The impact of financial statement quality and firm characteristics on access to finance by small and medium-sized enterprises in eThekwini

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Qiniso Prince Mayendisa

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Supervisor: Prof Lesley June Stainbank Date: January 2024

D COM

Co-Supervisor: Dr Anchal Ramsarghey Date January 2024

PhD

DECLARATION

I, Qiniso Prince Mayendisa, declare that this dissertation is a representation of my own work in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished works has been acknowledged.

Signature

………… ……17 January 2024……

APPROVED FOR FINAL SUBMISSION

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………………………………………………

Prof Lesley June Stainbank

D COM

Date: 26 February 2024

Dr Anchal Ramsarghey

PhD

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ABSTRACT

The South African government has established several public sector institutions that cater to small and medium-sized entities' (SMEs) needs through the Department of Trade, Industries and Competition. These institutions, known as Business Development Service Providers, assist SMEs in running their businesses more effectively and can enhance access to finance as an alternative form of collateral in circumstances where security for a loan is required. However, most SMEs apply for finance from financial institutions.

As access to finance has been identified as a major obstacle limiting the growth and survival of SMEs, the objective of this research was to investigate the impact of financial statement quality and firm characteristics on access to finance by SMEs in eThekwini using the "Applied and Received" approach. The main research objective was divided into three sub-objectives; these were to determine the forms of finance being used by SMEs, to determine the accounting frameworks being used by SMEs, and to investigate whether financial statement quality and firm characteristics affect their access to finance. To achieve these objectives, a questionnaire was administered to owners of SMEs in eThekwini.

The results revealed that the main forms of finance used by the SMEs were overdraft facilities, bank loans, factoring, leasing, and hire purchase, and that the average rate of extent of access to finance is 19.10%. The findings also revealed that 4.8% of the respondents were using IFRS, 72.9% were using *IFRS for SMEs*, and 22.3% were using South African Statements of Generally Accepted Accounting Practice. Lastly, the findings revealed that firm age, firm size, collateral, and financial statement quality have a significant effect on access to finance by SMEs. Therefore, possession of such firm characteristics and financial statement quality are important predictors of SMEs' successful access to finance.

The Government needs to help SMEs by providing them with educational programs that will assist them in compiling and understanding their financial statements to keep them improving and surviving. Furthermore, an SME's growth and survival also depends on its access to finance.

Keywords: Access to finance, SMEs, *IFRS for SMEs*, eThekwini

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ACRONYMS

AICPA	American Institution of Certified Public Accountants
ARA	Applied and Received Approach
ATF	Access to Finance
BDSs	Business Development Service Providers
BEE	Black Economic Empowerment
CBD	Central Business District
DCCI	Durban Chamber of Commerce and Industry
DTI	Department of Trade and Industry
FASB	Financial Accounting Standards Board
FC	Firm Characteristics
FREC	Faculty Research Ethics Committee
FSQ	Financial Statement Quality
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IASC	International Accounting Standards Council
ISPES	Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standards for Small and Medium-Sized Enterprises
IPO	Initial Public Offering
FREC	Faculty Research Ethics Committee
IT	Information Technology
MFI	Micro Finance Institutions
MIS	Management Information System
NSBAA	National Small Business Amendment Act
PI	Public Interest
POH	Pecking Order Hypothesis
POPIA	Protection of Private Information Act

RA	Received Approach
SA GAAP	South African Generally Accepted Accounting Practice
SEDA	Small Enterprise Development Agency
SME	Small and Medium-Sized Enterprise
SPSS	Statistical Package for Social Sciences
TREP	Township and Rural Enterprises Programme

CHAPTER ONE

Introduction

1.1 Background of the study

Among the major obstacles preventing the development and survival of small and medium-sized enterprises (SMEs) in South Africa is access to finance (Msomi and Olarewaju 2021a). Bakhtiari, Breunig and Magnani (2020) noted that, even though sufficient funds appear to be available, it is difficult for SMEs to obtain them, particularly for SMEs that are just starting out. The ability of SMEs to grow is directly related to their ability to access financing and capital. Hence, there is a concern about the perception that SMEs have difficulty in obtaining financing. If this issue is not appropriately addressed, it may have an impact on the sector's survival and growth.

The accessibility to finance has been measured in a variety of ways. Nanyondo (2017) evaluated a "frequency of acquisition" method, which measured the quantity of occasions an SME received the specified sum to fund its activities. Peci and Shabani (2020) measured access to finance using the "loan size" method, which is expressed as the number of credits that the SME requested. The “received approach” (RA) (Nanyondo, 2017), measures access to debt financing in two different ways. Firstly, SMEs are questioned about their loan accounts. If they do have loan accounts, it is expected that they can obtain debt financing; otherwise, they are said to lack financial access. Second, if SMEs have a business banking account, they may have a better chance of getting a loan. But if they do not have one, their chance of getting a loan from a bank may be lower.

Many factors have played a role in evaluating the different approaches used to quantify debt financing. A major criticism of the "frequency of acquisition" method (Nanyondo 2017) is that it focuses on borrowing from only one lender. In reality, however, similar to large businesses, SMEs tend to borrow money from where they can easily obtain financing (Mkhaiber and Werner 2021). Additionally, SMEs borrow for a variety of reasons, for example, to increase working capital or purchase resources, and the rationale for borrowing determines how frequently the firm borrows (Di Giannatale and López-Marmolejo 2022). Peci and Shabani

(2020) used the “loan size” method because when some SMEs obtain loans, their lending portfolio size may increase.

A criticism of the RA approach is that it ignores intentional avoidance and discourages borrowers (self-rationing). SMEs that deliberately avoid requesting support or funding for societal, cultural, or personal reasons are known as intentional avoiders. It may not be appropriate to determine an SME's access to debt financing based on whether it initially applied for funding or received financing without asking (Nanyondo 2017). Nanyondo (2017) proposes that when calculating the degree of debt financing accessibility, the category of borrowers who have not applied for finance should be eliminated. A more accurate method of measuring access to debt financing is employed in this study since it concentrates on SMEs that have applied for and have been authorised for loans. This is the "applied and received" (ARA) method which focuses on SMEs that are receiving support. SMEs which request for and are granted funds will have access to finances, and SMEs that have applied for funds and have failed to get funding will not have access to funds. This strategy has the advantage of avoiding discouraged borrowers and small and medium-sized businesses that deliberately avoid borrowing.

Even though there is literature that uses a variety of methods to measure access to finance, it is unclear how these approaches affect SMEs' access to debt financing (Oke 2019). For example, it is not clear how the various SMEs’ access to finance affected the current results regarding its determinants. In addition, there is little information about SMEs having access to optional sources of funding. Most research, such as Cucinelli (2015), Filip (2014) and Serrano (2021), have used bank lending loans in particular. It is important to investigate further the factors that influence SMEs' access to financing to see if there is any agreement between these different approaches on measuring SMEs’ access to finance.

1.2 Problem statement

The economy of South Africa relies heavily on SMEs (Naicker and Rajaram 2019). However, certain factors may prevent the progress of these SMEs and this lack of progress may also affect the country’s economy. Although owners of SMEs may have innovative ideas of different operations that could be done, they may be facing challenges regarding the access of finance from financial institutions. These challenges can prevent these businesses from expanding and growing. It may even result in some of these businesses closing. Researchers such as Giang, Trung and Yoshida (2019) have indicated that certain factors or challenges may influence the access of finance by SMEs from financial institutions. Therefore, SME business owners need to have a greater awareness of what needs to be done to improve their access to finance from financial institutions. In addition, Nanyondo (2017) found that the quality of SMEs' financial statements may also impact SMEs' ability to obtain financing. As a result, this study considers the aspects that may impact the access to finance by SMEs in eThekwini with a focus on financial statement quality and firm characteristics.

1.3 Research aim

The aim of this study is to investigate the impact of financial statement quality and firm characteristics on the access to finance by SMEs in eThekwini. To meet the research aim, the following research objectives were set:

1. To determine the forms of finance being used by SMEs,
2. To determine the accounting frameworks being used by SMEs, and
3. To investigate whether financial statement quality and firm characteristics affect the access to finance by SMEs in eThekwini.

The following research questions were formulated based on the above objectives:

1. What forms of finance are being used by SMEs?
2. What accounting frameworks are being used by SMEs? and
3. Does financial statement quality and firm characteristics affect the access to finance by SMEs in eThekwini?

1.4 Significance of the study

Holger (2017) indicates that the access to finance is an on-going problem for SMEs which want to access finance for business purposes. In addition, this is an under-researched area in South Africa as there is a little South African research on the differences in factors that contribute to success when compared to Western countries (Urban and Ndou 2019). This study therefore contributes to the literature by providing an in-depth analysis on information relevant to SMEs on the access to finance in eThekwini.

1.5 Research approach

This study used a quantitative research approach. Quantities and estimates are the focus of a quantitative study, which typically prompts the “how many?" and "how frequently?" questions (Einola and Alvesson 2021). Apuke (2017) explains that a quantitative study focuses on measuring and analysing causal relationships between variables. As this research focuses on the impact of financial statement quality and firm characteristics, it was necessary to obtain data from SMEs to establish whether a relationship exists between the identified variables. A deductive approach using survey research was therefore used.

1.6 Organisation of the study

The five chapters of this dissertation are outlined below.

Chapter 1: Introduction

The study's background, problem statement, aim and objectives, and significance of the study are discussed in this chapter.

Chapter 2: Literature Review

This chapter examines the existing literature on the impact of financial statement quality and firm characteristics on SMEs' access to financing. It sets out the hypotheses based on the literature review, and which are tested in Chapter 4.

Chapter 3: Research Methodology

The chapter describes the research strategy used to answer the research questions as outlined in this chapter.

Chapter 4: Presentation and Discussion of the Results

In this chapter, both the interpretation and presentation of the study's findings are discussed.

Chapter 5: Summary, Conclusions and Recommendations

This chapter summarises the dissertation and its findings. It elaborates on how the study's research goals were met. It describes the study's limitations and provides recommendations and ideas for additional research.

1.7 Summary

This chapter outlined the context of the study and explained why it was important to examine how financial statement quality and firm characteristics affect a small business's ability to acquire financing. It described the various methods used to quantify SMEs' financial accessibility. The objectives of this study were stated. The importance of the study and the dissertation's format were additionally highlighted.

The following chapter provides the literature review which underpins this study on the impact of financial statement quality and its characteristics on access to finance by SMEs in eThekwini.

CHAPTER 2

Literature Review

2.1 Introduction

The objective of this chapter is to discuss the literature relevant to SMEs and their access to finance. SMEs are less likely to have access to formal financing (Asah 2019). Nevertheless, SMEs are regarded as the nation's economic engine (Ibrahim, Ali and Besar 2020). To provide the necessary background for this study, this chapter first covers the definition of an SME. To provide background to the notion of financial statement quality, the International Financial Reporting Standards (IFRS), International Financial Reporting Standards for Small and Medium-sized Enterprises (*IFRS for SMEs*) and South African Generally Accepted Accounting Practice (SA GAAP) are discussed. Thereafter, the credit rationing theory of Stiglitz and Weiss (1981) is used as the theoretical framework in this study.

Thereafter, a discussion on SMEs and the forms of finance they use, their challenges in accessing finance and prior research is presented. Finally, the hypotheses used in this study are developed. The chapter concludes with the conceptual framework.

The next section discusses the definition of an SME.

2.2 Definition of an SME

It is difficult to define an SME because there are many different ways to define it around the world (Abraham and Schmukler 2017). Countries and businesses frequently use their own judgment when defining SMEs, taking into account the firm's resource value, number of employees, and annual revenue (Coetzer, Inma and Poisat 2019). The revised National Small Business Amendment Act (NSBAA) (26 of 2003) characterises a small enterprise as any type of business, including cooperatives which are regulated by one or more individuals and are involved anywhere in the economy (National Small Business Amendment Act 2003).

According to this Act, SMEs in South Africa should have the following characteristics with reference to the number of employees, turnover and asset value:

A company that employs from 100 to 200 full-time paid employees is medium- sized. A small business has 50 employees, depending on the industry, and a very small business has 10 to 20 employees (National Small Business Amendment Act 2003).

Depending on the industry, a medium-sized business's annual turnover can range anywhere from R5 million to R64 million. A small business's annual turnover ranges from R3 million to R32 million, while a very small businesses can make anywhere from R500 000 to R6 million (National Small Business Amendment Act 2003). With regards to gross asset value (excluding fixed property) depending on the industry, the gross asset value (excluding fixed property) ranges from R5 million to R23 million for medium-sized businesses from R1 million to R6 million for small businesses, and from R500 000 to R2 million for a very small businesses (National Small Business Amendment Act 2003).

From the above discussion, it is apparent that the NSBAA's criteria for defining the various sizes of SMEs are quantitative in nature. As SMEs and their access to finance is the subject of this study, it is important to ensure that the SMEs in this study meet the criteria of an SME according to the definitions outlined above.

Studies have indicated that the poor quality of financial statements of SMEs may limit SMEs' access to finance (Vanauken, Ascigil and Carraher 2017). The following section discusses SMEs and the financial reporting frameworks which they may adopt.

2.3 SMEs and financial statement quality

Although this study is on SMEs, and many of them may not be incorporated as companies, possible financial reporting standards which may be used by these SMEs are IFRS, *IFRS for SMEs* and SA GAAP (Gassen 2017). Therefore, these accounting frameworks are discussed below.

2.3.1 International Financial Reporting Standards (IFRS)

The International Financial Reporting Standards (IFRS) are a set of accounting standards that help to ensure that, for adopters of IFRS, financial statements are comparable, straightforward, and reliable (Bakr and Napier 2022). The IASB established IFRS with the goal of providing a single set of high-quality, comprehensible, enforceable, and globally acceptable accounting standards. Sahputra, Noveriansi and Muda (2022) noted that IFRS is considered to be one of the most important frameworks for financial reporting. It was developed to meet the reporting needs of large, publicly traded organisations with public accountability. However, IFRSs are considered to be too bulky, complex, and troublesome to comprehend (Nalukenge 2020) especially for smaller entities. Consequently, the IASB developed a simplified set of SMEs-specific financial reporting standards. This standard is discussed next.

2.3.2 *IFRS for SMEs*

IFRS for SMEs was published by the IASB and is a simplified version of IFRS. This standard applies simplified recognition and measurement principles to transactions that are most likely to affect SMEs. *IFRS for SMEs* excludes topics that are thought to be not important to SMEs (e.g., interim financial reporting, earnings per share, special accounting assets held for sale, and segment reporting) (Warren, Carter and Napier 2019) as the IASB accepts that such transactions and conditions are not likely to affect SMEs. As a result, the volume *of IFRS for SMEs* was decreased by more than 85% when compared to IFRS (Vendy and Sucahyati 2022). Mohamed, Yasseen and Nkhi (2020) argued that as IFRS may not serve the reporting requirements of SMEs, a less complex system such as *IFRS for SMEs* is a more appealing reporting choice for smaller entities.

2.3.3 *IFRS for SMEs* in South Africa

South Africa was the first country in the world to adopt the draft version of *IFRS for SMEs* as a standard for SMEs (Damak-Ayadi, Sassi and Bahri 2020). This was in response to the need at that time for all companies, regardless of size, to be audited. For auditors to be able to express an opinion on a company’s financial statements, an acceptable accounting framework was required. Mohamed et al. (2020) explains that establishing a set of high-quality, reasonable, and enforceable global guidelines for these entities without public accountability is one of the primary objectives of *IFRS for SMEs*. The initial introduction of *IFRS for SMEs* in South Africa provided professionals with the opportunity to sharpen their judgment by requiring them to master the system's complexities and gain an understanding of its advantages and disadvantages (Mohamed et al. 2020). Nyawo, Manhimanzi and Karuru (2022) argued that SMEs could easily adopt *IFRS for SMEs* and urged South Africa to make *IFRS for SMEs* the preferred accounting framework for SMEs. Hellman, Nilsson and Tylaite (2022) found that

IFRS for SMEs is important for SMEs as small businesses stand to gain access to international investments and investors, bank loans, high rating by international credit rating agencies.

IFRS for SMEs was entrenched into the Companies Act 71 of 2008 on 1 May 2011 and may be used by certain categories of companies depending on their public interest (PI) score and whether their financial statements have been internally or independently compiled.

The PI score is calculated based on the number of employees, turnover, liabilities, and beneficial security holders (Mohamed et al. 2020). Mohamed, Yasseen and Omarjee (2019) argue that SMEs are unlikely to have public accountability and therefore, the definition of an SME incorporates those entities as perceived by the IASB who would use *IFRS for SMEs*. As there is no specific accounting system endorsed in the Companies Act 71 of 2008 for entities with a PI score of less than 100, *IFRS for SMEs* remains a reporting framework option (Mohamed et al. 2019).

Mohamed et al. (2019) recommended that the *IFRS for SMEs* should become the preferred accounting framework for SMEs in South Africa. (Damak-Ayadi, Sassi and Bahri 2020) were also of the opinion that *IFRS for SMEs* could be easily adopted by SMEs.

2.3.4 South African Generally Accepted Accounting Practice

South African GAAP (Generally Accepted Accounting Practice) and IFRS (*International Financial Reporting Standards*) are two distinct sets of accounting standards for preparing and presenting financial statements. However, SA GAAP is rule-based, whereas IFRS is presumed to be principle-based. Both aim to assure the transparency, uniformity, and comparability of financial reporting (Ismail 2017). South African Generally Accepted Accounting Practice (SA GAAP), which had been aligned with IFRS since 2005, was used by all entities prior to the adoption of *IFRS for SMEs* in South Africa. This was the case regardless of a company's type, size, or the users of its financial statements (Mohamed et al. 2020). Although SA GAAP was withdrawn for companies with financial years ending on or after the 1 December 2012, Mohamed et al. (2019) argued that SA GAAP is another framework that can be adopted by SMEs in South Africa and that under South African law declared in 2011, entities in South Africa are allowed to utilise *IFRS for SMEs* or SA GAAP, depending on an entity's PI score (Mohamed et al. 2019).

2.3.5 International Accounting Standards Board

The IASB is the body that formulates the international accounting standards. It works independently in London. There are fifteen individuals from nine different nations, including the United States. (Ismail 2017) on the board of the IASB. The IASB replaced the International Accounting Standards Committee (IASC) in 2001 and major accounting firms, private financial institutions, industrial businesses, national financing regimes, central and development banks, and other international and professional organisations worldwide contribute to its funding (Camfferman and Zeff 2018). However, the American Institute of Certified Accountants (AICPA) is not associated with the IASB, despite having been a founding member of the IASC. The AICPA's website for IFRS materials is neither endorsed nor sponsored by the IASB (Abdulmalik 2020).

The goal of the IASB is to create IFRS and promote accountability, efficiency, and openness in the global financial markets. In addition to supervising the nonprofit body, a monitoring board comprised of governmental authorities promotes growth, trust, and long-term financial stability for the world economy, all in the public interest (Ismail 2017). Due process and organisational governance ensures that the standard-setting process is free from special interests while guaranteeing responsibility to stakeholders worldwide (Burlaud and Yoshioka 2021).

2.3.6 International Accounting Standards

The IASB) approved and modified the International Accounting Standards that the former IASC had produced. The IASC developed these guidelines for the production and presentation of financial statements (Osei 2017). When the IASB replaced the IASC, which had been setting standards since 1973, the IASB released a new set of standards, the IFRS (Ong 2018). Camfferman and Zeff (2018) report that many nations mandate that publicly listed firms' financial statements be produced in conformity with IFRS, even though IASB cannot enforce adherence to its accounting rules in the jurisdictions which adopt IFRS. With the world's financial centers being more interconnected than ever, the goal of these standards is to enable a worldwide financial reporting structure that guarantees efficient financial market regulation. High-quality, universally tested international standards are essential given the increasing amount of cross-border money movements (Vidal-García and Vidal 2020). Capital markets situated in various jurisdictions can provide the most advantageous capital flows for companies, regulators, and the market at large by putting these standards in place (Ismail 2017).

2.3.7 Summary of accounting frameworks

While entities may use IFRS, *IFRS for SMEs* or SA GAAP, it is possible that very small SMEs may use a simple historical cost model or even a cash flow model. However, using less recognised models may be detrimental to an SME's access to finance as less recognised accounting frameworks may signal poor financial statement quality.

The following section discusses the theoretical framework of the study.

2.4 Theoretical framework

Stiglitz and Weiss (1981) explain that credit rationing theory are frequently used to explain SMEs' access to financing. Credit rationing is the unwillingness of lenders to advance additional capital to borrowers at prevailing market interest rates - instantly widely recognised as a problem arising from lack of information and control of financial markets (Nguyen 2021). According to the credit rationing theory, the four main reasons why banks are reluctant to lend to small businesses are the high administrative costs of small-scale lending, high risk perception, information asymmetry, and the requirement for collateral (Ye and Kulathunga 2019). Banks that provide development loans to SMEs are induced to do so by the interest they receive and how they perceive the credit's risk. In any case, the flaws in the capital market make it harder for SMEs to get financing and make risks even worse (Belas, Amoah and Petráková 2020).

Stiglitz and Weiss (1981) argued that in the absence of information asymmetry, credit rationing takes place. The specific characteristics of SMEs have been proposed as the benefit of credit rationing to clarify access to financial assets. For instance, it has been suggested that SMEs have collateral-based access to financing (Gyimah, Akande and Muzindutsi 2022). Cole, Cowling and Liu (2022) indicated that only "good risk" borrowers who are confident in their ability to repay their debts will be willing to pledge collateral as security for credit. In addition to the credit rationing theory, the length of their relationship with the bank distinguishes the SMEs that are most likely to be approved for funding. This is often explained by saying that banks with longer relationships with SMEs can reduce information asymmetry (Wernli and Dietrich 2022).

However, issues also arise from the information asymmetry that exists between credit market participants; as a result, more banks have access to exclusive data that enables them to initiate non-marketable loans (Patalano and Roulet 2020). The degree of opaqueness exhibited by SMEs seems to shed light on the adverse aspect that affects their ability to get financing. (Sibanda, Hove-Sibanda and Shava 2018). Due to the anticipated tighter credit rationing for opaque businesses, there is a significant chance of a negative decision (Angori, Aristei and Gallo 2019).

