management skills and be ready to choose the most suitable source of external finance. The proposed framework will aid in resolving the difficulties that SMEs, particularly start-ups, face in obtaining external financing. Small and medium-sized businesses can plan their financing needs and choose from three primary external financing sources if they understand and use the funding framework. In general, the acquisition of appropriate professional, technical, and business skills by start-up SMEs is viewed as a competitive advantage. Furthermore, entrepreneurship is regarded as particularly important in enabling South African small and medium-sized businesses to progress from survival to substantial, higher earnings.

REFERENCES

1. Bamata, N. H. (2019). *A framework to improve access to external finance by small and medium enterprise start-ups* (PhD thesis, University of KwaZulu-Natal). Retrieved from <https://researchspace.ukzn.ac.za/handle/10413/18258>
2. Bamata, N. H., Govender, K., & Fields, Z. (2019). An empirical study of optimal access to external finance by small and medium enterprise start-ups. *Problems and Perspectives in Management*, 17(3), 242–258. [https://doi.org/10.21511/ppm.17\(3\).2019.20](https://doi.org/10.21511/ppm.17(3).2019.20)
3. Bongini, P., Ferrando, A., Rossi, E., & Rossolin, M. (2017). *Suitable or non-suitable? An investigation of Eurozone SMEs access to market-based finance* (University of Milan-Bicocca, School of Economics and Statistics and European Central Bank). Retrieved from <https://cepr.org/sites/default/files/Rossi%2C%20Emanuele%20paper.pdf>
4. Domeher, D., Abdulai, R., & Yeboah, E. (2016). Secure property right as a determinant of SME's access to formal credit in Ghana: Dynamics between micro-finance institutions and universal banks. *Journal of Property Research*, 33(2), 162–188. <https://doi.org/10.1080/09599916.2016.1160948>
5. EVA Financial Solutions. (2019, December 30). *South Africa: Why do small businesses fail?* Retrieved from <https://www.mondaq.com/southafrica/corporate-governance/869762/why-do-small-businesses-fail>
6. Fatoki, O. (2016). Gender and the knowledge of financing options by immigrant entrepreneurs in South Africa. *Gender & Behaviour*, 14(3), 7977–7992. Retrieved from <https://www.ajol.info/index.php/gab/article/view/153139>

7. Lekhanya, L. M. (2016). *Determinants of survival and growth of small and medium enterprises in rural KwaZulu-Natal* (PhD thesis, University of Western Cape). Retrieved from <http://hdl.handle.net/11394/5569>
8. Osano, H. M., & Languitane, H. (2016). Factors influencing access to finance by SMEs in Mozambique: Case of SMEs in Maputo central business district. *Journal of Innovation and Entrepreneurship*, 5, 13. <https://doi.org/10.1186/s13731-016-0041-0>
9. Rotar, L. J., Pamić, R. K., & Bojnec, S. (2019). Contributions of small and medium enterprises to employment in the European Union countries. *Economic Research-Ekonomska Istraživanja*, 32(1), 3296–3308. <https://doi.org/10.1080/1331677X.2019.1658532>
10. The World Bank. (2017). *The World Bank in South Africa*. Retrieved from <http://www.worldbank.org/en/country/southafrica/overview>
11. Zondi, W. B. (2017). Challenges facing small business development in South Africa. *International Journal of Economic Perspectives*, 11(2), 621–628. Retrieved from <https://cutt.ly/tliSIUQ>