2.4.1 Fundamentals of credit rationing behaviour

McCarthy, Oliver and Verreynne (2017) made an effort to reach conclusions on the many problems pertaining to financial institutions' credit rationing practices. Zhao (2020) argued that the relatively underdeveloped nature of the financial system, the lack of liquidity, and inexperience in small-scale lending limits the access of small SMEs to formal credit in developing and emerging economies. Banks outside capital cities are also a disadvantage to SMEs in rural areas because they frequently solely offer cash services and lack the power to grant credit (Omondi and Jagongo 2018). Furthermore, if small businesses are granted financing by commercial banks, the application procedure could take many months. Sági (2017) argues that banks give four primary justifications for why they are reluctant to give SMEs loans. These are: (1) asymmetric information, (2) high administrative costs of small-scale lending, (3) high risk perception and (4) lack of collateral.

Although in industrial as well as in developing and emerging economies, these reasons are relevant, the lack of collateral seems to be the most critical. SMEs, when compared to large firms, require relatively small loans (Wasiuzzaman and Nurdin 2019). Banks consider funding small advances to SMEs wasteful because of the amount of transaction costs associated with the processing and organising of credits (Nkansah-Sakyi 2023). There is also a lack of procedures, such as credit scoring, increasing the size, and reducing costs. There are economies of scale that emerge because, regardless of the size of the administered credit, the smaller the credit and the lower the per unit costs of expanding it (Umar 2021). Moreover, gathering cost information, borrower's lending costs, application investigation costs, and credit checking costs are also included in administrative costs. These costs tend to be higher in a small firm when compared to a large firm. Due to their inferior bookkeeping standards and skills, small businesses are typically missing from metropolitan areas, thus banks have less experience in servicing them. Hence, the costs involved are increased in emerging and developing economies (Kabanda, Tanner and Kent 2018).

2.4.2 Asymmetric information

Asymmetric information is another link to credit rationing. Everyone who participates provides identical information; As a result, market forces determine how efficiently resources are distributed. Applicants will always have greater knowledge than lenders on the viability of their initiatives, their capacity, and their desire to repay because this is usually not the case in financial markets (Wang, Lin and Luo 2019). However, loan specialists face difficulties due to the borrower's fluctuating integrity and the anticipated interest rates of the financed project (Wijaya and Moro 2022). The length of the advance raises the risk. The borrower must provide lenders with accurate information in order to avoid lenders thinking that the borrower has underestimated the potential for failure (Kafer 2018). The issue of asymmetric information is more pronounced in modest firms as opposed to larger enterprises due to the greater variability in risk, the fact that privately owned businesses do not have to meet any legitimate reporting requirements, and the lower information guidelines (Manes and Tchetchik 2018).

2.4.3 Consequences of asymmetric information

It is difficult to differentiate between "good" and "bad" borrowers due to asymmetric information (Benamraoui and Alwardat 2019). Purwono (2019) suggests that moral hazard and unfavourable selection are two significant problems related to asymmetric information, both of which have the potential to affect credit quality. The observation that defaults likelihood increases as interest rates rise illustrates the undesirable outcome; As the borrower fund's quality declines, borrowing costs rise (Crawford, Pavanini and Schivardi 2018). Due to these two factors, the high interest rate will attract risky borrowers while driving out good borrowers. Risky borrowers are willing to take out huge loans at high interest rates since they are aware that they will not be able to repay their money (Omarini 2018). However, non-risky borrowers are more likely to avoid risky loans as they prefer to avoid a bad credit history (Liu and Fan 2022).

As borrowers are willing to borrow at lower interest rates, lower-risk projects with higher returns will be driven out by higher-risk projects with lower returns. SMEs are seen as especially risky and are therefore more likely to be rejected. The banks will not raise lending rates enough to reflect supply and demand, but small businesses may be prepared to pay more to offset this additional risk (Gagnon and Sack 2014).

2.4.4 A moral hazard

Another perspective of credit rationing is a moral hazard. An action taken by an agent (the borrower) that has a negative impact on the return to the principal (the lender) is referred to as moral hazard (Muthama and Warui 2021). If the parties involved have different interfaces, it can happen that the regulator is unable to accurately verify the agent's activity (Richardson 2020). To increase return, a borrower might, for instance, secretly switch to riskier endeavours. Since this raises the likelihood of default, the bank's return will be reduced (Balakrishnan and Ertan 2021). Banks can choose to reduce moral hazard in one of two ways; firstly, offer incentives to the risk-taking party to urge them to behave more responsibly. Secondly, implement laws that criminalise immoral activity to prevent it. For instance, by rewarding low effort levels or promising credit that can be renewed for a long time (Fourcade and Healy 2017). As a result, collateral is lost if the business declares bankruptcy. Huerta (2021) explains that the standard selection criteria based on cashflow projections is frequently abandoned in favour of loan selection based on firm size and collateral due to inaccurate information and expensive control components.

When a business has collateral and a long-standing relationship with a lending expert, financial institutions are more inclined to recommend it for a loan (Gertler and Gilchrist 2018). Because there is asymmetric information accessible, banks rely their lending choices on the quantity of collateral that is available (Ioannidou, Pavanini and Peng 2022). Collateral is used by commercial banks to reduce lending risk and serve as a screening tool. However, a borrower pledges his resources to demonstrate his commitment to repay the loan and its quality (Ngode 2021). Collateral provides the moneylender in a better position than other lenders in the event of default (Surendra 2020). SMEs that need to provide collateral security and a demonstrated credit track record are disadvantaged by this (Mtsweni, Serumaga-Zake and Kruger 2020). SMEs may be unable to provide collateral security, making it difficult for them to obtain financing, and financial institutions may not see the rationale or value in their proposals (Mhlanga 2021).

2.4.5 Results of credit rationing behaviour in South Africa

The need for funds is termed by Stiglitz and Weiss (1981) as the financial gap. One way of explaining and identifying the gap based on capital rationing, is by linking it to the development of SMEs (Mutezo 2015). Despite the fact that there has been a lot of speculation regarding SMEs growing in South Africa, less than 20% of SMEs really survive (Hove-Sibanda, Sibanda and Pooe 2017). As a result, financial institutions may also require information on any project to adjust their credit endorsement requirements in response to concerns regarding the likelihood of SME development. If this information is not presented correctly, the concept of a successful firm may fall victim to the credit rationing trap. Firms that are innovative and high-tech may be more knowledgeable and have a greater likelihood of obtaining financing (Cowling, Ughetto and Lee 2018).

Having discussed the theory behind credit rationing, SMEs and the forms of finance they use are discussed next.

2.5 SMEs and the forms of finance they use

SMEs may require finance when starting up or when wanting to expand their businesses. The forms of finance required by SMEs are discussed next, followed by examples of finance options available to SMEs.

2.5.1 The forms of finance being used by SMEs in South Africa

SMEs can be financed in numerous ways, from the founder's own income and/or by accessing finance from outside sources, with finance from family and friends regarded as 'informal' sources, and with finance from market-based sources such as banks, venture capitalists and private worth firms regarded as 'formal' sources. SMEs could also be financed by using retained profits for future developments. Financial assets are required by all businesses to begin operations and to finance their development. Hence, the development of their trading operations may be limited by their need to access finance (Msomi and Olarewaju 2021). Buys (2017) also argues that one of the main reasons SMEs frequently struggle is that they cannot access finance. Ye and Kulathunga (2019) argue that the absence of money is a vital deterrent to an SME's development. Msomi and Olarewaju (2022) concluded that family and friends are the backbone of South African SMEs by assisting them with finance. However, a major issue for the South African business owner is access to formal finance (Ye and Kulathunga 2019). Asah, Louw and Williams (2020) reported that only 2% of SMEs have access to bank credit in South Africa. Asah and Louw (2021) reported that almost 75% of applications by SMEs for bank loans are rejected in South Africa. Fubah and Moos (2022) also noted that financial access is the greatest challenge for SMEs in South Africa, and that the inability to obtain funding causes over 75% of SMEs to fail during the initial two years of existence. This indicates that the creation, survival and development of SMEs depends on access to finance (Fowowe 2017).

Work opportunities have been created in the majority of developed economies around the world as a result of sustained growth in the SME sector (Haraguchi 2019). National economies and GDPs are closely linked to the growth of SMEs (Karadağ 2016). Regarding this statement, the SME environment in South Africa is not particularly unique. SMEs in South Africa are characterised by a lack of technical and entrepreneurial abilities (Marivate 2014). Of the 5 676 SMEs included in FinMark Trust study (Tala 2021), 91% were built up within the post-apartheid South Africa whereas about 8.7% were built up during the apartheid period.

South Africa lags other developing economies when it comes to encouraging the growth and viability of small businesses and it has one of the highest rates of startup failure (Tala 2021). A need for finance is among the foremost challenges to SME survival and development in South Africa (Eniola and Entebang 2017). This is recognised by SEDA in its 2020 report where the need for access to finance is identified as one of the three most important obstructions to SME development in South Africa (Tala 2021).

Black Economic Empowerment (BEE) legislation was introduced to correct previous economic imbalances and BEE businesses are thought to make up the majority of South African SMEs (Vilakazi and Ponte 2022). BEE firms in South Africa have access to a range of funding options, such as vendor financing in the form of loans, preference shares, loans, or debentures (Goga, Bosiu and Bell 2019). In addition to the issue of preference shares to banks, asset securitisation or an Initial Public Offerings (IPO) are options (Chen, Li and Xin 2017) Despite these financial arrangements which have the potential to encourage SME financing, especially for start-ups, SMEs frequently lack the assets to pledge as security for such deals (Bavoso 2020). Additionally, the optimal financing structures that should be considered when financing

SMEs are another contentious topic in SME literature (Al-Ajlouni, Al-Hakim and Suliaman 2018).

Sources of finance for SMEs are discussed next.

2.5.1.1 Equity financing

Equity financing is when a company sells shares to existing shareholders or new shareholders to raise finance. Lu, Wu and Li (2022) noted that equity is the primary source of financing for SMEs, even though it has received little attention in the literature, and that it could be considered alongside venture capital. However, investors are unaware of SMEs' financial circumstances and the majority of SMEs cannot afford to issue securities to the general public (Boschmans and Pissareva 2018). Therefore, in the absence of financial intermediaries such as banks, it would be prohibitively expensive for the majority of investors to acquire the information necessary to provide the credit (by purchasing shares), and it would be prohibitively expensive for the small business to issue the credit itself (Thakor 2020).

2.5.1.2 Business Development Service Providers

A form of financing in South Africa is through a government activity known as Business Development Service Providers (BDSs) (Kweka, Makindara and Bengesi 2022). The Department of Trade and Industry (DTI) and Khula Enterprise Finance Limited of the South African government established this guaranteed scheme to address issues SMEs face (Ayandibu and Houghton 2017). A guarantee program under the Khula Credit Guarantee Program was started to assist SMEs in gaining access to capital for both start-up and development purposes (Bamata 2018). However, when it comes to the sensitive subject of access to financing, institutional procedures for dealing with issues remain ineffective (Zarrouk 2020) .

Wilcox and Yasuda (2019) recommended dividing the risk equally between the bank and the approved institution through guarantees. This brings down the risks of the bank and operational costs while increasing its returns. As a result, banks can lend money to SMEs which are unable to offer sufficient collateral. Na (2018) argued that should borrowers fail to make loan payments, it is imperative to give them the incentives they need to join guarantee schemes. This will help both parties share the risk. The sharing of risk depends on the SME's previous record with the financial institution, the size of the guaranteed support, and the normal conditions of reimbursement of obligations (Bakhtiari et al. 2020).

The significant risk associated with lending money to SMEs is the fundamental impediment to developing a solution to the issue of access to finance (Zarrouk 2020). Government mediation in the context of a credit agreement can help reduce risk and may be a significant step toward addressing the difficulties that SMEs face in getting finance (Pu 2021).

Although efforts have been made to implement a few modifications in approach as suggested by (Terebova and Ustinova 2022), the issues remained unresolved. According to Khan and Anuar (2018), business visionaries continue to face the issue of access to funding in both developing and developed nations.

2.5.1.3 Bank overdraft

Firms have gained access to short-term sources of financing like bank overdraft facilities as a result of their reputation-building efforts (Marshall, McCann and McColgan 2019). Nalane and Sekantsi (2020) assert that SMEs rely heavily on commercial banks for debt finance. They offer SMEs a wide extent of services such as overdraft facilities. Due to the established connections that they and their employees have with SMEs and the owners of those businesses, commercial banks are in a better position to gather information about SMEs (Al-Rawashdeh 2020). SMEs in rural areas can also use the numerous branches of commercial banks. Nicolas (2022) revealed that bank overdrafts give an entrepreneur more financial freedom, allowing them to cover short-term financing needs by spending more than the account will allow.

Jenik, Lyman and Nava (2017) report that overdrafts are based on a bank agreement that allows applications to be processed more quickly, that money is available for urgent financial needs, and that there are a variety of repayment choices, which may explain why SMEs in South Africa have more access to them. Borin, Donato and Sinapi (2018) suggested that overdrafts should not be used for long-term financing because the bank might question the firm's financial reliability if they are used regularly. Nanyondo’s (2017) study found that only about 56.94% of SME financing applications are ultimately approved, and this shows that a bank overdraft appears to be the most preferred method of SME financing.

2.5.1.4 Bank loans

Sensini (2020) argued that SMEs can be financed through capital and credit, and that the likelihood of a firm's survival is directly proportional to the amount of capital contributed by its owners. They specify that when proprietors of small businesses require credit, banks typically have a negative view of risk (Wong, Holmes and Schaper 2018). Asah et al. (2020) report that South African banks continue to show a lack of interest and distance themselves from managing SMEs' credit applications and keeping a strategic distance from risk. Esperance (2021) contended that keeping up a deposit account and adhering to suggested minimum balances in business accounts affects the availability of bank loans.

2.5.1.5 Asset securitisation

Solid and productive banks are crucial for economic improvement, particularly in South Africa (Andreoni and Tregenna 2020). However, banks are confronted by various risks such as credit risk (risk of reimbursement), market risk, operational risk, risks of trade union actions, liquidity risk, interest risk, portfolio risk and legal risk (Okafor and Fadul 2019). Credit risk is one of the most important risks for a bank (Ekinci and Poyraz 2019). Credit risk is the failure of the borrower to repay the loan. In addition, when compared to the other risks banks face, credit risk has a far greater impact and has the potential to collapse an entire bank (Cheng 2020). Most banks have increased their securitisation requirements for SMEs to limit credit risk and long-term financial instability (Oyetade, Obalade and Muzindutsi 2020).

Credit securitisation is the process by which an individual or firm approaches a bank for a credit, and the bank endorses the credit, but incurs the cost and risk of non-payment by the borrower (Messina 2019). Banks then group several credit agreements together according to their distinctive characteristics, and after that pool these loans into securities that can be sold on the open market. This securitisation is executed to exchange the risk related with these credits, and to secure the bank liquidity and profitability (Mokatsanyane, Muzindutsi and Viljoen 2017).

2.5.1.6 Small Enterprise Development Agency (SEDA) funding

South Africa has several government programs to help small and medium-sized businesses. These programs include the Small Enterprise Development Agency (SEDA) of the Department of Trade and Industry (DTI) and one of its implementation entities, the Industrial Development Corporation (IDC) (Ssennyonjo 2019). A report by Yusoff (2021) sets out the extent of financial assistance programs that can be utilised by new businesses in conjunction with the requirements for securing financial assistance. Small Enterprises Development Agency (2022) revealed that they are assisting SMEs in obtaining financial support. Hence, it has a variety of tools for financing specific beneficiaries. Through the Township and Rural Enterprises Programme (TREP), there is a strong emphasis on facilitating enterprise access to financing in underserved communities. For example, the Youth Challenge Fund is now operational and expanding. The Khula Credit Guarantee Scheme, for which SEDA has leveraged public funds to more than sixfold private financial institution funding, is also being scaled up by SEDA. Furthermore, the Innovation Fund was recently designed by SEDA. These initiatives will begin to address the significant credit gap in the SME market, which is estimated to be close to R86 billion for both formal and informal SMEs (Serame 2019).

The South African Parliament announced its intention to revive an economically empowering environment for small businesses (Balkaran 2017). Most of these acts have been executed by (Small Enterprises Development Agency 2022), and this shows that entrepreneurial capabilities must be created, observed, and assessed on a standard basis in supporting newly established SMEs as a means for decreasing their high failure rates.

The Independent Development Committee (2019) gives financial assistance for industrial development to South African entrepreneurs. According to SEDA (2022), South African small businesses fail within their first year of operation. SEDA (2022) has found that although the DTI gives incentives and support to SMEs, the degree of support provided to new SMEs is lacking. According to Nhlumayo (2017), R508 million was apportioned to the SEDA, Khula Enterprise and Apex Funds. To emphasise the significance of SMEs, the government built up a Ministry of Small Business Development in 2014 which has made a difference in the expansion of SME in South Africa.

2.5.1.7 Trade credit

Laktionova (2019) describes trade credit as the practice of deferring payment for purchased goods and services, with SMEs often utilising it as a form of credit or an alternative to immediate cash payments for each transaction. It is considered an unrestricted financing option as it naturally arises from regular business dealings (Pietrovito and Pozzolo 2021). Suppliers offering extended credit typically incorporate the associated costs into the prices of their products or services. Trade credit terms usually involve a repayment period of thirty to sixty days, after which payment becomes due, and failure to meet the deadline results in incurring financing charges. Some suppliers may also provide cash discounts of one to two percent for early payments made within fifteen days of delivery (Zhao and Huchzermeier 2019).

Due to the high failure rates of SMEs in their initial years, their access to bank credits is limited, leading them to rely on suppliers for financing (Bakhtiari et al. 2020). Anifowose and Onileowo (2020) emphasise that trade credit can become a costly source of financing if payments are not made within the specified credit period. This implies that trade credit may indeed be an expensive means of obtaining financial support (Yang and Birge 2018).

This section examined the forms of finance that could help SMEs access finance and improve their development and survival. The financial issues that SMEs face and the strategies that could help them improve their ability to obtain financing are discussed in the following section.

2.5.2 The financial gap and SMEs

Adhikary, Kutsuna and Stephannie (2021) proposed that the financial gap, defined as the difference between an SME's demand for funds and the supply of profitable investments, is overlooked, posing moral hazard and adverse selection risks. Despite the risks, firms invest in projects that generate higher income levels to pay off debts. As a result, lenders may accept the firm's risk because they cannot avoid picking riskier projects.

Stiglitz and Weiss (1981) argued that when there is an excessive amount of demand, the lender has different reasons that correspond to the rates that have a lower likelihood of adverse selection for credit rationing. Hence, conditions are also making it harder to get financial resources for making new investments, creating jobs, and reducing poverty (Block, Colombo and Cumming 2018). Another aspect of credit rationing is that managers and employees of financial institutions may be held personally liable for nonperforming loans if loans are given to SMEs without government guarantees, resulting in agency issues (Adhikary, Kutsuna and Stephannie 2021). Therefore, conditions of credit rationing govern managers' actions; as a result, it is their duty to safeguard the depositor's interests (Mpofu and Sibindi 2022).

Start-up SMEs are more likely to be affected by the information asymmetry issues. Martí and Quas (2018) argued that new and technology-based propositions exhibit greater information asymmetries. They also argued that assets are frequently knowledge-based and solely associated with the founding entrepreneur, and that information is limited and not always transparent during the initial stage. In addition, entrepreneurs may be reluctant to disclose every detail about opportunities, particularly in the case of manufacturing or technology-based businesses, as doing so could make it easier for others to take advantage of these opportunities.

Due to a lack of security, there are also some owners of SMEs who fall into certain categories, such as young entrepreneurs or those from disadvantaged areas (Omondi and Jagongo 2018). Additionally, there may be sector and location-based asymmetries (Ahmed (2021). Olufunso (2010) and Petersen and Charman (2018) found that small manufacturing firms are often in the food and beverage processing sectors. Uzoma (2020) concluded that SMEs in the food and beverages sector are effectively start-up businesses (Beck and Cull 2014; Balogun 2018). Firms organised as partnerships and sole proprietorships are less likely to have a formal credit. Coleman and Robb (2012) argued that sole proprietorships and partnerships, might find it more difficult to establish credit histories and collateral that would allow them to borrow from external sources. Small business owners in rural areas may have difficulty obtaining bank financing (Ahmad 2012). Information asymmetry and agency issues were identified by Stiglitz and Weiss (1981) as two significant factors in credit rationing theory that contribute to the financial resources constraints faced by SMEs.

2.5.2.1 Financial gap and access to finance in South Africa

Musabayana and Mutambara (2022) argue that in the South African context, policy debates have failed to close the financial gap between SMEs and providers of financial assets. This reveals broad resistance to SMEs due to their inaccessibility to finance and undesirable levels of business activity. Zarrouk (2020) found that low rates of SME survival and entrepreneurial growth are the main challenges that are caused by access to finance in South Africa.

The difficulties that SMEs in South Africa face in obtaining financing are examined in the following section.

2.5.2.2 Associating gaps in access to finance

Hendriyani and Raharja (2019) report that one strategy for successfully bridging the gap between credit supply and demand is through innovative lending methods. According to Ali, Gongbing and Mehreen (2019), some of these methods are as follows: (1) an examination of a credit that emphases on the potential capability of the client to pay it back (cash flow), (2) collateral ought to receive less attention, (3) the examination ought to be standardised, and (4) loan administering times should be kept to a minimum. Loan officers should be held fully accountable throughout the duration of the loan, and salaries for loan officers should be based on performance. In case of payment difficulties, it is essential to establish an efficient incentive system for timely resolution. Robust decision-making and control protocols, supported by a well-developed management information system (MIS) and information technology (IT), should be implemented to facilitate the oversight and administration of the loan portfolio (Chinda 2022).

2.5.2.3 Towards bridging gaps of access to finance

Benami and Carter (2021) argued that numerous banks have lowered the likelihood of their lending to SMEs by creating devices, such as credit scoring models and other advanced strategies, to differentiate between the high-risk and low-risk borrowers. The failure to provide a clear way to close the gap of information asymmetry is the primary reason why SMEs cannot access financial assets, despite the above-mentioned potential strategies' viability in addressing SMEs access to finance issues. Therefore, finding viable ways to guarantee that the information gap is closed between financial institutions and SMEs are needed. It is also necessary to investigate whether a real gap truly exists.

2.5.2.4 Recognition of actual gap and access to finance

Simba, Tajeddin and Dana (2023) argue that it is necessary to differentiate between real gaps and perceptions or imperfections. The issue of gaps is complicated within the financial markets since providers of capital may deny offering finance to some potential buyers and this can be acceptable industry practice (Bates 2018). In addition, a potential debtor must satisfy the bank's requirement that the loan's principal (capital) and interest is paid when due. Depending on the agreement, interest is paid together with a portion of the loan (Priambodo 2022). This argument is that SMEs fail to access funds since they do not supply adequate information or the information, they have supplied indicates that it will be an unsafe speculation by the lender. The perception is that there is no *prima facie* evidence of a gap, and subsequently only a few firms cannot obtain capital (Puthusserry 2020). A gap or imperfection may be inferred if businesses that ought to receive financing consistently fail to do so. As a result, it is important to keep in mind that when making decisions, addressing a perceived gap may not be relevant, instead they should consider the actual gap (Shabbir 2020). If flaws in the private sector prevent firms with sufficient merit from receiving financing, the public sector's support for SME financing is considered the best solution (Șimandan and Paun 2021).

However, in the absence of market dissatisfaction, such activities may result in manipulation. Non-viable businesses may face competition from other viable businesses and may be subsidised at the expense of the public. Consequently, it is essential to determine the extent to which any small business category is effectively disadvantaged in terms of access to capital (Chaudhuri 2020). To approach concerns on this subject, it is critical to build a framework focused on encouraging capital flows that is universally understood and empirically proven. Otherwise, unwarranted perceptions of financial markets "gap" may incorrectly drive public policy (McCradden 2022).

2.5.2.5 Access to finance challenges

A significant number of business owners are unable to obtain financing (Fowowe 2017). It is evident that entrepreneurs prefer bank loans over other forms of external financing, and a significant number of applicants to banks were unsuccessful in obtaining financing (Lyon and Owen 2019). Although a significant number of entrepreneurs have attempted to obtain financing, only a small percentage do so (Lerner and Nanda 2020). However, there is a wide contrast between the applicants who were successful in their applications and the applicants who, although successful, did not receive the money due to incorrect banking details or internal management errors (Kersten 2017). Jin and Zhang (2019) argued that it is possible that some successful applicants were unable to accept the loan's terms and conditions, which is why they did not take out the loan. Another possibility is that, despite their application being approved, some applicants were put off by the process and did not receive funding. Razak, Abdullah and Ersoy (2018) evaluated that obtaining financing, particularly from banks, presents numerous challenges for entrepreneurs. These include a lack of collateral security, refusing to use one's own collateral, failing to make a significant personal contribution, being blacklisted, failing to review interesting financial records and/or business plans, and the high risk of small business owners.

2.5.2.6 Addressing access to finance challenges in South Africa

Asah et al. (2020) state that a credit default carries an 80% risk of the repayment amount, which could be the reason for the financial institutions to be reluctant to release their funds to SMEs. However, if collateral is accessible, this may not be the case. As a result, the Khula Credit Guarantee Scheme will pay 80% of the value, less the collateral. Banks run the risk of losing the value of the collateral and the unsecured portion of the credit because collateral may not realise its full value in a limited deal. Several banks are dissatisfied with this situation (Langa and Govender 2019). Although banks are not compelled by Khula Credit Guarantee Scheme to demand security from SMEs, they frequently attempt this on their own volition (Mahohoma 2020).

Some banks have taken steps to alleviate SMEs' crippling financial access issues (Coetzee and Buys 2017). Even though the guaranteed scheme has the potential to understand in part collateral and risk issues, SMEs continue to face difficulties, particularly start-up SMEs that are unable to demonstrate the minimal collateral required to qualify for the scheme. SMEs may have difficulty gaining access to such guaranteed plans because, despite such plans, the inability of SMEs, particularly start-ups, to access financial assets is a huge obstacle. According to Bushe (2019) the majority of South African families are unable to easily reach institutional arrangements that can assist them in accessing financial assets due to the fact that they live extremely far from the formal economy.

In 2018, the Government of South Africa presented a report on the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE) to address the issues faced by independent enterprises. The agencies charged with addressing the three strategic foundations of SME development were at the heart of the Integrated Small Business Growth Strategy, which was increasing resources for financial and non-financial services, creating interest in SME items/administrations, and reducing regulatory obstacles (Langa and Govender 2019). The strategy struggled to achieve the expected outcome due to fractional implementation, the lack of a detailed explanation of the criteria for performing numerous planned activities, and insufficient government-wide coordination and monitoring systems (Msomi and Olarewaju

2021b). Appiah (2019) reports that National Youth Development Agency is an example of a government agency.

Through existing government agencies, the government's continued involvement in helping these SMEs includes the Accelerated and Shared Growth Initiative for South Africa (ASGISA), SEDA and the Small Enterprise Funding Agency (SEFA). Incompetence and corrupt practices have plagued the agencies despite measures to discourage these practices (Ojeka 2019). The lack of fundamental financial knowledge in financial management and a lack of comprehension of financial institutions' financial services are two other factors that can be directly linked to the difficulties that SMEs face in terms of their financial literacy (Msomi and Olarewaju 2021b). Sallem (2017) also suggests that financial transactions that are not being properly recorded are another issue that SMEs face. The survival and competitiveness of small businesses are jeopardised when they are unable to manage cash flow, collect funds, invest in new ventures, return funds to sources, and perform a variety of other financial functions (Fadil and St-Pierre 2021).

Having discussed the financial gap and the strategies to minimise the gap, prior research on access to finance, both in and outside of Africa, is discussed in the following section.

2.6 Prior research

It has been hypothesised that several factors relate to the shortage of financing for SMEs. Some studies focus on the estimation of access to finance (Woschke, Haase and Kratzer 2017). Other studies focus on developing nations and tend to cover both access to funds and its determinants (Kebede and Abera 2014).

The discussion of prior research first focuses on research in Africa and then focuses on international research.

2.6.1 Studies in Africa

Studies in Africa have investigated various aspects of sourcing of finance by SMEs. This section first examines South African studies before discussing studies from elsewhere in Africa.

Fatoki and Odeyemi (2010a) focused on the factors that influence new South African SMEs' access to trade credit. 445 SMEs were examined in Eastern Cape in their study. According to their findings, SMEs which have been in business for longer, and have more management skills are more likely to access finance.

Mazanai and Fatoki (2012) focused on SMEs' access to finance in South Africa. 407 SMEs were examined in East London in the Buffalo City Municipality in this study. They recommended that BDS providers can help SMEs to run their businesses more viably and can enhance access to finance as another form of collateral where the security for credit is required.

Peters and Naicker (2013) focused on 282 of SMEs that were examined in Western Cape. Their findings revealed that even with the support of BDSs as an incentive from government in the South African business division, start-up SMEs are still encountering challenges particularly on access to finance that are hampering entrepreneurial improvement.

Asah et al. (2020) focused on the availability of credit from the formal financial sector to SMEs in South Africa. 148 SMEs formed the sample of this study in Eastern Cape. They recommended that collateral security is the foremost essential consideration by the formal financial division when granting SMEs credit. Members of the formal financial division indicated that SMEs with collateral in the form of an asset (land or property), investment account, contract letter, investment policy, or surety (worth the size of the credit) are typically considered for credit (Asah et al. 2020).

Msomi and Olarewaju (2021a) administered 310 questionnaires to SMEs in eThekwini. Their findings revealed that the requirements to access finance should be relaxed sufficiently to accommodate small business owners at all levels. SMEs’ capacity to obtain financial administration, such as deposit, credit, insurance, instalment and other risk management supervisions, ought to be significantly supported. The government ought to guarantee that no SMEs are unbanked.

Elsewhere in Africa, studies have been carried out in Uganda, Kenya, Tanzania, Zambia, Kenya, and Mozambique, related to similar issues.

Calice, Chando and Sekioua (2012) investigated SMEs and bank financing among East African nations (Uganda, Kenya, Tanzania, and Zambia) with the objective of establishing the banks’ association with SMEs. 100 SMEs were examined in their study. The results revealed that among the four countries with an average of 42% of the bank's portfolios, the Ugandan SME division was the least productive among all SMEs on accessing funds.

Musamali and Tarus (2013) conducted a test in Eldrett Town, Kenya, on 103 SMEs to examine how the businesses' characteristics affect access to finance. They found that access to finance on SMEs is affected by the age of the trade, firm size, ownership structure and the trade type. Furthermore, their findings revealed that larger, and older firms can be assessed for their credit history worthiness for enterprises in the service and industrial sectors to grow their capital structures.

Osano and Languitone (2016) examined 324 SMEs in Maputo, Mozambique, and found that competition is more significant in the financial sector. However, the cost of monetary-related items might rise due to a need for them, affecting the growth of small businesses throughout the world. On the other hand, the lack of competition in the financial sector may also have an impact on the stability of the banking industry's management.

Nanyondo (2017) investigated links between Ugandan SMEs' access to finance. 511 SMEs were examined in this study. Their findings revealed that there was no association between risk and access to funds, but there was a substantial and favourable relationship between financial statement quality and access to funds. The investigation also showed a negative correlation between financial access and information asymmetry.

Mbuva and Wachira (2019) investigated on effect of financial accessibility on financial performance of SMEs in Kenya. They determined that financing is not readily available to process SMEs.

Brixiova, Kangoye and Yogo (2020) examined a sample of firm level-data from 42 African countries and recommended that access to credit is limited for SMEs and job development due to a lack of resources that can serve as collateral and other financial market inefficiencies.

Mpofu (2022) investigated the impact of Bank Competition on Credit Access in Sub-Saharan Africa and concluded that improving credit access can be achieved by addressing information asymmetry through the utilization of public credit registries. This underscores the importance of expanding these credit registries, emphasizing the need for collaboration between the government and the private sector as they play a crucial role in providing lending information. The study's findings highlighted factors such as financial statement quality, transaction costs, firm age, firm size, and collateral positively influence access to finance. This suggests that the characteristics of a firm are significant predictors of SMEs' ability to secure financial support.

Much of the research conducted in Africa came to the same conclusions. SMEs need to have certain firm characteristics or government assistance to get funding from financial institutions.

2.6.2 Studies outside Africa

Studies have also investigated SMEs' access to finance outside Africa.

Le (2012) examined SMEs in Vietnam's access to finance by utilising 2009 data of the World Bank Enterprises' Study. Firm characteristics such as size, age of business, machinery, land, and other financial characteristics, such as the proportion of working capital financed from financial institutions, credit-worthiness variable, industry and region were examined. The study found that SMEs' mechanical worth, the quantity of operating capital provided by banks, and higher sales were all highly related to loan approval.

Giang et al. (2019) focused on the causal relationship of access to finance for the productivity of Vietnamese SMEs. The research recommended that the government strengthen laws and regulations tailored to the attributes of Vietnamese SMEs to make it easier for them to access financial resources. Furthermore, policy makers need to make more effort to create a sound solid financial environment to stimulate firms' access to finance.

Nolan and Garavan (2016) analysed 117 papers on human resource development in SMEs in Britian and found that SMEs' lack of established and regulatory skills is impeding business growth. As a result, they argued that lack of managerial experience and aptitudes is the primary reason for modern-day corporate failure.

Jayasooriya (2020) conducted a survey involving 2 647 SMEs in Vietnam. The findings indicated that the sources of initial capital, including founders' personal funds, loans from friends and family, finance from other ventures, domestic bank credit, and informal credit associations (such as cash lenders, informal banks, pawn shops), show a positive correlation with access to finance. On the contrary, business associations and international bank credits were found to have no significant relationship with access to finance.

Du and Schreger (2016) study in France used 14 expanding economic sectors and explored if a borrower's balance sheet and the risk of banks generally effect an SME’s access to credit that involves the Euro currency. The findings revealed that access to finance is negatively correlated with an increase in banks’ subsidising costs in strained economies. In addition, the study found a connection between access to finance and the significant rise in the percentage of businesses resources.

Kirschenmann (2016) conducted a study on 485 SMEs in South-East Europe and concluded that banks preferred smaller firms that request smaller loans amongst all SME loan requests. These results suggest that there is no positive correlation between the size of the bank, and its loan size preference and that individual banks differ in their criteria and in their loan-size preferences.

Kahraman, Tektas and Coskun (2019) investigated whether SMEs in Turkey and the European Union have access to SME financing. The results show that the use of bank loans by SMEs is significantly influenced by the firm's age, and number of employees. Thus, the older age of firms and the greater number of employees have more influence on SMEs' access to financing.

Kolaković, Turuk and Turčić (2019) concentrated on the financial accessibility experience of SMEs in Croatia and concluded that insufficient guarantees or collateral is the reason why so many SMEs do not have access to capital. This study revealed that the average extent of access to finance was at 19.10%.

Serrasqueiro and Nunes (2012) explored SMEs’ access to funds by utilising panel information on SMEs for the period of 2006 to 2010 over 125 developing nations. According to their research, bank financing is the most popular form of outside funding for SMEs, with access rates ranging from 44% to 58%.

This review of prior research indicates that a proportionally high percentage of businesses are unable to obtain financing because of the numerous factors mentioned above in the previous studies. In summary, studies conducted outside of Africa indicated that the main factors that explain SMEs’ access to finance are firm characteristics.

2.6.3 Summary of empirical research

Despite the part played by SMEs and the assistance they get in South Africa, SMEs continue to fail (Sitharam and Hoque 2016). Therefore, it is crucial to carry out additional research in this area to consider SMEs' access to credit. Additionally, by providing knowledge to help SMEs in eThekwini bridge the access to finance divide, this study adds to the body of literature. While Msomi (2021) examined the role of financial awareness for the viability and sustainability of SMEs in eThekwini, this current study is different as it examines the impact of financial statement quality and firm characteristics on access to finance by SMEs in the same region. Both financial statement quality and firm characteristics on access to finance by SMEs in eThekwini are discussed in this study in the intention of closing the gap in the literature in this area.

The following section develops the hypotheses which are to be tested in this current study.

2.7 Development of the hypotheses

This section develops the hypotheses that are posed to answer the third research question of this study: which is the impact of financial statement quality and firm characteristics on SMEs' access to finance.

2.7.1 Firm characteristics

The firm characteristics which this study identifies from the preceding discussion of the literature are the effective lending rate, transactional costs, firm age, firm size, financial statement quality and collateral requirements. Each of these characteristics is discussed next.

2.7.1.1 Effective lending rate (i.e., borrowing rate)

Sitharam and Hoque (2016) characterise the effective lending rate as the genuine return on the speculation or on the money or reserve funds that have been contributed. This way, the effect of compounded interest over time and any interest on speculation will be considered as the successful lending rate. However, there are certain ways that the effective lending rate can influence the access of finance among the SMEs. One of these is where the interest rates are considered as being as too high and this could make it difficult for SMEs to borrow from financial institutions and be able to repay it timeously (Ngek 2016). As a result, the business may take a considerable amount of time to repay the financial institutions for this loan, which may have an impact on its development. For example, when South Africa was under lock down restrictions, it was difficult to borrow from financial institutions (Haider 2020). Many businesses were affected because of the Coronavirus pandemic shut down. Therefore, a demand for funding by SMEs upon re-opening their businesses from financial institutions may mean that financial institutions, to meet such demands, may increase their interest rates. This can be serious burden for SMEs.

The effective lending rate, which can be attributed to financial strategy activity, has an impact on the total structure of the total request for finance as well as the change in the supply of credit (Ciccarelli, Maddaloni and Peydró 2015). Thela (2012) argued that SMEs find it more expensive to access such funds due to micro finance institutions' (MFI) high effective lending rates. Matemilola, Bany-Ariffin and Muhtar (2015) concluded that the impact of financial arrangement activities on lending rate keeps the overall supply and demand for credit at required levels. The interest rate theory proposed by Ciocca and Nardozzi (1996) implies that poor access to financing may result from the flexibility of effective lending rates. According to Matemilola, Bany-Ariffin and Azman-Saini (2018), access to financing is constrained when effective lending rates are high, suggesting that the request might depend on lending rates. Ayyagari, Demirgüç-Kunt and Maksimovic (2011) found that SMEs are more likely to obtain financing in countries with lower lending rates than in countries with high lending rates. In Nigeria, it was shown that the relationship between the effective lending rate and financial access was negative (Ibrahim and Aliero 2012). In addition, in Uganda, the loan-to-loan ratio as a measure of access to finance (ATF) was found to be negatively related to financial access (Nanyondo 2017). It is hypothesised that:

H1: an increase in the effective lending rate has a negative effect on access to finance.

2.7.1.2 Transactional costs

Lin and Lin (2016) define transactional costs as costs that will be incurred by the entity or business when acquiring goods or services. For example, in the situation where the entity is purchasing the goods from an overseas firm, foreign currency is involved. Therefore, it is important to consider the additional costs that will be on top of the actual price of an item that is being purchased. These costs may include the difference in amount with regards to foreign exchange, and in some situation the entity may be required to wait for a long period of time before such goods can be received by the business. Such extra time can be regarded as transaction costs. In some situations, it can be very inconvenient to purchase the item from an overseas firm rather than purchasing the same item from a local firm. Therefore, there are certain ways in which such transactional costs can affect SMEs when they are looking for the finance from financial institutions and this may include the following:

(1) The amount of time spent by the business waiting for the loan to be approved by the financial institution. Sometimes this can prevent the progress of these SMEs businesses (Nguyena, Mickiewiczb and Duc 2018).

(2) The process of dealing with the application for such financial assistance can be overwhelming (there will be so much information that will be required from the business such as the security for the loan) (Haselip, Desgain and Mackenzie 2014).

(3) The way some financial institutions treat these SMEs business owners when they are looking for financial assistance may be undignified (sometimes they will be required to wait in those long queues in banks and in some situations, they will be required to come back for a couple of times before receiving such financial assistance) (Haselip et al. 2014).

It is hypothesised that:

H2: an increase in transaction costs has a negative effect on access of finance.

2.7.1.3 Firm age

In the situation where SMEs are looking for financial assistance from financial institutions it is also important to consider the firm's age. Some of the reasons that makes it necessary to consider the firm's age may include the following:

(1) Contacts or relationships that the business has made with other businesses over time. Unlike a new business, experienced SMEs may have better connections with other businesses, and this can put the business in a better position to access the finance from financial institutions. Such connections may include understanding the type of financial institutions that assist SMEs businesses with the finance for the business (Gassen 2017).

(2) Experience when managing with the planning and introduction of financial statements. SMEs with a lot of experience might know how to properly prepare and present financial

statements. This may include an experienced accountant who will guarantee that vital steps have been taken to prepare the financial statements for the business (Gassen 2017).

(3) Understanding the industry in which the business is operating. Experienced business owners may know how to keep a business running smoothly in a particular sector. This includes knowing what obstacles the business will face in that sector and what kind of sector is successful (Gassen 2017).

(4) Constant communication with financial institutions. Because of the relationship that some business owners have with financial institutions, they are well known by such institutions. This could make it simple for the business when it is seeking financial help from that specific financial institution as records have been kept in terms of how the business have paid back past financial assistance (Fatoki 2014).

(5) The business may accumulate greater security over the course of its existence. Experienced SMEs may have superior security to use when seeking financial assistance. This will assist the business in accumulating as many resources as possible, including financial resources. Hence, the more resources a business has, will give a business a stronger chance of getting financial help from financial institutions (Chang 2011).

Jensen and Smith (2000) argue that firms may lose their competitive edge as they become complacent with age. Access to finance may also be influenced by the history built up by a firm (Fowowe 2017). More experienced SMEs may have more access to finance (Ghimire and Abo 2013). It was shown by Chukwuma (2017) that there is a relationship between credit sums received by borrowers and firm age. In contrast, Musamali and Tarus (2013) found access to finance diminishes with firm age. In Vietnam, it was found that an indicator of SMEs access to finance was not firm age (Nguyen and Luu 2013). However, in Libya and Kenya, it was found that access to finance by SMEs is related to firm age (Zarook and Rahman 2013). It is hypothesised that:

H3: an increase in firm age has a positive effect on access to finance.

2.7.1.4 Firm size

When SMEs are seeking financial help, it is critical to consider the firm's size since businesses are regularly classified as small or large businesses using measures such as size of income or number of employees. When SMEs are attempting to access finance from financial institutions, variables that may be considered are:

(1) The amount of income that has been created by the business over a specific period. Financial institutions check the statement of profit or loss for the business to see how much income has been produced by trading during that financial year or for a specific period. This is compared with the income that has been earned by trading in the past. In this manner, businesses which can show a history of profitability are more likely to be given financial assistance from financial institutions. This may demonstrate that the business is sound and can repay money that has been borrowed and this could serve as a security of the loan (Born and Pfeifer 2014).

(2) An SME with a large workforce might be a sign that the firm is stable and that its employees can contribute to its success. This could be an additional advantage to the financial institution in terms of why the business ought to be given financial help (Schaltegger, Lüdeke-Freund and Hansen 2016).

(3) The size of industry in which the SMEs trades may provide an indication as to whether that the business is able to pay back any financial help. There is an assumption that if the SME is operating in an industry that is considered more successful/ bigger in size than other industries, there is a better likelihood that the financial institution may give the SME with financial help (Dikert, Paasivaara and Lassenius 2016).

Studies indicate that there is an interface between firm size in terms of workers and access to finance (Henard and McFadyen 2012). Employees are a source of intellectual capital, financial administration, and assistance with risk propensity calculations (Ngah and Ibrahim 2012). Beck, Demirgüç-Kunt and Singer (2013) assert that larger companies frequently employ skilled employees with administrative financial abilities, which is why access to financing is generally viewed favourably by larger companies. Moro and Fink (2013) found that there is a positive relationship between the credit amount and the size of a business. In contrast, a study by Kumarasamy and Singh (2018) in Australia showed no connection between firm size and finance availability. It is hypothesised that:

H4: an increase in firm size has a positive effect on access to finance.

2.7.1.5 Collateral

When SMEs try to obtain financing from financial organisations, it is vital to consider the effect of collateral as this could affect the decision as to whether the business will be given monetary help. Osano and Languitone (2016) noted that the term collateral relates to the security of the credit that can provided by the borrower to the bank or financial institutions. In this manner, should the borrower fail to pay back the money that has been borrowed, the lender has the right to seize the collateral, or it will be used as an installment towards the amount owing. However, SMEs may be faced with the following:

(1) New SMEs may not have sufficient collateral to supply to the financial institution when seeking monetary help. Such businesses may be in their starting stages where they may not have sufficient resources that can be used as security for credit. This will be a disadvantage to the business should it apply for finance (Osano and Languitone 2016). Some SMEs that have been trading for a long period of time may have sufficient resources to supply as security for any advances from the financial institution. This may be an advantage to these experienced businesses (Hanedar, Broccardo and Bazzana 2014).

(2) Property or other resources used as collateral will be forfeited should the borrower default (Shleifer and Vishny 2011). The lender does this by requiring the borrower to provide collateral in a legally binding agreement (Fatoki and Asah 2011). Collateral was found to be positively related to access to finance in past studies (Harvie, Narjoko and Oum 2013). Fanta (2016) found the link between collateral and credit availability is crucial. In Nigeria, collateral was found to facilitate access to rural farmers' funding (Ibrahim and Aliero 2012). In Spain, collateral was found to be actively associated with the use of loan finance (Garcia-Posada and Marchetti 2016). Therefore, the following hypothesis is proposed:

H5: possessing collateral has a positive effect on access to finance.

2.7.1.6 The impact of financial statement quality

Ham (2017) noted that the financial reporting quality of different firms varied. Lenders must be able to analyse the quality of a firm's financial details. An analyst's heightened uncertainty when reading a firm's reports, critical review of disclosures when conducting financial statement analysis, and inclusion of appropriate adjustments in assessments of past performance and forecasts of future performance can all be prompted by indications of poor financial reporting. Some of these reasons include the following:

(1) Inadequate knowledge and experience regarding the steps that need to be taken to keep accounting records for the business (Hsu 2014).
(2) The high costs of paying the accountants or bookkeepers to keep accounting records for the business (Fanta 2016).
(3) The government's lack of involvement in ensuring that SMEs produce accurate financial statements (Ezejiofor and Olise 2014).

According to Stiglitz and Weiss (1981), firms' capacity to acquire financial aid, particularly information asymmetry-induced ethical risk and unfavourable decision-making issues among firms and financial specialists. One of the tools that SMEs use to communicate with lenders about their financial health is through simple financial information (Ishaq and Karim 2016).

Al-Dmour, Abbod and Al-Balqa (2018) argued that a firm's quality of information is increased through its financial statements. Access to finance can be increased by disclosing additional, not mandated information by the business (Ioannou and Serafeim 2017). Mogbolu (2021) revealed that there is a link between financial statement quality and access to financing. It is hypothesised that:

H6: An increase in financial statement quality has a positive effect on access to finance.

In this current study, financial statement quality is measured using financial transparency. Financial transparency is indicated by using an appropriate accounting framework (such as IFRS or *IFRS for SMEs*) and the firm being audited. Transparency and relevant financial disclosures are considered necessary to access finance.

Having derived the hypotheses, the following section sets out the conceptual framework adopted by this current study.

2.8 Conceptual framework

A conceptual framework can be characterised as organising the interlinked concepts together to give a comprehensive understanding of a phenomenon or phenomena, which may be an item of subjective process of theorisation (Tamene 2016). The concepts that form a conceptual framework support one another, express their particular phenomena, and set up a framework in a particular logic that characterises their connections (Saunila and Ukko 2012). The conceptual framework of this study shows the relationship of the independent variables of financial statement quality, firm age, firm size, collateral requirements, effective lending rate (i.e., borrowing rate), transactional costs to the dependent variable, which is access to finance.

The conceptual framework of this study is shown in Figure 2.1

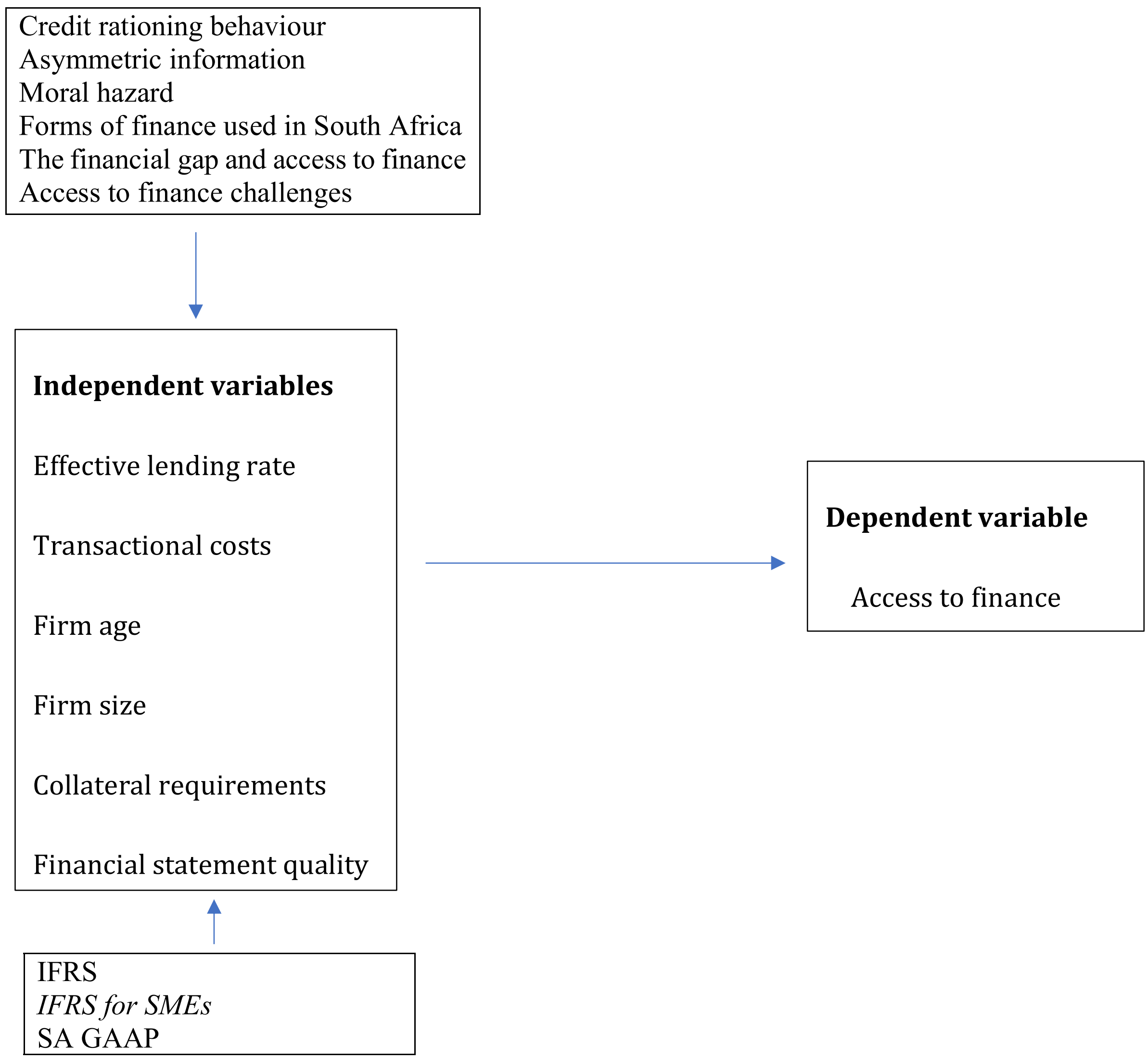


Figure 2.1: Conceptual framework

To summarise the factors which are tested by hypotheses are as follows:

H1: an increase in the effective lending rate has a negative effect on access of finance.

H2: an increase in transactional costs has a negative effect on access to finance.

H3: an increase in firm age has a positive effect on access to finance.

H4: an increase in firm size has a positive effect on access to finance.

H5: possessing collateral has a positive effect on access to finance.

H6: an increase in financial statement quality has a positive effect on the access to finance.

The null hypotheses for each hypothesis are that each factor has no effect on access to finance.

2.9 Summary

This chapter has outlined the various issues concerning SMEs' access to finance. Stiglitz, and Weiss's (1981) credit rationing theory was presented as the theoretical framework underlining the funding gap for SMEs. Financial access gaps were identified and the rationale for efforts to close these gaps was discussed. The literature indicated that SMEs are the victims of the credit rationing conduct of financial credit suppliers and thus encounter challenges in their attempts to access finance. One attempt in South Africa to address these challenges is through government support in the form of BDSs to help SMEs access finance from financial institutions. It is therefore critical to investigate whether SMEs' financial statement quality and firm characteristics have an impact on access to finance in eThekwini.

The next chapter outlines the research methodology used to obtain the necessary data to answer the research questions as posed in chapter one.

CHAPTER 3

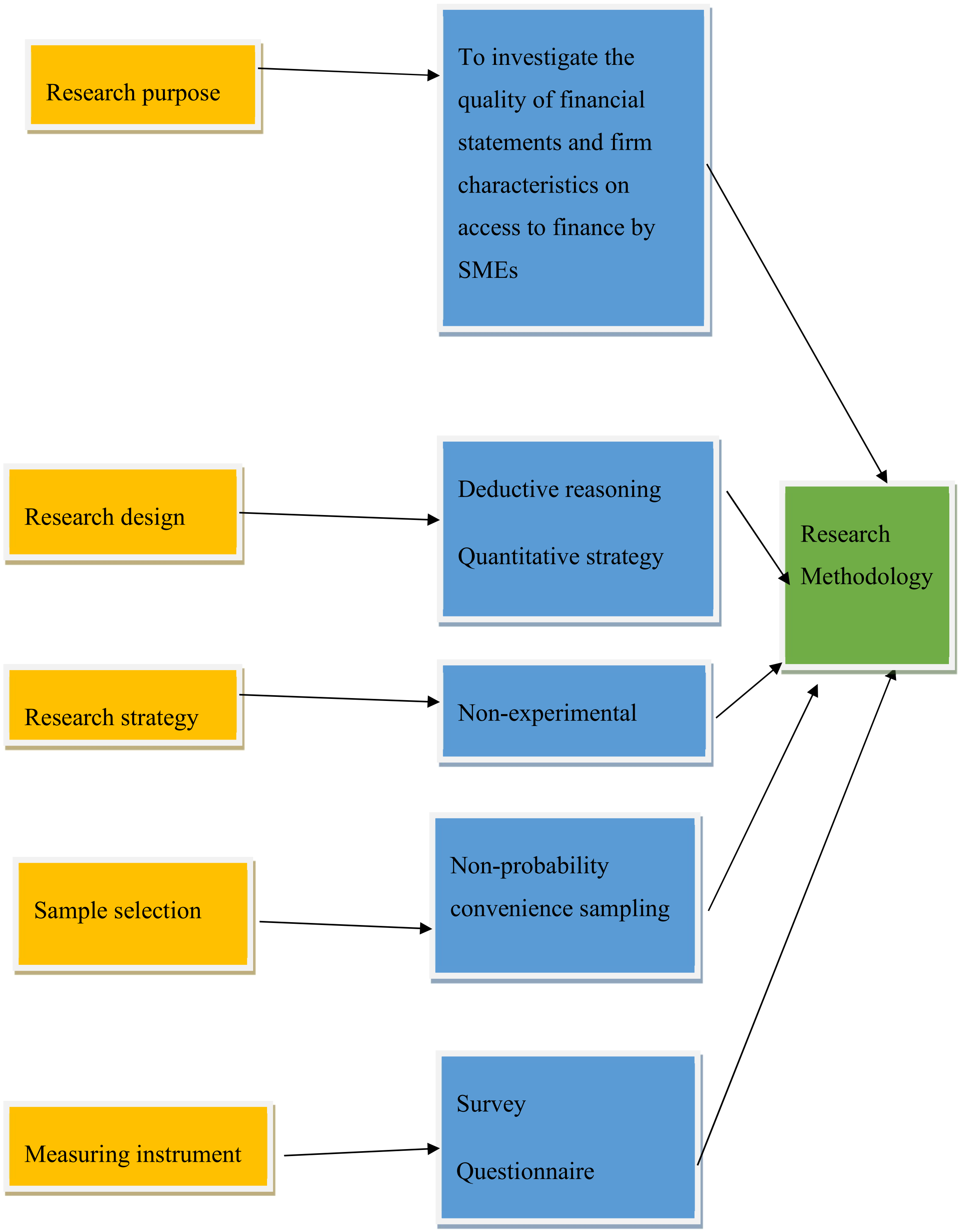
Research Methodology

3.1 Introduction

The research method used in this study is described in this chapter. It explains the rationale behind the chosen research strategies used to evaluate the impact of financial statement quality and firm characteristics on the access to finance by SMEs in eThekwini.

The initial section of the chapter outlines the research objectives. Subsequently, there is an exploration of the research paradigm and strategies employed in this study, followed by an explanation of the chosen methodological approach. Following this, the population sample is introduced, and an examination of the instrument used in the research is presented. The subsequent section details the data collection process, including a discussion on the response rate. The organisation and analysis of the collected data are then outlined. Finally, an assessment of reliability and validity within the context of this research is conducted.

The methodology used in this study is outlined in Figure 3.1.



Research purpose
To investigate the quality of financial statements and firm characteristics on access to finance by SMEs
Research design
Deductive reasoning
Quantitative strategy
Research Methodology
Research strategy
Non-experimental
Sample selection
Non-probability convenience sampling
Measuring instrument
Survey
Questionnaire

Figure 3.1: Schematic diagram of research methodology

(Source: Swarnkar, Gupta and Niazi (2011))

3.2 Research objectives and hypotheses

The aim of this study is to investigate the impact of financial statement quality and firm characteristics on the access to finance by SMEs in eThekwini.

To recap, the following research questions were set to meet the research objective:

1. What forms of finance are being used by SMEs?

2. What accounting frameworks are being used by SMEs?

3. Does financial statement quality and firm characteristics affect the access to finance by SMEs in eThekwini?

To answer the third research question, six hypotheses were set as follows:

H1: an increase in the effective lending rate has a negative effect on access of finance.

H2: an increase in transaction costs has a negative effect on access to finance.

H3: an increase in firm age has a positive effect on access to finance.

H4: an increase in firm size has a positive effect on access to finance.

H5: possessing collateral has a positive effect on access to finance.

H6: an increase in financial statement quality (transparency) has a positive effect on access to finance.

The null hypotheses for each hypothesis are that each factor has no effect on access to finance.

A positive approach is encouraged by the research questions and objectives. The research paradigm and research approach were determined by the study's research objectives. This is examined in the following section.

3.3 Research paradigm

A research paradigm can be defined as a standpoint or a set of concepts regarding how individuals interpret information (Kaushik and Walsh 2019). It involves how people perceive themselves in relation to knowledge and the methodologies used to explore a body of theories, rules, and strategies for obtaining information (Li 2021). The research paradigm encompasses three key components: philosophy, epistemology, and methodology. Philosophy pertains to one's view on the nature of reality, whether it is believed to be singular or nonexistent; epistemology concerns the theory of acquiring information; and methodology addresses the approaches used to gather information that elucidates reality (Kamal 2019). Together, philosophy, epistemology, and methodology offer a comprehensive insight into how individuals interpret information, their self-perception regarding that information, and the methodologies they employ to acquire it (Levitt 2021). Kamal (2019) explains that the research paradigm is shaped by the objectives of the study. The primary goals of research are often to bridge knowledge gaps or provide solutions to issues. In the context of this study, the research aims to address a knowledge gap. The research is quantitative as data is obtained using a questionnaire and the data is analysed statistically; thus, this study falls into a positivistic framework, which is more objective. Following the selection of the research plan, the study's framework and data collection methods are then determined.

3.4 Research design

According Mohajan (2020), where a researcher is collecting data for a study, it is important to use a research design to ensure that the collection and analysis of the data to be used as a measure of the research variables is reliable and valid. Therefore, the following section shows how the research design was considered in this study:

- The general plan in terms of how the research investigation was to be conducted was organised and formulated.
- The research strategy was considered, and this provided a general plan in terms of how the research questions were answered or dealt with.
- Descriptive research helped to ensure that the data was collected and analysed and this included the circumstances of the study area; and

• Under descriptive research, a questionnaire was used to collect the data from the research participants.

3.4.1 Descriptive study

In a descriptive study, the goal is to understand what something is like by identifying, categorising, and identifying correlations among various constructs (Collins and Stockton 2018). The purpose of this descriptive research was to investigate whether the quality of financial statements and firm characteristics have an impact on SMEs' access to funding in eThekwini. Surveys or interviews that aim to show and illustrate the relationships between components may be included in a descriptive research (Sandi 2021)(Sandi 2021). An descriptive research may have a cross-sectional or continuous time frame (Miljak. 2020). In contrast to cross-sectional studies, which collect participant data at a single point in time, longitudinal studies collect participant data repeatedly over a period of time (Sheehan and Garavan 2022). The respondents' responses were gathered at a certain period; hence this study's time horizon is cross-sectional.

3.4.2 Quantitative and qualitative research

Aspers and Corte (2019) explain that there are two basic categories for study design: quantitative and qualitative. Quantities and estimates that often provide answers to the queries "how many?" and "how often?" are the focus of a quantitative investigation (Khaldi 2017). Maziriri and Chivandi (2020) state that a quantitative study focuses on estimating causal relationships and investigating the relationships between variables.

In contrast, a qualitative research approach analyses the phenomenon by allowing more latitude for collaboration between the research and its participants. Since the sample size is frequently small, a qualitative study is typically inductive in character, analyses data primarily in a more subjective manner, and is less useful for generalising findings (Eze 2022).

Given the size of the population and the need for quantitative data to address the research issues, a quantitative strategy was preferred to a qualitative one for the current study. Furthermore, a deductive process was used to assess if there is a relationship between financial statement quality and firm characteristics and access to finance by SMEs in eThekwini. Other authors, such as Maleka and Fatoki (2016), on surveying the application of access to finance by SMEs, also used questionnaires for their data collection. Thus, the character of the current research investigation is quantitative.

3.5 Population and sample

The following section describes the population and the sampling strategy used in this study.

3.5.1 Population

A target population is a group of individuals that the study intends to conduct research on and draw conclusions from (Scher, Davidov and Geara 2023). SMEs based in the eThekwini Municipal area are the target population. It was not possible to get a list of SMEs in eThekwini from the Durban Chamber of Commerce and Industry (DCCI) because of the Protection of Private Information Act, 2013 (POPIA 2013). However, in a 2016 publication there was a projected population of 1 087 SMEs according to the Integrated Development Plan (IDP) (Musvoto, Lincoln and Hansmann 2016) for the period of 2017/18 to 2021/22, which described the five-year plan for eThekwini Municipality. This study assumed that 1 087 was a realistic number of SMEs which may have been registered with the DCCI in 2021 when the study was conducted. To be able to generalise to the projected population of 1 087 SMEs, a non-probability convenience sampling strategy was adopted.

3.5.2 Sample and sampling method

Choosing a segment or subgroup of the intended population permits researchers to draw conclusions about that population (Hennink and Kaiser 2022). Chow, Shao and Wang (2017) explain that factors to take into account while choosing the sample size include the amount of time available, the budget, and the basic level of accuracy. Naderifar, Goli and Ghaljaie (2017) state that for sampling to be effective, it must be a good representation of the community and enable the researcher to make broader conclusions.

Non-probability convenience sampling was used in this study to choose the sample in eThekwini, as the sample was drawn from a readily reachable or accessible group of SMEs through the DCCI. The DCCI provided a link to the research instrument in its communications with its SME members and any SME which received the link could have filled in the questionnaire.

3.6 The research instrument

This study collected primary sources of data by using a structured questionnaire designed to meet the research objectives. Since responses are acquired in a consistent manner and are typically quick to gather, a questionnaire is an effective tool for data collecting (Taherdoost 2016a).

3.6.1 Content and layout

3.6.1.1 Survey questionnaire

An online survey was employed because of the characteristics of the target population and to comply with COVID 19 regulations. Sue and Ritter (2012) show that, despite being restricted to respondents with a sufficient and reliable internet connection, email-based questionnaires are expected to generate large numbers of responses and are affordable. However, self-administered questionnaires lack the researcher's control over the process of completion, which may result in low response rates. Questionnaires also reduce bias, as the researcher is not able to impact the respondents' answers in any way.

3.6.1.2 Questionnaire design

The questionnaire was designed to get the necessary data to answer the research questions and to be simple enough to complete and free of charge for the respondent to return to the researcher. The questionnaire was adapted from the Ugandan survey by Nanyondo (2017). The rationale for this was that the instrument had already been inspected and verified in published research. This is because Nanyondo (2017) investigated similar factors to this study and obtained relevant findings using this questionnaire. Even though the questionnaire was changed and adapted, questions were carefully chosen to ensure that their meanings were not altered. The questionnaire was primarily composed of five-point Likert scale questions, where 1 was strongly disagree (SD), 2 was disagree (D), 3 was not sure/ neutral (NS), 4 was agree (A), and 5 was strongly agree (SA).

Open-ended questions were used to some extent to generate additional points of interest, particularly regarding the degree of access to various forms of financial assistance. Zhou (2017) supports the use of a variety of questions. Hence, open-ended questions give respondents the freedom to respond in accordance with their opinions, whereas closed questions provide several alternative responses from which a respondent is instructed to select. However, respondents may respond more readily to closed-ended questions because they are perceived as less demanding.

3.6.2 Reasons for question choice

Section 1 of the questionnaire collected background information from the participants. This background information was considered important as its analysis ensures that the questionnaires were answered by the appropriate respondents, and it allows the responses from the respondents to be analysed in a more thorough manner as their responses can be linked back to their background information.

These questions were as follows

<u>Section 1: Background information</u>

1. Please select your type of business activity (optional)

Automotive☐
Building Products☐
Chemicals☐
Food & Beverages ☐
Furniture & Bedding☐
Packaging & Paper Converting☐
Plastics☐
Textile, Clothing, Footwear & Leather☐
Other retail☐

Please tick the box that best represents your response or clearly write your response in the provided space.

2. Which type of business entity below best describes the ownership of your enterprise?

Sole proprietor ownership ❒
Partnership ❒
Close corporation ❒
Private company ❒
Joint-venture ❒
Other (please specify)......................................

3. Where are you located?

Urban (a city area)❒
Semi urban (In between urban and rural area) ❒

4. Does your location affect your access to finance?

Yes ❒
No ❒

5. If your answer is yes to question 4 above, please give a reason below.

....

6. For how many years has your business been in operation?

<5 years❒
5 – 10 years❒
11 – 20 years❒
>20 years❒

7. How many full-time employees are employed in your business?
(Please select your best choice)

1 - 50□

51 - 200□

201 -500□

Other □

The first research question, what forms of finance are being used by SMEs, was addressed in Section 2 of the questionnaire. This question was considered important because it assisted in answering research question one of this study.

Several related questions were also asked in this section because they assisted in providing a richer analysis of the answers to this question. The question was structured in such a way that respondents could indicate whether they were aware of that form of finance, whether they considered that form of financing convenient, whether they had applied for that financing and finally, whether they had received that finance. Where necessary, a brief description or definition of each form of finance was given. These questions were as follows:

Section 2: Forms of finance

8. With respect to the financing structure of your firm, either formal or informal, please tick against each type of financing:

(a) Whether or not you are aware that of that form of financing,
(b) Whether or not you consider that financing option convenient,
(c) Whether or not you have applied for that financing, and
(d) If you applied, whether or not you received the financing.

Forms of financing		**Aware**		**Convenient**		**Applied**		**Received**	
	Formal	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
8.1	Bank overdraft								
8.2	Bank loan (excluding overdraft)								
8.3	Factoring (Invoice discounting)								
8.4	Leasing (an asset is still owned by the lessor)								
8.5	Hire-purchase (Customer owns the asset after the last instalment has been paid)								
8.6	Credit line or credit cards								
8.7	Debt securities issued								
8.8	Other loans (e.g., from a related company / business or shareholders excluding trade credit)								
8.9	Subordinated loans (debt which ranks after other debts if a company falls into liquidation or bankruptcy)								
8.10	Participation loans or similar financing instruments (fixed-income security that permits investors to buy portions of an outstanding loan or package of loans)								
8.11	Insurance								
	Other (specify)								
	Informal								
8.12	Loan from family								
8.13	Loan from friends								

Forms of financing		**Aware**		**Convenient**		**Applied**		**Received**	
8.14	Any other type of financing – please specify and tick where appropriate								
	Other (specify)								

9. Does your business have overdraft facilities?

Yes ❐
No ❐

10. If the answer is yes to question 9, please indicate where the business has a credit account under the following:

Bank ❐
Non-Bank financial intermediary ❐
Credit service bureau ❐
Others (please specify) ....

11. Does your business have a fixed deposit account?

Yes ❐
No ❐

12. Does the bank require a minimum balance before the issue of finance?

Yes ❐
No ❐

13. How much is required?

<10% of the loan amount ❐
11%-20% ❐
21- 30% ❐
31- 40% ❐
41% - 50% ❐
>51% ❐

14. What do you use finance for? (Please tick as many as are applicable)

Working capital (current assets, such as cash, accounts receivable, and inventories of raw materials and finished goods) ❐
Non-current assets (the purchase of assets used for longer than one year ❐
Leasing of assets (the asset is still owned by the lessor) ❐
Pay back other loans (paying back money previously borrowed from a lender)❐
Others (please specify) …………………

15. How do you keep your accounting records?

Manual ❒
Computerised (i.e., use accounting software) ❒
A combination of manual and computerised □

The second research question sought to ascertain which accounting framework was used by the SMEs. This question was considered important as using IFRS or *IFRS for SMEs* may be considered an indication of the quality of financial statements as opposed to the use of the cash basis which may supply less relevant information to the users.

16. What accounting framework does the business use?

International Financial Reporting Standards (IFRS) ❒
IFRS for SMEs ❒
South African Statements of General Accepted Accounting Practice (SA GAAP)❒
Cash basis ❒
Other□

17. If you answered the other, briefly describe how you record your accounting transactions in the space below.

To test the hypotheses, several statements were presented to the respondents which were used to test the hypotheses which were the focus of the third research question. These statements were presented in Section 3 of the questionnaire.

Section 3: Factors that affect the access to finance by SMEs.

18. Please state your opinion on the following statements by ticking the most appropriate response as follows where:

1. Strongly disagree (SD) 2. Disagree (D) 3. Not sure (NS) 4. Agree (A) 5. Strongly agree (SA)

	Statements	SD	D	NS	A	SA
18.	**Lending rates**					
18.1	The interest rate charged on finance is too high for this enterprise to afford bank finance	1	2	3	4	5
18.2	The fees involved in the application process are too high	1	2	3	4	5
18.3	The conditions of loan maturity are unfavourable	1	2	3	4	5
18.4	The value of collateral requested by the bank is too high	1	2	3	4	5
18.5	The loan insurance amounts are too high	1	2	3	4	5
	Transaction costs					
18.6	Non-interest-rate related conditions of the loan are inacceptable (e.g. maturity, covenants, etc.)	1	2	3	4	5
18.7	The debt/turnover ratio of my business is too high to qualify for a loan	1	2	3	4	5
18.8	Low loan amounts tend to increase cost of loan administration	1	2	3	4	5
18.9	This enterprise has a separate arrangement of credit to suit its needs	1	2	3	4	5
18.10	This enterprise lacks assets to meet collateral requirements	1	2	3	4	5
	Firm age					
18.11	The longer we stay in operation, the easier it is to get finance	1	2	3	4	5
18.12	Firm age matters if the SME qualifies to get finance	1	2	3	4	5
18.13	Financiers prefer SMEs that have been in operation for more than one year	1	2	3	4	5
18.14	Finance is issued to those SMEs that have been in operation for more than five years	1	2	3	4	5
	Firm size					
18.15	The bigger the size of the firm, the easier it is to get finance	1	2	3	4	5
18.16	Firm size matters if the SME qualifies to get finance	1	2	3	4	5
18.17	Finance is issued to those SMEs which are large sized firms	1	2	3	4	5
	Financial transparency					
18.18	Transparency and disclosure are important in access to finance	1	2	3	4	5
18.19	Use of IFRS or *IFRS for SMEs* to prepare financial statements increases the chances of acquiring finance	1	2	3	4	5
18.20	Audited financial records help makes access to finance easier	1	2	3	4	5
18.21	Transparency and disclosure do matter if other requirements are met	1	2	3	4	5
	Collateral					
18.22	Collateral or guarantees are key to obtain credit	1	2	3	4	5
18.23	The value of collateral determines the value of the credit amount	1	2	3	4	5
18.24	No collateral means that no credit is granted	1	2	3	4	5
18.25	Collateral matters if other requirements are met	1	2	3	4	5

The questionnaire concluded with several open questions to allow respondents to give unrestricted responses about their views on access to finance. These asked the respondents to add any comments which they thought are relevant to the access of finance and whether they could make any suggestions which could help improve SMEs' access to finance.

A question on the factors to improve the access of finance by SMEs addressed the final research objective for this study. The existence of this research objective was mainly because there seems to be a gap in knowledge of factors that affect the access of finance for SMEs. Therefore, the following factors were suggested to improve the access of finance amongst the SMEs. Respondents were asked to please tick as many as are applicable.

19. Factors to improve access to finance

An improvement in financial statement quality□

A firm which has a longer trading history□

A firm which shows growth to become bigger in size□

The possession of collateral□

A lower effective lending rate (i.e., borrowing rate) □

Lower transactional costs □

Other (Please specify)__________________________

Respondents could then add any other comments relevant to the study.

Please add any comments you would like to make which you think are relevant to the access of finance:

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

What suggestions can you make which could help improve SMEs' access to finance.

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

Thank you very much for your time. Your responses are valued.

The entire questionnaire is shown in Appendix A

3.6.3 COVERING LETTER

Every potential participant who clicked the link and accessed the survey received an electronic copy of a covering letter. Each questionnaire included a space for the participants to sign, attesting to the voluntariness of their participation. The primary justification for using a covering letter, according to Oldendick (2012), is to remind participants that because they must provide truthful and accurate responses to achieve the objectives of the study, and that taking part in the study would not result any physical or psychological harm to the respondents. This covering letter:

- guaranteed the participants' privacy,
- guaranteed the subjects that the information gathered from their answers would only be used to further the objectives of this study,
- notified the participants that their involvement in the study would not result in any financial reward,
- informed the participants that taking part in the study would not result in any harm, and
- acquired the participants' permission to take part in the study.

The covering letter also included:

- the title of the research study,
- the name of the principal researcher,
- the names of the supervisors,
- a summary and reason for the study,
- the method and
- the people to get in touch within the event of any problems or questions.

This covering letter is shown in Appendix B.

3.6.4 PRE-TESTING

When doing a study, pre-testing is performed to look for any flaws in the research instrument (Ghazi, Petersen and Reddy 2018). Pre-testing the questionnaire served the purposes of evaluating the chosen research design, procedure, and measurement devices as well as supplying the necessary data for the study. Pre-testing would help improve the study's validity and reliability. The following persons pre-tested the questionnaire:

- five financial accounting lecturers located in the Department of Financial Accounting at the Durban University of Technology who were familiar with the research, research area and who were experienced in questionnaire design,
- two accountants who work for the eThekwini Municipality's finance division., and
- three financial advisors situated in Verulam CBD.

These people were approached individually for feedback since they each possessed the appropriate qualifications to offer insight on the questionnaire by offering criticisms of both the wording and the structure of the survey. According to the feedback, neither the questions nor the explanations were ambiguous, imprecise, or hard to grasp. Nevertheless, a few modifications were made in response to their comments.

3.7 Procedure for data collection or distribution of questionnaires

In order to gather data via a survey, the following steps had to be taken: (1) notifying the respondents about the study; (2) explaining the surveys to the respondents; and (3) administering the questionnaires (Kim, Lee and Gweon 2019). The email from the DCCI to the participants had attached to it a link to the electronic questionnaire using the QuestionPro® application tool, together with a letter of consent to conduct the study. QuestionPro® is a web-based software used to administer online surveys (Rea, Marshall and Farrell 2022). The rationale for adopting QuestionPro® to collect data for this study was informed by the need to comply with the social distance policy regulations of the South African Government for COVID-19. In addition, QuestionPro® provides an intuitive wizard interface for creating survey questions, tools for distributing the survey using emails or website, and tools for analysing and inspecting questionnaire results (Rea, Marshall and Farrell 2022).

Due to the COVID 19 regulations, participants were given approximately three months to complete the questionnaire. The DCCI sent out the link once to the SMEs and collection of survey results in eThekwini started on 24 August 2021 and ended on 4 October 2021.

The next section discusses the response rate.

3.8 The response rate

The questionnaire was sent through the DCCI via email to all respondents. The number of recipients was unknown as the email was sent to all SMEs on the DCCI database and due to the POPI Act 2013, the DCCI did not supply this information. However, 253 questionnaires were considered usable. This represents 23.32% response rate based on the projected population.

Table 3.1: Response rate

	Projected population	Questionnaire returned	Response rate (%)
SMEs	1 087	253	23.28%

Note: 1 087 is a projected number of SMEs which may have been registered with the DCCI in 2021 when the study was conducted.

This response rate was considered acceptable as the analysis of the background information shown in Chapter 4 indicates that there was no significant bias in the respondents' background information which may make an SME with certain characteristics dominate the findings.

3.9 Data analysis and interpretation

Kent (2020) explains that summarising gathered data from diverse sources to answer the study's goals is the process of data analysis. This section discusses how the data was prepared, processed and analysed.

3.9.1 Data preparation

The following steps were used to prepare the data.

Step 1 involved carefully checking the data gathered from the questionnaires to make sure there were no errors or omissions. The second step included categorising the questions' answers into numbers. Step 3 involved categorising or gathering the data into characteristics that are comparable or the same. However, since there were no differing qualities within the data collected, this last step was not vital. The raw data needed to be organised into a manageable form in step 4 to facilitate further analysis. Step 5 included presenting the data in tables to aid the analysis of the results.

3.9.2 Data processing

The data for this study was first downloaded into EXCEL from QuestionPro® and thereafter imported into the latest version of Statistical Package for Social Sciences (SPSS) version 26. The analysis of the questionnaires was then carried out by a statistician who was proficient in using SPSS. The research questions were also discussed with the statistician to ensure that the statistics to be computed met the objectives of this study.

3.9.3 Statistical presentation and analysis of the data

The decision on the choice of the statistics conducted to achieve each of the objectives for this study was informed by the nature of the objectives. In other words, while some objectives can best be achieved using simple descriptive statistics, others are best achieved using inferential statistics. To meet objectives 1 and 2 of this study, descriptive statistics were used, while inferential statistics were used to achieve objective 3. Descriptive statistics included the measures of central tendency (i.e., means, medians, modes, and standard deviations).

The data was also analysed and cross-tabulated according to the background information of the respondents.

Inferential statistics (regression analysis) were used for the hypotheses testing. Prior to conducting the regression analysis, correlation analysis was conducted. The Pearson product-moment correlation coefficient is a degree of the quality of a straight association between two factors and is indicated by r. Essentially, a Pearson product-moment correlation endeavours to draw a line of best fit through the data of two factors, and the Pearson relationship coefficient, shows how distant all these data points are to this line of best fit (Puth 2014).

3.10 Validity

The validity of an assessment is the extent to which the assessment measures what it claims to measure (Raghavan 2020). Coleman (2022) explains that validity shows the exactness of data collected, while reliability guarantees the consistency of the data that is collected. To meet validity and reliability criteria, this study used pretesting to ensure that the questionnaire was reliable and would validate the trustworthiness of the study.

According to Taherdoost (2016b), there are four types of validity, namely, face validity, content validity, construct validity and criterion validity.

3.10.1 Face validity

Face validity, also known as consistent validity, is a type of validity in which a cursory and arbitrary assessment of whether a study or test measures what it is intended to measure is made (Guest, MacQueen and Namey 2012). In this study it would be SMEs' points of view on their access to finance. Pretesting the questionnaire ensured that it measured the degree of access to finance that SMEs in eThekwini had, as well as that the participants would grasp what was expected of them.

3.10.2 Content validity

Content validity is the extent to which a concept is precisely measured in a quantitative study (Surucu 2020). The degree to which the measurement instrument's components accurately depicted or characterised how "the quality of financial statements and firm characteristics" affected SMEs' access to financing in eThekwini addressed content validity. The topics and variables included in the questionnaire for this study were taken from a report on how small and medium-sized businesses can receive financing (Nanyondo 2017). By doing this, content validity was addressed. The survey's content validity was also assessed during the pre-testing phase and survey preparation.

3.10.3 Construct validity

The term "construct validity" refers to whether the results of a test or instrument actually reflect the specific dimension (construct) that was intended to be measured (Clark and Watson 2016). All the questions in the questionnaire measured variables that could affect SMEs' ability to obtain financing. Moreover, the components of the questionnaire were similar to questions used by previous studies (Nanyondo 2017) as discussed in the literature review.

3.10.4 Criterion validity

According to Credé, Tynan and Harms (2017), criterion validity portrays how well scores on one measure (i.e., a predictor) foresees scores on another measure of interest (i.e., the criterion). The questionnaire in this study used measures relating to the impact of financial statements and firm characteristics on access to finance by SMEs. These measures were also used by Nanyondo (2017).

External validity and internal validity are the two additional categories under which validity is divided. These are clarified below.

3.10.5 External validity

External validity is the degree to which the findings of a study are generalisable to other circumstances, individuals, settings, and measures (List 2020). According to Morse (2015), findings are externally invalid in the case where they cannot be connected somewhere else other than where the study was conducted. The study's generalisability is a matter of external validity (Murad, Katabi and Benkhadra 2018). This could be done by extrapolating the findings from the sample population to people or situations in other places or periods of time. The findings might be extended to other SMEs in South African municipalities that are like one another because SMEs in municipalities are managed and operate under the same frameworks and laws.

3.10.6 Internal validity

Internal validity is the degree to which the observed results represent the truth within the population being examined and, in this way, are not due to methodological errors (Mohajan 2017). There can be factors inside the study itself that invalidate the results. These factors could include errors in translations used to support the study's plan or the use of the incorrect data gathering tool (Felix and Lee 2017). Causal relationships are important to internal validity (Park, Konge and Artino 2020). Internal validity was guaranteed by pre-testing. Each question was justified and written in a language that all participants could understand. Furthermore, the questionnaire's instructions were straightforward and simple.

3.13 Reliability

Reliability is the extent to which the results of this study remain the same if the study is replicated within a short period of time (Bian and Li 2011). The pre-testing of the questionnaire by subject matter experts and people with questionnaire design experience was done at the time the questionnaire was produced to ensure the reliability of the study's findings. Although the questionnaire was largely based on a questionnaire used by Nanyondo (2017), to make sure that the respondents understood the questions inside the instrument, it was nonetheless pretested (described in section 3.6.4 on page 53). The respondents' anonymity was ensured to guarantee that their responses were truthful and honest. The questionnaire was structured in such a way to ensure that the questions were not vague. Consequently, no such errors were anticipated. The concepts in the questionnaire were also explained. Furthermore, all conceivable choices were given within the instrument in which the questions were presented in a logical arrangement.

Cronbach's alpha coefficient was also calculated to assess the reliability of three variables in Objective 3 to assess scale reliability. The three factors are corporate characteristics, availability to financing, and the caliber of financial statements. Table 3.2 lists the results of the reliability test.

Table 3.2: Reliability statistics

Scale	**Cronbach's alpha**	**Items**
Financial Statement Quality	.954	1
Firm Characteristics	.973	5
Access to Finance	.945	3

Note: The alpha value represents an average of the various items which made up each of the firm characteristics.

As shown in Table 3.2, the scale for the three variables is reliable as the Cronbach's alpha is above to the threshold of 0.7. A Cronbach's alpha is considered reliable if it equals to or is above 0.7 (Hajjar 2018).

3.14 Ethical clearance

Ethical clearance was obtained from the Faculty Research Ethics Committee (FREC) and all ethical protocols at Durban University of Technology were followed. No mention of the participants' specific information is made in the analysis that follows to protect their privacy.

3.15 Summary

The research technique and design were covered in this chapter. The reason for the selected methods used to ascertain whether there is a relationship between firm characteristics and financial statement quality and SMEs' access to financing in eThekwini was presented. The research paradigm was a positive approach. Considering that this research used a quantitative method and that the research instrument gave respondents a limited number of opportunities to express their ideas in an unstructured fashion, an explanation of the positivist methodology was a major component of the research paradigm discussion. A questionnaire that mostly contained closed-ended questions and two open-ended ones served as the study tool. The sampling technique was non-probability convenience sampling, as the sample was taken from an easily contactable or convenient group of SMEs through the DCCI. The obtained response rate was 23.28%. Both descriptive and inferential statistics were used in the analysis and interpretation of the data.

The following chapter presents and discusses the results of this study.

CHAPTER 4

Presentation and discussion of the results

4.1 Introduction

Chapter 3 focused on the research methodology utilised in this current study. This chapter presents and discusses the findings based on the quantitative data collected from the survey respondents. The primary goal of this study was to examine the effects of financial statement quality and firm characteristics on SMEs' access to financing in eThekwini with the goal of offering suggestions to increase SMEs' access to financing.

Numerous empirical studies such as those by Musara (2019), Msomi and Olarewaju (2021) and Motta (2020) have been conducted to investigate access to finance by SMEs. Nevertheless, there are still gaps in the literature. The results of the current study are contrasted with those of the studies discussed in Chapter 2. The objectives of the study are addressed in this chapter through an analysis of the respondents' answers.

To recap, the research questions are as follows:

1. What forms of finance are being used by SMEs?
2. What accounting frameworks are being used by SMEs?
3. Does financial statement quality and firm characteristics affect access to finance by SMEs in eThekwini?

The background information on the respondents is presented next.

4.2 Demographic analysis of the survey respondents

The survey questionnaire was designed to elicit six categories of demographic information from the target population. These included the business activity, business ownership, business location, access to finance, years of business operation and number of employees. The respondents' demographic information is analysed and discussed in the sub-sections below.

4.2.1 Background information

Table 4.1 presents the percentage distribution of the respondents based on their business activities.

Table 4.1: Business activity of respondents		
Business activities	**Number**	**Percentage**
Automotive	22	7.50
Building products	48	16.40
Chemicals	15	5.10
Food & beverages	70	24.10
Furniture & bedding	39	13.40
Packaging & converting	31	10.60
Plastics	27	9.20
Textile, clothing, footwear & leather	34	11.60
Other retail	6	2.10
Total	**292**	**100.00**

Table 4.1 shows that most of the respondents (24.10%) were in the food and beverages sector followed by building products (16.40%) and then furniture and bedding (13.40%). The data also shows that no one sector is likely to dominate the findings because the SMEs are spread-out over the above-mentioned business activities. Olufunso (2010) found that small manufacturing firms are often in food and beverage processing. Uzoma (2020) concluded that SMEs in the food and beverages sector are effectively start-up businesses. Thus, entrepreneurial intention is mainly found in food and beverages' businesses and significant to their business success are factors such as intermediaries, sales volume, and customer retention (Uzoma 2020).

Table 4.2 presents the percentage distribution of respondents based on business ownership.

Table 4.2: Business ownership		
Types of businesses	**Number**	**Percentage**
Sole proprietor	78	26.70
Partnership	130	44.50
Close corporation	45	15.50
Private company	39	13.30
Total	**292**	**100.00**

Table 4.2 shows that most of the respondents (44.50%) were in partnerships followed by sole proprietors (26.70%) and then by close corporations (15.50%). It is possible that partnerships are likely to dominate the findings. Beck and Cull (2014) revealed that sole proprietorships and partnerships are less likely to have formal credit. Additionally, it may be more challenging for less complex organisational structures like partnerships and sole proprietorships to establish credit histories and collateral that would enable them to borrow money from outside sources. as their accounting practices are not regulated by law, nor do their financial statements require auditing. This could prove to be detrimental to them when attempting to access finance.

Table 4.3 presents the percentage distribution of respondents based on business location.

Table 4.3: Business location		
	Number	**Percentage**
Urban	137	47.10
Semi-urban	154	52.90
Total	**291**	**100.00**
Only 291 respondents answered this question.		

Table 4.3 shows that most of the respondents (52.90%) were in a semi-urban location. Because the spread of SMEs in either an urban or a semi-urban location is almost the same, the location of the business is not expected to dominate the findings. Osano and Languitone (2016) revealed that, for financial institutions to evaluate the potential risks associated with SMEs applying for bank financing, they require information regarding the location and market sector of the SMEs' operations. This suggests that SMEs' access to financing may be affected by location. Kira and He (2012) concluded that the location of the SME and SMEs' access to financing are

interdependent and crucially linked. As a result, businesses in urban areas may have a better chance of successfully obtaining financing than those in rural areas.

Respondents were asked whether they had accessed finance. Table 4.4 presents the percentage distribution of respondents based on access to finance.

Table 4.4: Access to finance		
	Number	**Percentage**
Yes	160	54.80
No	132	45.20
Total	**292**	**100.00**

Table 4.4 shows that most of the respondents (54.80%) have accessed finance. It is therefore unlikely that respondents who did not access finance would dominate the findings**.** According to Fatoki and Odeyemi (2010), 27% of SMEs were able to get a loan in South Africa, and 73% could not get a loan even though they had applied for a loan. Therefore, this study's results are different to Fatoki and Odeyemi (2010), as most SMEs in this current study have access to finance at 54.8%. Nonyando (2017) also found that debt finance access averaged 78%, with most SMEs having access to finance.

Table 4.5 presents the percentage distribution of respondents based on years of business operations.

Table 4.5: Years of business operations		
	Number	**Percentage**
Less than 5 years	60	20.70
5 – 10 years	65	22.40
11 – 20 years	162	55.90
Over 20 years	3	1.00
Total	**290**	**100.00**

Table 4.5 shows that most of the respondents (55.90%) had been in business for between 11 – 20 years followed by those who had been in business for 5 – 10 years (22.40%). This may mean that respondents with 11 – 20 years of business experience may dominate the findings. The

data also shows that many other years of business operation were presented and that 20.70% of the SMEs had been in business for less than 5 years. These SMEs may find it difficult to access finance as they are less likely to have a history of profitability which they could use when approaching lenders for finance. Jensen and Smith (2000) suggest that as companies grow older, access to finance may become easier. Fowowe (2017) confirmed that, according to the theory of firm selection, access to finance may be influenced by the history built by a firm.

Table 4.6 presents the percentage distribution of the respondents based on the number of employees.

Table 4.6: Number of employees

	Number	**Percentage**
50 and below	120	41.10
51 – 200	170	58.30
201 – 500	1	0.30
Above 500	1	0.30
Total	**292**	**100.00**

Table 4.6 shows that most of the respondents (58.30%) had between 51-200 employees followed by SMEs with employee numbers of 50 and below (41.10%). In this current study, SMEs have mainly less than 200 employees and any difference in the number of employees is unlikely to dominate the findings**.** Mohamed et al. (2020) noted that companies with a PI score of <100 may use an accounting framework of their choice. As each employee would count for one point, many of these SMEs would have a PI score > 100 and therefore cannot use an accounting framework of their choice, and if they are a company or a CC, would have to use IFRS or *IFRS for SMEs* depending on their PI score (and considering whether their financial statements are internally or externally compiled).

To summarise this section on background information, the average SME in this study has the following background characteristics. The SMEs operate in several business sectors with food and beverages, building and furniture and bedding dominating. Most SMEs are operating as partnerships in a semi-urban location. Most have had access to finance and have been in business for between 11 – 20 years and have less than 200 employees. Although no questions were asked concerning turnover or the value of their fixed assets, the respondents could all be classified as SMEs except for two respondents as one respondent has more than 500 employees and another had between 201 and 500 employees. Both these two respondents are included in the analysis which follows.

4.3 Forms of financing

The questionnaire then focused on the first research question (what forms of finance are being used by SMEs?). Respondents were inquired if they were aware of the various funding options, the convenience of the different forms of financing, whether they had applied for financing and whether they had received financing for each of these different forms. These results are presented in Tables 4.7 to 4.11. Several cross-tabulations are also presented in this section using the background characteristics of the respondents (Tables 4.12 to 4.17). This was deemed necessary to provide a deeper understanding of SMEs and their forms of finance. In addition, the questionnaire probed some related areas on financing. These results are presented in Table 4.18.

4.3.1 Rate of awareness

The awareness of the forms of financing is given in Table 4.7.

Table 4.7: Awareness of forms of financing

Forms of financing	Awareness					
Formal	**Number**	**Mean**	**Rate of awareness %**	**SD**	**Skew**	**Kurt**
Bank overdraft	253	0.96	**96.40**	0.186	-5.045	23.636
Bank loan (excluding overdraft)	251	0.90	**89.60**	0.305	-2.617	4.890
Factoring (Invoice discounting)	244	0.91	**90.60**	0.293	-2.794	5.857
Leasing (an asset is still owned by the lessor)	247	0.83	**83.40**	0.373	-1.806	1.273
Hire-purchase (Customer owns the asset after the last instalment has been paid)	245	0.75	**74.70**	0.436	-1.143	-0.699
Credit line or credit cards	248	0.83	**83.10**	0.376	-1.774	1.156
Debt securities issued	249	0.41	**41.00**	0.493	0.370	-1.878

Table 4.7: Awareness of forms of financing						
Forms of financing	Awareness					
Other loans (e.g., from a related company / business or shareholders excluding trade credit)	249	0.27	**26.50**	0.442	1.071	-0.860
Subordinated loans (debt which ranks after other debts if a company falls into liquidation or bankruptcy)	247	0.22	**22.30**	0.417	1.341	-0.203
Participation loans or similar financing instruments (fixed-income security that permits investors to buy portions of an outstanding loan or package of loans)	241	0.15	**14.50**	0.353	2.026	2.124
Insurance	243	0.90	**89.70**	0.304	-2.631	4.961
Informal						
Loan from family	246	0.97	**96.70**	0.178	-5.303	26.340
Loan from friends	242	0.97	**96.70**	0.179	-5.256	25.840
Notes: Not all 292 respondents provided responses. To calculate the mean, a score of 1 was assigned if the respondent indicated awareness of the form of finance, and 0 if the respondent was not aware of the form of finance. The rate of awareness % is calculated as the score mean of those respondents and shown as a percentage.						

With regards to the awareness of formal forms of financing, the results in Table 4.7 indicate that the respondents are mostly aware of the bank overdraft (96.40%). This is followed by factoring (invoice discounting) (90.60%), insurance (89.70%), bank loans (89.60%), leasing (83.40%), credit line or credit cards (83.10%), and hire purchase (74.70%). There was little awareness of the other formal forms of financing.

In relation to informal forms of financing, the respondents were aware of loans from family and loans from friends, both at 96.70%. These results were expected because Erdis (2015) concluded that family and friends are the backbone of South African SMEs. Nanyondo (2017) also concluded that, from an alternative finance perspective, 68.49% of SMEs obtain financing from family and friends.

4.3.2 The level of convenience of the forms of financing

The level of convenience of the forms of financing is given in Table 4.8.

Table 4.8: The level of convenience of forms of financing						
Forms of finance	Convenient					
Formal	**Number**	**Mean**	**Level of convenience %**	**SD**	**Skew**	**Kurt**
Bank overdraft	248	0.22	**21.80**	0.414	1.376	0.107
Bank loan	242	0.03	**3.30**	0.179	5.256	25.840
Factoring	237	0.17	**17.30**	0.379	1.740	1.037
Leasing	244	0.05	**5.30**	0.225	4.003	14.138
Hire-purchase	244	0.02	**2.50**	0.155	6.177	36.459
Credit line or credit cards	245	0.13	**13.50**	0.342	2.153	2.658
Debt securities issued	246	0.00	**0.40**	0.064	15.684	246.000
Other loans	244	0.02	**1.60**	0.127	7.664	57.207
Subordinated loans	242	0.01	**0.80**	0.091	10.931	118.467
Participation loans or similar financing instruments	239	0.01	**1.30**	0.112	8.812	76.291
Insurance	246	0.05	**3.50**	0.224	4.022	14.292
Informal						
Loan from family	244	0.84	**84.40**	0.363	-1.911	1.664
Loan from friends	243	0.83	**82.70**	0.379	-1.741	1.041

Notes:
Not all 292 respondents provided responses.
To calculate the mean, a score of 1 was assigned if the respondent indicated the form of finance was convenient, and 0 if the respondent did not indicate the form of finance was convenient.
The level of convenience % is calculated as the mean score of the respondents and shown as a percentage.

In terms of the formal forms of financing, the results in Table 4.8 indicate that the respondents rated the convenience of a bank overdraft the highest of all the formal forms of finance at 21.80%. This shows that, on average, only some of the SMEs thought it was convenient to access a bank overdraft. Most of the other forms of finance has even lower levels of convenience assigned to them by the respondents. These results indicate that SMEs still see accessing formal finance as inconvenient.

In relation to informal forms of finance, the analysis indicates that the respondents rated the convenience of loans from family and loans from friends at the levels of 84.40% and 82.70%, respectively. These results reveal that SMEs depend on family and friends to finance their businesses. Nanyondo's (2017) study in Uganda concluded that SMEs have 68.493% access to debt funding from friends and family.

4.3.3 Applied and received finance

Table 4.9: shows whether the respondents had applied for finance and whether they had received the finance.

Table 4.9: The extent of access to finance

	Number	Mean Applied	SD	Skew	Kurt	Mean received	Level of received %	SD	Skew	Kurt
Formal										
Bank overdraft	247	0.80	0.400	-1.522	0.319	0.26	**25.90**	0.439	1.106	-0.784
Bank loan	245	0.67	0.471	-0.725	-1.487	0.04	**4.10**	0.199	4.649	19.772
Factoring	238	0.74	0.442	-1.073	-0.855	0.19	**19.40**	0.396	1.557	0.427
Leasing	243	0.60	0.492	-0.397	-1.858	0.08	**7.90**	0.271	3.137	7.906
Hire-purchase	246	0.50	0.501	0.000	-2.016	0.03	**3.30**	0.178	5.280	26.090
Credit line or credit cards	245	0.60	0.490	-0.428	-1.832	0.14	**13.60**	0.343	2.139	2.599
Debt securities issued	245	0.20	0.401	1.509	0.280	0.02	**2.00**	0.142	6.811	44.757
Other loans	243	0.12	0.325	2.363	3.613	0.01	**1.20**	0.110	8.906	77.959
Subordinated loans	244	0.08	0.275	3.067	7.466	0.01	**0.80**	0.091	10.954	118.967
Participation loans or similar financing instruments	241	0.03	0.168	5.644	30.104	0.01	**0.80**	0.091	10.839	116.466
Insurance	245	0.72	0.449	-1.000	-1.009	0.10	**9.90**	0.299	2.706	5.369
Informal										
Loan from family	245	0.91	0.286	-2.887	6.389	0.86	**86.40**	0.343	-2.139	2.599
Loan from friends	243	0.76	0.427	-1.234	-0.482	0.74	**73.60**	0.442	-1.075	-0.852
						Total	**248.90**			

Notes:
Not all 292 respondents provided responses.
To calculate the mean for applied, a score of 1 was assigned if the respondent indicated the form of finance had been applied for, and 0 if the respondent had not applied for that form of finance. A similar calculation was used for the calculation of the mean for received.
The calculation of the average extent of access to finance is the total of the level of received column (248.9) divided by the different types of finance (13) = 19.1%

The analysis in Table 4.9 indicates that, in terms of formal finance, only 25.90% of the respondents who applied for a bank overdraft received it. There was some support for receiving financing from factoring (19.40%), but the other forms of finance were, on average, only accessed by a minority of the respondents.

In terms of forms of informal finance, SMEs' access to finance from family was at 86.40% and friends at 73.60% respectively. In conclusion, loans from family or friends were the most common source of financing for SMEs, followed by bank overdrafts (invoice discounting) at 25.90% and factoring (loans from family or friends) at 19.40%. These results corroborate prior literature (Osano and Languitone 2016) which demonstrated that SME startups are funded mostly by the owners' personal funds, friends, and families. If investors will not initially fund projects unless the SME has a history of profitability, this can also help to explain the findings. As a result, given that MFIs want to finance start-ups, some SMEs may choose to borrow from them. However, it is more expensive for SMEs to obtain these funds due to the high effective loan rates that MFIs charge (Thela 2012). In addition, Mbatha (2012) contended that there are more rewards than risks for suppling reserve factoring in South Africa from the viewpoint of SMEs.

Table 4.10 shows the findings about the extent of access to finance (Applied and received).

Table 4.10: The extent of access to finance (Applied and received)

Forms of financing	Applied and received					
Formal	**Number**	**Mean**	**Extent applied and received%**	**SD**	**Skew**	**Kurt**
Bank overdraft	195	0.31	**30.80**	0.463	0.840	-1.308
Bank loan	164	0.06	**6.10**	0.240	3.703	11.860
Factoring	175	0.26	**26.30**	0.441	1.087	-0.828
Leasing	145	0.12	**12.40**	0.331	2.304	3.353
Hire-purchase	123	0.07	**6.50**	0.248	3.571	10.932
Credit line or credit cards	148	0.22	**22.30**	0.418	1.345	-0.194
Debt securities issued	49	0.08	**8.20**	0.277	3.153	8.280
Other loans	29	0.10	**10.30**	0.310	2.748	5.961
Subordinated loans	20	0.05	**5.00**	0.224	4.472	20.000

Table 4.10: The extent of access to finance (Applied and received)						
Forms of financing	Applied and received					
Formal	**Number**	**Mean**	**Extent applied and received%**	**SD**	**Skew**	**Kurt**
Participation loans or similar financing instruments	7	0.14	**14.53**	0.378	2.646	7.000
Insurance	177	0.14	**13.60**	0.343	2.147	2.640
Informal						
Loan from family	219	0.94	**94.10**	0.237	-3.755	12.214
Loan from friends	184	0.96	**96.20**	0.192	-4.869	21.950
Notes: Not all 292 respondents provided responses. To calculate the extent applied and extent received, a score of 1 was assigned if the respondent indicated the form of finance had been applied for and received, and 0 if the respondent had not applied for nor received that form of finance.						

Table 4.10 shows that SMEs mostly use bank overdrafts to get formal financing, at a rate of 30.80%. Greater availability of overdrafts from banks amongst SMEs in South Africa might be explained through the reality that bank overdrafts depend on an agreement with the bank, are easier to apply for, ensure funds are obtainable for crisis financial requirements, and enable for numerous repayment schedules to be created (Jenik, Lyman and Nava 2017).

Miljak (2014) revealed that bank overdrafts provide better financial flexibility by enabling business owners to finance urgent needs by spending more than the account is approved for. The loan application process is made more flexible by South African bank overdrafts in this way. Most SMEs usually take advantage of the terms connected with bank overdraft capabilities. For instance, for short-term financing, a rate of 4.75 percent and a credit term of up to 12 months are far preferable; an account deposit serves as the method of reimbursement; additionally, interest is assessed on the declining balance and is connected to the prime lending rate of the bank. (Agu and Okoli 2013). In addition, once commitments are adhered to in a timely manner, overdrafts are straightforward to set up and don't have value-based costs or other hidden costs. Nanyondo (2017) concluded that the overdraft facility had the highest percentage of access to formal finance (60.87%) in Uganda, making it the most popular type of financing.

The results indicate that factoring, which was utilised by SMEs at a rate of 26.30%, is the second most popular source of financing. Thus, factoring is yet another method that SMEs can use to keep their businesses growing.

Nanyondo (2017) found under the RA method that SMEs have an average of 72% access to debt lending. This current study, which uses ARA method to measure access to finance, found that SMEs only have 6.10% access to bank loans. Fatoki and Odeyemi (2010b) showed that only 2% of South African SMEs have access to bank credit.

Subordinated loans were the least known form of financing and had been used by 5% of the SMEs. This is hardly surprising given that equity loans and subordinated loans are offered to businesses with strong development potential, stable cash flows, and expectations of strong performance within a year (Casey and O'Toole 2014). However, if they have not estimated their income for more than a year and have not established regular funding activities for the influx of economic income, South African SMEs are not eligible for subordinated loans (Sekhametsi 2017).

Regarding informal finance, this study shows that family and friends are an important source of finance for South African SMEs. Erdis (2015) concluded that SMEs in South Africa are supported by friends and family.

The results indicated that some SMEs had received finance without making any application, for example, a bank may allow a customer credit facility without the customer making a formal application. These results are shown in Table 4.11.

Table 4.11: The extent of access to finance (Received without application)						
Forms of financing	Received without application					
Formal	**Number**	**Mean**	**Extent received%**	**SD**	**Skew**	**Kurt**
Bank overdraft	47	0.04	**4.3**	0.204	4.683	20.819
Informal						
Loan from family	22	0.09	**9.1**	0.294	3.059	8.085
Notes: Not all 292 respondents provided responses. To calculate the extent received, a score of 1 was assigned if the respondent indicated the form of finance had been received without application, and 0 if the respondent had applied for nor received that form of finance.						

Table 4.11 shows that these situations were in the minority with very few SMEs indicating that they had received finance without making an application for that finance.

The analysis up to this point has focused on the respondents' experiences with finance (i.e., aware, convenient, applied and received). The analysis has also allowed the overall percentage score relating to the ARA to be calculated at 19.1%. This percentage is used in the analysis for research question three. To provide more information about the various sources of finance used in the questionnaire, several crosstabulations were calculated using the background characteristics of the respondents. The first crosstabulation was in respect of whether the applicants had applied for a bank overdraft and the background characteristics. Only the most important crosstabulations are shown in Table 4.12.

Table 4.12: Overdraft applied for and background characteristics								
	Overdraft applied for							
	Yes		No		Total			
Business ownership	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Applied**	**%**
Sole proprietor	38	15.08	10	35.71	48	17.14	38/48	79
Partnership	126	50.00	15	53.57	141	50.36	126/141	89
Close corporation	49	19.44	3	10.71	52	18.57	49/52	94
Private company	39	15.48	0	0	39	13.93	39/39	100
Total	**252**	**100.00**	**28**	**100.00**	**280**	**100.00**		
	Overdraft applied for							
	Yes		No		Total			
Location	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Applied**	**%**
Urban	95	37.85	11	39.29	106	37.99	95/106	90
Semi-urban	154	61.35	17	60.71	171	61.29	154/171	90
Rural area	2	0.80	0	0	2	0.72	2/2	100
Total	**251**	**100.00**	**28**	**100.00**	**279**	**100.00**		
	Overdraft applied for							
	Yes		No		Total			
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Applied**	**%**
Less than 5 years	23	9.30	10	35.71	33	11.87	23/33	70
5 - 10 years	71	28.40	11	39.29	82	29.50	71/82	87
11 - 20 years	153	61.20	7	25	160	57.55	153/160	96
Over 20 years	3	1.20	0	0	3	1.08	3/3	100
	250	**100.00**	**28**	**100.00**	**278**	**100.00**		
	Overdraft applied for							
	Yes		No		Total			
Number of employees	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Applied**	**%**
1 – 50	135	53.57	15	53.57	150	53.57	135/150	90
51 – 200	115	45.63	13	46.43	128	45.71	115/128	90
201 – 500	1	0.40	0	0	1	0.36	1/1	100
> 500	1	0.40	0	0	1	0.36	1/1	100
Total	**252**	**100.00**	**28**	**100.00**	**280**	**100.00**		
Note: Not all 292 respondents provided responses.								

Table 4.12 shows that with respect to applying for an overdraft, most SMEs, regardless of their background characteristics, have applied for a bank overdraft. However, the more formal entity forms, companies, and close corporations, have applied for an overdraft at application rates of 100% and 94% respectively. These application rates are higher than for less formal entity forms

(partnerships and sole proprietors). This is possibly due to these less formal entity forms not having a legal or tax status and therefore, possibly less likely to meet the banks' criteria for an overdraft. The application rates were the same for entities when sorted on a location basis, as both were at 90%. When the data was sorted according to length of business operations, it shows that businesses that have been in operation longer are more likely to apply for a bank overdraft. Possibly businesses which have been operating for shorter periods of time do not have the necessary financial history to prove to the bank that they will be capable of meeting interest and repayment conditions. When examining the data according to the number of employees, it also shows that bigger entities (based on employee numbers) are more likely to apply for a bank overdraft. However, the number of large entities based on employee numbers is too low to make any valid commentary.

The crosstabulations between the overdraft received and the background characteristics are shown in Table 4.13.

Table 4.13: Overdraft received and background characteristics

	Overdraft received							
	Yes		**No**		**Total**			
Business ownership	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Sole proprietor	39	16.05	8	22.86	47	16.91	39/47	83
Partnership	124	51.03	16	45.71	140	50.36	124/140	89
Close corporation	46	18.93	6	17.14	52	18.71	46/52	88
Private company	34	13.99	5	14.29	39	14.03	34/39	87
Total	**243**	**100.00**	**35**	**100.00**	**278**	**100.00**		
	Overdraft received							
	Yes		**No**		**Total**			
Location	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Urban	81	33.47	26	74.29	107	38.63	81/107	76
Semi-urban	159	65.70	9	25.71	168	60.65	159/168	95
Rural	2	0.83	0	0	2	0.72	2/2	100
Total	**242**	**100.00**	**35**	**100.00**	**277**	**100.00**		
Note: Not all 292 respondents provided responses.								

Table 4.13: Overdraft received and background characteristics cont.								
Overdraft received								
	Yes		**No**		**Total**			
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Less than 5 years	28	11.62	4	11.43	32	11.59	28/32	88
5 - 10 years	73	30.29	7	20.00	80	28.99	73/80	91
11 - 20 years	138	57.26	23	65.71	161	58.33	138/161	86
Over 20 years	2	0.83	1	2.86	3	1.09	2/3	67
Total	**241**	**100.00**	**35**	**100.00**	**276**	**100.00**		
Overdraft received								
	Yes		**No**		**Total**			
Number of employees	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
1 – 50	128	52.67	24	68.57	152	54.68	128/152	84
51 – 200	114	58.02	11	31.43	125	44.96	114/125	91
> 200	1	0.41	0	0	1	0.36	1/1	100
Total	**243**	**100.00**	**35**	**100.00**	**278**	**100.00**		
Note: Not all 292 respondents provided responses.								

Table 4.13 shows that with respect to receiving an overdraft, most SMEs, regardless of their background characteristics, have received a bank overdraft. However, the more formal entity forms, partnerships, and close corporations, have received an overdraft at receivable rates of 89% and 88% respectively. These received rates are higher than for less formal entity forms (companies and sole proprietors). This is possibly due to these less formal entity forms not having a legal or tax status and therefore, possibly less likely to meet the banks' criteria for an overdraft. The received rates for entities when sorted on a location basis on the rural area and semi-urban were at 100% and 95%, respectively. These received rates are higher than for the urban location. These results are contrary to those of Kira and He (2012) who found that access to finance may be difficult for SMEs in semi-urban areas. When the data was sorted according to length of business operations, it showed that businesses that have been in operation longer were more likely to receive a bank overdraft. Possibly businesses which have been operating for shorter periods of time do not have the necessary financial history to prove to the bank that they will be capable of meeting interest and repayment conditions. When examining the data according to the number of employees, it also shows that bigger entities (based on employee

numbers) were more likely to have received a bank overdraft. However, the number of large entities based on employee numbers is too low to make any valid commentary.

Table 4.14 shows the crosstabulations between applied for loan from family and background characteristics.

Table 4.14: Applied for loan from family and background characteristics

	Applied for loan from family					
	Yes		**No**		**Total**	
Business ownership	**No.**	**%**	**No.**	**%**	**No.**	**%**
Sole proprietor	33	14.80	0	0	33	14.80
Partnership	118	52.91	0	0	118	52.91
Close corporation	38	17.04	0	0	38	17.04
Private company	34	15.25	0	0	34	15.25
Total	**223**	**100.00**	**0**	**0**	**223**	**100.00**
	Applied for loan from family					
	Yes		**No**		**Total**	
Location	**No.**	**%**	0	0	**No.**	**%**
Urban	87	39.01	0	0	87	39.01
Semi-urban	136	60.99	0	0	136	60.99
Total	**223**	**100.00**	**0**	**0**	**223**	**100.00**
	Applied for loan from family					
	Yes		**No**		**Total**	
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**
Less than 5 years	22	9.95	0	0	22	9.95
5 - 10 years	49	22.17	0	0	49	22.17
11 - 20 years	147	66.52	0	0	147	66.52
Over 20 years	3	1.36	0	0	3	1.36
Total	**221**	**100.00**	**0**	**0**	**221**	**100.00**
Note: Not all 292 respondents provided responses.						

Table 4.14 shows from the analysis, that regardless of the background characteristics, all the respondents had asked for loans from family.

Table 4.15 shows the crosstabulations between received loan from family and the background characteristics.

Table 4.15: Loan from family received and background characteristics						
Loan from family received						
	Yes		**No**		**Total**	
Business ownership	**No.**	**%**	**No.**	**%**	**No.**	**%**
Sole proprietor	30	14.29	0	0	30	14.29
Partnership	113	53.81	0	0	113	53.81
Close corporation	36	14.14	0	0	36	14.14
Private company	31	14.76	0	0	31	14.76
Total	**210**	**100.00**	**0**	**0**	**210**	**100.00**
Loan from family received						
	Yes		**No**		**Total**	
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**
Less than 5 years	22	10.58	0	0	22	10.58
5 - 10 years	48	23.08	0	0	48	23.08
11 - 20 years	135	64.90	0	0	135	64.90
Over 20 years	3	1.44	0	0	3	1.44
Total	**208**	**100.00**	**0**	**0**	**208**	**100.00**
Loan from family received						
	Yes		**No**		**Total**	
Number of employees	**No.**	**%**	**No.**	**%**	**No.**	**%**
1 – 50	124	59.05	0	0	124	59.05
51 – 200	85	40.48	0	0	85	40.48
201 – 500	1	0.48	0	0	1	0.48
Total	**210**	**100.00**	**0**	**0**	**210**	**100.00**
Note: Not all 292 respondents provided responses.						

Table 4.15 shows that regardless of the background characteristics, all the respondents had received loans from family.

Table 4.16 shows the crosstabulations between applied for loan from friends and the background characteristics.

Table 4.16: Applied for loan from friends and background characteristics						
Applied for loan from friends						
	Yes		**No**		**Total**	
Location	**No.**	**%**	**No.**	**%**	**No.**	**%**
Urban	72	38.92	14	40	86	39.09
Semi-urban	113	61.08	21	60	134	60.91
Total	**185**	**100.00**	**35**	**100.00**	**220**	**100.00**
Applied for loan from friends						
	Yes		**No**		**Total**	
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**
Less than 5 years	21	11.41	3	8.57	24	10.96
5 - 10 years	42	22.83	8	22.86	50	22.83
11 - 20 years	118	64.13	24	68.57	142	64.84
Over 20 years	3	1.63	0	0	3	1.37
Total	**184**	**100.00**	**35**	**100.00**	**219**	**100.00**
Note: Not all 292 respondents provided responses.						

Table 4.16 shows from the analysis. that regardless of the background characteristics, all the respondents had applied for loans from friends.

Table 4.17 shows the crosstabulations between received loan from friends and the background characteristics.

Table 4.17: Loan from friends received and background characteristics								
Loan from friends received								
	Yes		**No**		**Total**			
Business ownership	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Sole proprietor	28	15.73	5	14.29	33	15.71	28/33	85
Partnership	94	52.81	13	40.63	107	50.95	94/107	88
Close corporation	30	16.85	5	14.29	35	16.67	30/35	86
Private company	26	14.61	9	28.13	35	16.67	26/35	74
Total	**178**	**100.00**	**32**	**100.00**	**210**	**100.00**		
Loan from friends received								
	Yes		**No**		**Total**			
Location	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Urban	71	39.89	12	37.50	83	39.52	71/83	86
Semi-urban	107	60.11	20	62.50	127	60.48	107/127	84
Total	**178**	**100.00**	**32**	**100.00**	**210**	**100.00**		

Table 4.17: Loan from friends received and background characteristics cont.								
Loan from friends received								
	Yes		**No**		**Total**			
Years of business operation	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Received**	**%**
Less than 5 years	20	11.30	3	9.38	23	11.00	20/23	87
5 - 10 years	41	23.16	8	25	49	23.44	41/49	84
11 - 20 years	113	63.84	21	65.63	134	64.11	113/134	84
Over 20 years	3	1.69	0	0	3	1.44	3/3	100
Total	**177**	**100.00**	**32**	**100.00**	**209**	**100.00**		
Note: Not all 292 respondents provided responses.								

Table 4.17 shows that with respect to receive a loan from friends, most SMEs, regardless of their background characteristics, have received a loan from friends. However, the more formal entity forms, partnerships, and close corporations, have received a loan from friends at rates of 88% and 86% respectively. The received rates were similar for entities when sorted on a location basis, as these rates were at 86% and 84%, respectively. This analysis agrees with Kira and He (2012) who concluded that firms situated in urban locations may have a better chance of success in accessing finance than firms located in rural areas. When the data was sorted according to length of business operations, the analysis still showed that businesses that have been in operation either longer or shorter are likely to receive a loan from friends. When examining the data according to the number of employees, the analysis also shows that whether the entities are bigger (based on employee numbers) or smaller, all are likely to receive a loan from friends.

The respondents were then asked a few of questions to allow a better understanding of the financing arena and SMEs. Respondents were asked to indicate:

• where the business has a credit account (if they responded Yes in Table 4.18),

• if the business has a fixed deposit account,

• whether the bank requires a minimum balance before the issue of finance, and if so, the amount required,

• what they used finance for, and

• whether they kept their accounting records manually or computerised, or a combination of both.

Table 4.18: Additional information on SMEs' financing arena						
	Bank	**Non-Bank financial intermediary**	**Credit service bureau**	**Financial services providers**	**-**	**Total**
Credit account	106	3	1	182	-	292
	36.30%	1%	0.30%	62.40%	-	100%
	Yes	**No**			**-**	**Total**
Fixed deposit account	5	1		-	-	6
	83.3%	16.7%		-	-	100
Minimum balance for finance	85	165			-	250
	34%	66%			-	100%
					-	
	Less than 10%	**11-20%**	**More than 51**		**-**	**Total**
Percentage of deposit	97	153	1		-	251
	38.6%	61.0%	0.04%		-	100%
	Working capital	**Non-current assets**	**Leasing of assets**	**Pay back other loans**	**Other**	**Total**
Use of finance	80	37	150	21	4	292
	27.40%	12.70%	51.40%	7.20%	1.30%	100%
	Manual	**Computerised**		**-**	**-**	**Total**
Accounting records	80	120		-	-	200
	40%	60%		-	-	100%
Note: Not all 292 respondents provided responses.						

Table 4.18 first shows that 36.30% of the respondents indicated that they had a credit account in the bank 1% of the total respondents had a credit account in a non-bank financial intermediary, 0.30% had a credit account with a credit service bureau while 62.40% had a credit account with a financial services provider. SMEs listed on the DCCI database may have a better chance of accessing a bank overdraft as a first option if they have a business bank account. This may provide insight into the performance of SMEs and indicate that funds can be returned to the bank.

With respect to fixed deposit account, 83.3% (5) of the six respondents who answered this question indicated that they had fixed a deposit account, while 16.7% (1) indicated that they had no fixed deposit account. However, as only six respondents answered this question this may indicate that majority of the respondents were not comfortable in providing a response to the question and no firm conclusions can be made using this analysis.

The respondents were then asked if the banks required minimum balance before they issue finance; 34% of the 250 respondents agreed while 66% responded in the negative (No). When the respondents were asked a follow up question (the percentage of minimum balance required on loans); 38.60% indicated less than 10%, 61.0% of the total respondents indicated that 11-20% of the loan sum was required as deposit to access loans, while 0.04% indicated more than 50%. Based on the analysis, most of the respondents suggested that 11-20% of the loan sum was required as a minimum balance.

The respondents were asked what they use finance for. Eighty respondents (27.40%) indicated that the loans (finance) were used as working capital, 12.70% of the respondents claimed that the loans were used for non-current assets, 51.40% indicated that the loans were used for leasing of assets, 7.20% indicated that the loans were used to pay back other loans with 1.30% of the respondents indicated that they used the loans for other purposes.

When the respondents were asked how they kept accounting records, 40% of the respondents indicated that they kept manual accounting records, and 60% indicated that they kept computerised records. The use of computerised records seems quite low as accounting software costs are relatively inexpensive (Ogundana and Okere 2017).

To summarise this section and answer the first research question (what forms of finance are being used by SMEs), the results indicated that the SMEs surveyed have access to various financial facilities judging from Tables 4.10 and 4.11. Most notable among the financial facilities enjoyed by the SMEs based on the analysed data included overdrafts, bank loans, factoring, leasing and hire purchase. The availability of these facilities could be linked to the fiscal policy of the government which encourages banks and other financial institutions to promote the growth of SMEs to stem the tide of high rate of youth unemployment.

The second research question was to determine the accounting framework being used by SMEs. These results are shown in Table 4.19.

Table 4.19: Accounting frameworks used by SMEs

Framework	**Number**	**Percentage**
IFRS	14	4.80
IFRS for SMEs	213	72.90
SA GAAP	65	22.30
Total	**292**	**100.00**

Table 4.19 shows that most of the respondents (72.90% or 213) were using *IFRS for SMEs*, 22.30% or 65 of the respondents were using SA GAAP, with only 14 (4.80%) using IFRS. These results support Schutte and Buys (2011) who argued that *IFRS for SMEs* could be easily adopted by SMEs and recommended that the *IFRS for SMEs* should become the preferred accounting framework for SMEs in South Africa. This also supports Adetula and Owolabi (2014) that *IFRS for SMEs* is important for SMEs as small businesses stand to gain access to international investments and investors, bank loans, and high ratings by international credit rating agencies.

To provide further analysis of the accounting frameworks used by the respondents, several crosstabulations were calculated using the background characteristics.

Table 4.20 shows the crosstabulations between the accounting framework and the business activity of the respondents.

Table 4.20: Business activity of respondents: Framework								
	Framework							
	IFRS		*IFRS for SMEs*		SA GAAP		Total	
Business activities	No.	%	No.	%	No.	%	No.	%
Automotive	1	5.26	12	5.63	2	3.08	15	5.14
Building products	1	5.26	5	2.35	1	1.54	7	2.40
Chemicals	3	15.79	23	10.80	10	15.38	36	12.33
Food & beverages	0	0	8	3.76	5	7.69	13	4.45
Furniture & bedding	6	31.58	31	14.55	10	15.39	47	16.10
Packaging & converting	2	10.53	22	10.33	14	21.54	38	13.01
Plastics	6	31.58	65	30.52	23	35.38	93	31.85
Textile, clothing, footwear & leather	0	0	0	0	0	0		0
Other retail	0	0	0	0	0	0		0
	19	**100.00**	**166**	**77.93**	**65**	**100.00**	**250**	**85.62**
Did not respond	0	0	47	22.07	0	0	42	14.38
Total (per Table 4.19)	**19**	**100.00**	**213**	**100.00**	**65**	**100.00**	**292**	**100.00**

Table 4.20 shows that, regardless of the business activity of the respondent, *IFRS for SMEs* was the preferred framework, followed by SA GAAP.

Table 4.21 shows the crosstabulations between the framework used and the other background characteristics.

Table 4.21: Background and other characteristics and framework								
	IFRS		*IFRS for SMEs*		SA GAAP		Total	
Business ownership	No	%	No	%	No	%	No	%
Sole proprietor	11	57.89	26	15.66	7	10.77	44	17.60
Partnership	5	26.32	84	50.60	38	58.46	127	50.80
Close corporation	0	0	33	19.88	9	13.85	42	16.80
Private company	3	15.79	23	13.56	11	16.92	37	14.80
Total	**19**	**100.00**	**166**	**100.00**	**65**	**100.00**	**250**	**100.00**

Table 4.21: Background and other characteristics and framework cont.								
	IFRS		***IFRS for SMEs***		**SA GAAP**		**Total**	
Number of employees	No	%	No	%	No	%	No	%
1 – 50	15	78.95	101	60.84	33	50.77	149	59.60
51 – 200	4	21.05	64	38.55	32	49.23	100	40
201 – 500	0	0	1	0.60	0	0	1	0.40
Total	**19**	**100.00**	**166**	**100.00**	**65**	**100.00**	**250**	**100.00**
	IFRS		***IFRS for SMEs***		**SA GAAP**		**Total**	
Applied for loan from family	No	%	No	%	No	%	No	%
Yes	16	100	148	100	58	100	222	100
No	0	0	0	0	0	0	0	0
Total	**16**	**100.00**	**148**	**100.00**	**58**	**100.00**	**222**	**100.00**
	IFRS		***IFRS for SMEs***		**SA GAAP**		**Total**	
Applied for loan from friends	No	%	No	%	No	%	No	%
Yes	14	87.50	120	83.33	50	84.75	184	84.02
No	2	12.50	24	16.67	9	15.25	35	15.98
Total	**16**	**100.00**	**144**	**100.00**	**59**	**100.00**	**219**	**100.00**
	IFRS		***IFRS for SMEs***		**SA GAAP**		**Total**	
Loan from family received	No	%	No	%	No	%	No	%
Yes	14	100	142	100	53	100	209	100
No	0	0	0	0	0	0	0	0
Total	**14**	**100.00**	**142**	**100.00**	**53**	**100.00**	**209**	**100.00**
	IFRS		***IFRS for SMEs***		**SA GAAP**		**Total**	
Loan from friends received	No	%	No	%	No	%	No	%
Yes	12	80	116	85.93	49	83.05	177	84.69
No	3	20	19	14.07	10	16.95	59	15.31
Total	**15**	**100.00**	**135**	**100.00**	**59**	**100.00**	**209**	**100.00**

Table 4.21 shows that most SMEs, when sorted according to business ownership, are using *IFRS for SMEs* and SA GAAP. These results were expected because both Mohamed et al. (2019) and Schutte and Buys (2011) indicate that *IFRS for SMEs* and SA GAAP are

frameworks that can be easily adopted by SMEs. A surprising result is the number of sole proprietors and partnerships who have indicated that they use IFRS. This seems very onerous for an entity which may not be required to use IFRS. This was not probed further in the questionnaire. It is possible that these entities mistakenly indicated that they used IFRS when in fact, they used a different framework.

The table further shows that most SMEs that have between 1 - 50 employees were using *IFRS for SMEs*. This may indicate that small firms have found the adoption *IFRS for SMEs* easy. However, the extent of compliance with *IFRS for SMEs* or IFRS was not examined in this study, and it is possible that IFRS and *IFRS for SMEs* are not being fully complied with by the requirements.

Table 4.21 also shows that most SMEs that have applied for loan from family and friends are using *IFRS for SMEs*. This indicates that SMEs that are using *IFRS for SMEs* have access to funding from family and friends and it is possible that an SME which uses a recognised financial accounting framework could provide family and friends with financial information for the lenders to make an informed decision.

4.4 Firm characteristics and access to finance

This section details the responses gathered from the respondents on the firm characteristics and access to finance. These statements were used for the hypotheses testing to address the third research question.

Respondents were required to state their opinions on various statements used to measure the factors by selecting the most appropriate response as follows where: ‘,1 = Strongly disagree (SD)’, 2 = ‘Disagree (D)’, ‘3 = Not sure (NS)’, 4 = ‘Agree (A)’, and 5 = ‘Strongly agree (SA)’. The mean value shows the average level of agreement or disagreement.

Table 4.22: Respondents' opinions on the factors affecting access to finance								
Statements	No.	1	2	3	4	5	Mean	SD
Lending rates		%	%	%	%	%		
The interest rate charged on finance is too high for this enterprise to afford bank finance	250	17.2	0.8	5.2	37.2	39.6	3.81	1.414
The fees involved in the application process are too high	248	12.9	4.4	6.0	53.6	23	3.69	1.242
The conditions of loan maturity are unfavourable	249	12	4.8	6.0	48.6	28.5	3.77	1.255
The value of collateral requested by the bank is too high	247	10.5	5.3	6.5	50.2	27.5	3.79	1.208
The loan insurance amounts are too high	248	10.5	5.6	6.5	42.3	35.1	3.86	1.253
Transaction costs								
Non-interest-rate related conditions of the loan are inacceptable (e.g., maturity, covenants, etc.)	248	13.7	2.4	7.3	46	30.6	3.77	1.291
The debt/turnover ratio of my business is too high to qualify for a loan	247	10.1	6.1	6.9	44.5	32.4	3.83	1.234
Low loan amounts tend to increase cost of loan administration	246	8.1	8.5	6.1	50.4	26.8	3.79	1.168
This enterprise has a separate arrangement of credit to suit its needs	247	9.3	6.5	8.5	44.5	31.2	3.82	1.211
This enterprise lacks assets to meet collateral requirements	248	8.9	6.9	8.1	47.2	29	3.81	1.188
Firm age								
The longer we stay in operation, the easier it is to get finance	249	8.8	6	8.4	53.8	22.9	3.76	1.139
Firm age matters if the SME qualifies to get finance	245	15.1	24.9	11.8	19.2	29	3.22	1.471
Financiers prefer SMEs that have been in operation for more than one year	247	11.3	4	8.1	49	27.5	3.77	1.222
Finance is issued to those SMEs that have been in operation for more than five years	249	10	5.6	9.2	47	28.1	3.78	1.207
Firm size								

Table 4.22: Respondents' opinions on the factors affecting access to finance								
The bigger the size of the firm, the easier it is to get finance	248	8.9	6	6.9	57.7	20.6	3.75	1.121
Firm size matters as long as the SME qualifies to get finance	247	15.8	20.6	8.9	23.1	31.6	3.34	1.492
Finance is issued to those SMEs which are large sized firms	248	10.9	4.8	8.1	46.8	29.4	3.79	1.229
Financial transparency								
Transparency and disclosure are important in access to finance	243	11.1	4.5	7	48.1	29.2	3.80	1.228
Using of IFRS or *IFRS for SMEs* to prepare financial statements increases the chances of acquiring finance	246	10.6	4.1	10.2	51.6	23.6	3.74	1.178
Audited financial records help makes access to finance easier	248	8.9	6.5	8.9	51.6	24.2	3.76	1.155
Transparency and disclosure matter if other requirements are met	247	17.9	24.7	9.3	24.7	23.9	3.13	1.462
Collateral								
Collateral or guarantees are key to obtain credit	244	11.1	2.0	6.7	36.4	25.9	3.77	1.298
The value of collateral determines the value of the credit amount	245	5.1	6.4	6.1	35.0	30.0	3.95	1.141
No collateral means that no credit is granted	245	9.4	4.7	6.1	36.0	25.9	3.78	1.268
Collateral matters if other requirements are met	245	15.9	15.1	7.3	11	50.6	3.65	1.583
Note: Not all 292 respondents provided responses.								

The responses gathered from the respondents for the statements measuring lending rates are given in Table 4.22. A scrutiny of the means shows that on average, the respondents agreed with most statements on lending rates as most means tended towards 4.00 with the lowest mean being 3.69. The statements measuring transaction costs were also supported with the lowest mean being 3.77.

Respondents agreed that the longer a company has been in business, the easier it is to get finance (m = 3.75), that SMEs with over a year of operation are preferred by lenders (m = 3.77), and that SMEs that have been in business for more than five years (m = 3.78). However, generally. (m = 3.22), respondents were unsure whether the SME's age affected its eligibility for financing.

Table 4.22 shows that, on average, there was agreement that the bigger the size of the firm, the easier it is to get finance (m = 3.75) and funding is provided to certain SMEs which are larger sized firms (m=3.79). However, on average, respondents were unsure whether firm size matters if the SME is eligible for financing (m= 3.34).

With respect to financial transparency, on average, there was agreement by the respondents that transparency and disclosure (m = 3.80), using IFRS or *IFRS for SMEs* (m = 3.74) and audited financial statements (m= 3.76) are important for accessing finance. However, on average respondents were unsure if transparency and disclosure matters if the other requirements are met (m = 3.13).

The responses gathered from the respondents for the statements measuring the respondents' opinions on collateral are also given in Table 4.22. On average, most respondents (75%) agreed that the credit amount is based on the value of the collateral (m=3.95). This is supported by the last statement where respondents agreed that collateral matters if other requirements are met (m=3.65).

The opinions of the respondents were then used in addressing the research hypotheses.

4.5 Addressing the research hypotheses

The strength and direction of the variables was first determined using correlation analysis. Thereafter regression analysis was used to test the hypotheses.

Pearson's correlation was used to analyse the association existing among the constructs. These results are summarised in Table 4.23.

Table 4.23: Correlation showing association between the constructs (measured using respondents' opinions)						
	Lending rates	**Transaction costs**	**Firm age**	**Firm size**	**Financial trans-parency**	**Collateral**
Lending rates	-					
Transaction costs	.961**	-				
Firm age	.819**	.866**	-			
Firm size	.602**	.659**	.801**	-		
Financial transparency	.806**	.828**	.843**	.711**	-	
Collateral	.786**	.830**	.849**	.781**	.829**	-
**** Correlation is significant at the 0.01 level (2-tailed)**						

Table 4.23 shows that the association between transaction costs and lending rates was strong and positive (r=0.961; p<0.001). This suggests that as transaction costs increase, the lending rates also increase. Firm age is positively and strongly associated with lending rates (r=0.819; p<0.001), and transaction costs (r=0.866; p<0.001). Firm size is positively and strongly correlated with lending rates (r=0.602; p<0.001), transaction costs (r=0.659; p<0.001), and firm age (r=0.801; p<0.001).

The Pearson correlation coefficient shows financial transparency correlates positively with lending rates (r=0.806; p<0.001), transactional costs (r=0.828 p<0.001), firm age (r=0.843; p<0.001), and firm size (r=0.711; p<0.001), and the association was significant and strong. Collateral correlates positively with lending rates (r=0.786; p<0.001), transactional costs (r=0.830; p<0.001), firm age (r=0.849; p<0.001), firm size (r=0.781; p<0.001), and financial transparency (r=0.829; p<0.001), and the association was significant and strong.

Multiple regression analysis was then applied to test the effect of the independent variables (IV) on the dependent variables (DV) (access to finance) for each hypothesis. For each, the necessary checks of normality of residuals, linearity, and homoscedasticity were made to ensure that they were not violated.

Table 4.24: Regression analysis between the independent variables and the dependent variable								
H1: *An increase in the effective lending rate has a negative effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	0.136		4.378	.000	.015	3.094	209	.080
Effective lending rate	.014	.121	1.759	.080				
H2: *An increase in transactional costs has a negative effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	.123		3.833	.000	.019	4.102	208	.044
Transaction costs	.016	.139	2.025	.044				
H3: *An increase in firm age has a positive effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	-0.018		-0.404	.687	.096	22.236	209	.000
Firm's age	0.057	.310	4.715	.000				
H4: *An increase in firm size has a positive effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	-0.180		-3.754	.000	.219	60.656	212	.000
Firm's size	0.109	.472	7.788	.000				
H5**:** *Possessing collateral has a positive effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	-0.044		-.909	.365	.098	23.495	207	.000
Collateral	0.067	.319	4.847	.000				
H6: *An increase in financial statement quality has a positive effect on access to finance*								
Variable	**B**	**Beta**	**T**	**p-value**	**R^2**	**F**	**Df**	**p-value**
Constant	-.006		-.129	.897	.081	19.328	208	.000
Financial transparency	.055	.292	4.396	.000				

H1 was stated as follows: An increase in the effective lending rate has a negative effect on access to finance.

Table 4.24 shows that access to financing and effective lending rates are positively correlated. However, the p-value of the relationship is 0.08, which is less than the usual limit of 0.05 and indicates that the association may not be statistically significant. It cannot thus be presumed that a rise in the effective lending rate would result in a noticeably greater increase in access to financing. Additionally, the data displays an R^2 of 0.015, indicating that just 1.5% of the variability in access to finance can be explained by the effective lending rate. These findings show that the ability of the effective lending rate to anticipate financing availability is restricted.

H2 was stated as follows: An increase in transaction costs has a negative effect on access to finance.

Table 4.24 indicates that transaction costs and financing availability are positively associated. However, the p-value of the relationship is 0.044, which is below the usual limit of 0.05. This suggests that the relationship is statistically immaterial. Hence, it is inconclusive whether an increase in transaction costs will result in greater access to finance. Additionally, the result displays an R^2 of 0.019, indicating that just 1.9% of the variation in financing availability can be explained by transaction costs. These findings show that transaction costs are not indicative of financing availability.

H3 was stated as follows: An increase in firm age has positive effect on access to finance.

Table 4.24 shows that access to financing and firm age are positively correlated. The p-value is 0.00, which is less than the standard limit of 0.05, indicating that the association is statistically significant. As a result, it can be concluded that an increase in firm age would result in an increase in access to finance and support the acceptance of the hypothesis. However, the R^2 of 0.096 indicates that only 9.6% of the variation in access to finance can be explained by firm age. These findings show that access to finance may not be highly predicted by firm age.

H4 was stated as follows: An increase in firm size has a positive effect on access to finance.

The results presented in Table 4.24 show that access to finance and firm size are positively correlated. In addition, the p-value is 0.00, under the usual limit of 0.05, indicating that the association is statistically significant. Therefore, it could be concluded that an increase in firm size would result in a considerable increase in access to finance and support the acceptance of the hypothesis. In addition, the data shows an R^2 of 0.219, indicating that only 21.9% of the variation in access to credit can be explained by firm age. These findings show that access to finance may not be highly predicted by firm size.

H5 was stated as follows: Possessing collateral has a positive effect on access to finance.

Table 4.24 shows that possession of collateral has a positive link with access to finance. Moreover, the p-value for the relationship is 0.00 indicating that the relationship is significant. Subsequently, it can be concluded that an increase in the possession of collateral would result in a significant increase in access to finance. The results further reveal an R^2 of 0.0.98, indicating that collateral possession explains only 9.8% of the variation in access to finance. These findings show therefore that the possession of collateral has a weak predictive power on access to finance.

H6 was stated as follows: An increase in financial statement quality has a positive effect on access to finance.

Table 4.24 shows that possession of financial statement quality has a positive impact on access to finance, indicating that having good financial statements makes it easier to get a loan or other financial help. The p-value for the relationship is 0.00, indicating that the relationship is statistically significant. Therefore, improving the quality of financial statements will lead to better access to finance. The R^2 (0.081) result shows that only 8.1% of the variations in access to finance can be explained by the quality of financial statements. These findings show that the quality of financial statements can predict the likelihood of a firm getting finance.

To summarise, the results in Table 4.24 indicate:

H1: An increase in lending rates has a positive effect on access to finance. This hypothesis was rejected.

H2: An increase in transaction costs has a positive effect on access to finance. This hypothesis was rejected.

H3: The hypothesis on firm age was accepted on access to finance, i.e., as firm age increases, access to finance increases.

H4: The hypothesis on firm size was accepted on access to finance, i.e., as firm size increases, access to finance increases.

H5: The hypothesis on collateral was accepted on access to finance, i.e., as collateral increases, access to finance increases.

H6: The hypothesis on financial statement quality was accepted on access to finance, i.e., as financial statement quality (transparency) increases, access to finance increases.

4.6 Factors to improve the access of finance by SMEs

This section explores factors that may improve the access of finance for SMEs. The responses on factors to improve the access of finance by SMEs are given in Table 4.25.

Table 4.25: Factors to improve access of finance by SMEs

	No.	Agree	Disagree
An improvement in financial statement quality	245	245	0
A firm which shows growth to become bigger in size	237	237	0
A firm which has a longer trading history	233	233	0
The possession of collateral	237	237	0
A lower effective lending rate	232	232	0
Note: Not all 292 respondents provided a response to the statements.			

Table 4.25 shows that the respondents agreed that an improvement in financial statement quality, a firm which shows growth to become bigger in size, a firm which has a longer trading history, the possession of collateral, and a lower effective lending rate (i.e., borrowing rate) are factors that may improve the access of finance by SMEs.

Although the questionnaire ended with asking the respondents for comments or suggestions on improving access to finance, no comments or suggestions were provided by the respondents.

4.7 Summary

This chapter presented and analysed the findings from the questionnaire survey.

The main findings with regards to each research question were as follows:

With reference to the first research question, this study revealed that the average extent of access to finance is 19.10%. In terms of informal finance, family and friends were the greatest source of financing that SMEs may obtain at 86.40% and 73.60% respectively. This is followed by the formal forms of finance which are bank overdraft at 25.90% as well as factoring (invoice discounting) at 19.40%.

The findings with regards to the research question two, indicated that 4.80% were using IFRS, 72.90% of respondents were using *IFRS for SMEs*, and 22.30% of respondents were using SA GAAP. The findings reveal that most SMEs have adopted *IFRS for SMEs* and this might improve their likelihood of obtaining financing from financial institutions.

The findings concerning research question three revealed that four out of six hypotheses were accepted. Therefore, this indicates that the firm characteristics of firm age, firm size, financial statement quality (transparency), and collateral are factors that, should an SME have such characteristics, may indicate that an SME may gain access to finance.

The next chapter provides the conclusions of the study as well as the recommendations, suggestions, and limitations of the study.

CHAPTER 5

Summary, conclusions and recommendations

5.1 Introduction

The previous chapter presented and interpreted the findings of the data from the responses to the questionnaires provided by the SMEs who participated in this study. This chapter begins with a summary of the current investigation and ends with findings regarding the success of the study's research goals. The chapter then analyses the implications of the findings for SMEs, the study's limitations, practice recommendations, and ideas for additional research. A brief summary of the study is given at the end of the chapter.

5.2 Summary of the current study

SMEs have found it difficult to access finance (Ye and Kulathunga 2019). SMEs have tried various procedures to moderate the access to finance issues, but they continue to fail to access finance (Zarrouk 2020). Most SMEs that do not succeed are believed to be startup firms (Capnary 2018). Some techniques, such as the BDSs, are effective in assisting in access to finance by SMEs (Khoase 2018). SMEs running their businesses more effectively could enhance their access to finance as this could be an alternative form of proof of security for banks in circumstances where security for a loan is required (Abbasi 2017).

The aim of this study was to investigate the impact of financial statement quality and firm characteristics on the access to finance by SMEs in eThekwini. This aim was used to develop the following objectives, as outlined in Chapter 1:

1. To determine the forms of finance being used by SMEs,
2. To determine the accounting frameworks being used by SMEs, and
3. To investigate whether financial statement quality and firm characteristics affect the access to finance by SMEs in eThekwini.

Therefore, based on the above objectives, the following research questions were then formulated:

1. What forms of finance are being used by SMEs?

2. What accounting frameworks are being used by SMEs?

3. Does financial statement quality and firm characteristics affect access to finance by SMEs in eThekwini?

Chapter 1 presented the background to the study, the problem statement, the study's aim and objectives, and the significance of the study.

Chapter 2 presented a definition of an SME using South African legislation. The various accounting frameworks which could be used by firms were reviewed. Stiglitz and Weiss's (1981) credit rationing theory were discussed followed by a review of existing relevant literature. Hypotheses were developed and finally a conceptual framework for this study was presented.

The research methodology in Chapter 3 provided the rationale behind the chosen research strategy used to evaluate the impact of financial statement quality and firm characteristics can improve access to finance on SMEs in eThekwini. A questionnaire was drawn up to address the research questions. These research questions, in conjunction with the research goals, favoured a positivist approach.

Chapter 4 presented and discussed the findings of the survey that looked at the financial statement quality and firm characteristics as they relate to SMEs' access to finance in eThekwini. To comprehend the outlined research objectives, data from respondents were collected and analysed using SPSS.

5.3 Presentation of conclusions based on the findings

The first research question was to identify the forms of finance used by the SMEs. With respect to the forms of formal finance, SMEs access loans primarily in the form of overdrafts at an overall rate of 25.90% and factoring at an overall rate of 19.40%. With respect to informal funding, SMEs access loans from family at an overall rate of 86.40% and loans from friends at an overall rate of 73.60%. The results further showed that the average access to finance by SMEs was 19.1%.

The second research question, on the accounting framework used by the SMEs, the results further revealed that *IFRS for SMEs* is the most used accounting framework by eThekwini SMEs at a rate of 72.9%.

Finally, in respect of research question three, four out of six characteristics have positive effects on access to finance. Firm age, firm size, financial statement quality, and collateral were identified as key indicators for access to finance for South African SMEs. Therefore, this provides an indication that firm characteristics are the major predictor of which SMEs will have access to finance.

5.4 Implications of the results for SMEs

The findings of this study are that some factors have a significant effect on SMEs' access to finance in eThekwini, which has practical implications. It was found that firm age, firm size, financial statement quality, and collateral have a significant effect on access to finance by SMEs. Considering this, SMEs ought to be aware of these factors to ensure the sustainability of their businesses. According to the findings of this study, increases in the effective lending rate and transaction costs do not have a positive effect on access to finance It is important to point out that the correlation between the factors only provides information about the degree of the relationship, not the causal effect relationship. Additionally, the largest number of respondents, 245 SMEs, agreed that financial statement quality enhances SMEs' access to finance in eThekwini. This indicates that SME survival and expansion may be ensured by this factor in eThekwini.

5.5 Limitations of the study

This study has several limitations.

1) This study used the ARA and there are difficulties in the ARA approach. To explain, the extent to which a discouraged borrower is excluded from the analysis is contentious. A weak borrower typically requires debt, in contrast to a borrower who, despite not requesting any funding, does not request debt because he or she believes they will be unsuccessful.

2) Questionnaires were used to gather information from SMEs. An assumption is that the respondents provide truthful answers to the questions. However, the possibility exists that the respondents may not have always been truthful in their responses as this is a sensitive area. While triangulation of data acquisition strategies can provide accurate and comparable results that add depth to the discussion, this was not done, and the data was collected using a single strategy. Li (2019) criticises research which relies on a single strategy.

3) The study was limited to SMEs' awareness of the available forms of financing. While SMEs are aware of such forms, Arora (2014) critiques this strategy since not all lenders are willing to increase loans available to SMEs in all forms.

4) The study focused only on SMEs in eThekwini. As a result, the findings cannot be applied to other South African SMEs. This is because SMEs' unique qualities in eThekwini may differ from SMEs in another jurisdictions although it is possible that SMEs in similar municipal areas may have similar characteristics.

5) The study used an online link to the questionnaire. Many questionnaires were incomplete and only partially usable. As the respondents were anonymous, it was not possible to contact the respondents and ask them to answer all the questions in the questionnaire.

6) The questionnaire assumed that the respondents would have some financial knowledge, and as a result, not all the terms used in this study were explained. It is possible that the following terms may have resulted in the respondents providing incorrect answers. These were debt securities issued, factoring, the differences between the different accounting frameworks, and how insurance could be a form of financing.

7) The sample only included SMEs on the DCCI database. These are SMEs with business bank accounts and were more likely to have experience with accessing finance. The study ignored

SMEs not on the DCCI database and this may mean that some form of survivorship bias is inherent in the sample used for this study.

8) The first two hypotheses should have possibly been tested as having a positive relationship with access to finance. However, based on the literature consulted, the direction tested was correct.

5.6 Recommendations for practice

The study makes the following suggestions for SMEs based on the summary of its findings:

The government could also supervise the services that banks provide to SMEs. Although the government has a role to play, it must be careful not to foster a culture of reliance, since this kills the entrepreneurial spirit in SMEs. SMEs need to be encouraged, but they should not be overly reliant on the government.

Bank funding is still a popular and effective option for SMEs despite other financing options being available. Banks must recognise that their actions and attitudes towards SMEs have an impact on both SMEs and the country. Banks should not just reject SMEs' applications for financing without explanation.

Despite their efforts, SEDA and Khula remain mostly unnoticed. Their services are critical to the development of the SME sector, but very few SMEs know where to get them. Some SMEs are unaware of their function. Massive promotional events aimed at SMEs are thought to assist SEDA and Khula become more prominent and, at the very least, contribute to the development of the South African SME sector. Collaborating with universities and schools will also increase public awareness of their services. Khula and SEDA should also expand their services to non-South Africans who own businesses in the republic since they are also significant in terms of job generation. Although Khula has established working partnerships with commercial banks, effective monitoring of whether banks are providing loans to SMEs is critical.

Although most SMEs have agreed on the link between financial statement quality and access to finance, it is advised that SME owners pay particular attention to the quality of their financial statements while obtaining funding. SMEs which are still using SA GAAP should consider adopting *IFRS for SMEs* to enhance the quality of their financial reporting.

5.7 Suggestions for further research

Suggestions for further research are as follows:

The study focused only on SMEs in one jurisdiction. Further research in establishing the form of funding available to South African SMEs in other jurisdictions would increase the scope of the study and provide comparative information.

The study did not consider access to equity. Further research could be done by including access to equity.

Banks could be targeted to find out from their perspectives as to why they are not giving SMEs loans.

This study focused only on the demand side; more research could be done on the supply side.

5.8 Overview

The aim of this study was to assess the impact of financial statement quality and firm characteristics on access to finance by SMEs in eThekwini. A questionnaire was administered to SMEs in eThekwini. SMEs access loans primarily in the form of overdrafts with interest rates of 25.9% and factoring 19.4%. Formal funding, in general, from a wide perspective, SMEs use 86.4% of family loans and 73.6% of friend loans. The results reveal that the average extent of access to finance is at 19.1%. This corroborates previous studies (Sibanda et al. 2018) that a very high percentage of businesses are unable to obtain financing. The findings revealed that most respondents were using *IFRS for SMEs* as their accounting framework. The findings further revealed that firm age, firm size, collateral, and financial statement quality have positive effects on access to finance. As a result, this indicates that possession of certain firm characteristics and financial statement quality may indicate SMEs' successful access to finance.

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APPENDIXES

Appendix A: Research instrument

Questionnaire to SMEs

Dear respondent,

Thank you for volunteering in this research study. My name ice Mayendisa from the Durban University of Tec I am a Master of Accounting student in this in
The purpose of this questionnaire is to assess the impact of financial statement quality and firm characteristics on the access to finance by small and medium-sized enterprises in eThekwini.

This survey questionnaire is for academic purposes ONLY. All the information provided will be treated with utmost confidentiality. No individual will be identified. Thank you for your participation and if you have any questions, please do not hesitate to contact me directly on Tel. No. (071 945 7974).

Section 1: Background information

1. Please select your type of business activity (optional)

Automotive☐
Building Products☐
Chemicals☐
Food & Beverages ☐
Furniture & Bedding☐
Packaging & Paper Converting☐
Plastics☐
Textile, Clothing, Footwear & Leather☐
Other retail☐

Please tick the box that best represents your response or clearly write your response in the provided space.

2. Which type of business entity below best describes the ownership of your enterprise?

Sole proprietor ownership ❐
Partnership ❐
Close corporation ❐
Private company ❐
Joint-venture ❐
Other (please specify)…………………………………

3. Where are you located?

Urban (a city area)❒
Semi urban (In between urban and rural area) ❒

4. Does your location affect your access to finance?

Yes ❒
No ❒

5. If your answer is yes to question 4 above, please give a reason below.

....

6. For how many years has your business been in operation?

<5 years❒
5 – 10 years❒
11 – 20 years❒
>20 years❒

**7. How many full-time employees are employed in your business?
(Please select your best choice)**

1 - 50□

51 - 200□

201 -500□

Other □

Section 2: Forms of finance

8. With respect to the financing structure of your firm, either formal or informal, please tick against each type of financing:

(e) Whether or not you are aware that of that form of financing,
(f) Whether or not you consider that financing option convenient,
(g) Whether or not you have applied for that financing, and
(h) If you applied, whether or not you received the financing.

Forms of financing		Aware		Convenient		Applied		Received	
	Formal	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
8.1	Bank overdraft								
8.2	Bank loan (excluding overdraft)								
8.3	Factoring (Invoice discounting)								
8.4	Leasing (an asset is still owned by the lessor)								
8.5	Hire-purchase (Customer owns the asset after the last instalment has been paid)								
8.6	Credit line or credit cards								
8.7	Debt securities issued								
8.8	Other loans (e.g., from a related company / business or shareholders excluding trade credit)								
8.9	Subordinated loans (debt which ranks after other debts if a company falls into liquidation or bankruptcy)								
8.10	Participation loans or similar financing instruments (fixed-income security that permits investors to buy portions of an outstanding loan or package of loans)								
8.11	Insurance								
	Other (specify)								
	Informal								
8.12	Loan from family								
8.13	Loan from friends								

8.14	Any other type of financing – please specify and tick where appropriate								
	Other (specify)								

9. Does your business have overdraft facilities?

Yes ❒
No ❒

10. If the answer is yes to question 9, please indicate where the business has a credit account under the following:

Bank ❒
Non-Bank financial intermediary ❒
Credit service bureau ❒
Others (please specify) ....

11. Does your business have a fixed deposit account?

Yes ❒
No ❒

12. Does the bank require a minimum balance before the issue of finance?

Yes ❒
No ❒

13. How much is required?

<10% of the loan amount ❒
11%-20% ❒
21- 30% ❒
31- 40% ❒
41% - 50% ❒
>51% ❒

14. What do you use finance for? (Please tick as many as are applicable)

Working capital (current assets, such as cash, accounts receivable, and inventories of raw materials and finished goods) ❒
Non-current assets (the purchase of assets used for longer than one year ❒
Leasing of assets (the asset is still owned by the lessor) ❒
Pay back other loans (paying back money previously borrowed from a lender)❒
Others (please specify) …………………

15. How do you keep your accounting records?

Manual ❒
Computerised (i.e., use accounting software) ❒
A combination of manual and computerised □

16. What accounting framework does the business use?

International Financial Reporting Standards (IFRS) ❒
IFRS for SMEs ❒
South African Statements of General Accepted Accounting Practice (SA GAAP)❒
Cash basis ❒
Other□

17. If you answered other, briefly describe how you record your accounting transactions in the space below.

Section 3: Factors that affect the access to finance by SMEs

Please state your opinion on the following statements by ticking the most appropriate response as follows where:

1. Strongly disagree (SD) 2. Disagree (D) 3. Not sure (NS) 4. Agree (A) 5. Strongly agree (SA)

	Statements	SD	D	NS	A	SA
18.	**Lending rates**					
18.1	The interest rate charged on finance is too high for this enterprise to afford bank finance	1	2	3	4	5
18.2	The fees involved in the application process are too high	1	2	3	4	5
18.3	The conditions of loan maturity are unfavourable	1	2	3	4	5
18.4	The value of collateral requested by the bank is too high	1	2	3	4	5
18.5	The loan insurance amounts are too high	1	2	3	4	5
	Transaction costs					

18.6	Non-interest-rate related conditions of the loan are inacceptable (e.g. maturity, covenants, etc.)	1	2	3	4	5
18.7	The debt/turnover ratio of my business is too high to qualify for a loan	1	2	3	4	5
18.8	Low loan amounts tend to increase cost of loan administration	1	2	3	4	5
18.9	This enterprise has a separate arrangement of credit to suit its needs	1	2	3	4	5
18.10	This enterprise lacks assets to meet collateral requirements	1	2	3	4	5
	Firm's age					
18.11	The longer we stay in operation, the easier it is to get finance	1	2	3	4	5
18.12	Firm age does not matter as long as the SME qualifies to get finance	1	2	3	4	5
18.13	Financiers prefer SMEs that have been in operation for more than one year	1	2	3	4	5
18.14	Finance is issued to those SMEs that have been in operation for more than five years	1	2	3	4	5
	Firm's size					
18.15	The bigger the size of the firm, the easier it is to get finance	1	2	3	4	5
18.16	Firm size does not matter as long as the SME qualifies to get finance	1	2	3	4	5
18.17	Finance is issued to those SMEs which are large sized firms	1	2	3	4	5
	Financial transparency					
18.18	Transparency and disclosure are important in access to finance	1	2	3	4	5
18.19	Using of IFRS or *IFRS for SMEs* to prepare financial statements increases the chances of acquiring finance	1	2	3	4	5
18.20	Audited financial records help makes access to finance easier	1	2	3	4	5
18.21	Transparency and disclosure do not matter as long as other requirements are met	1	2	3	4	5
	Collateral					
18.22	Collateral or guarantees are key to obtain credit	1	2	3	4	5
18.23	The value of collateral determines the value of the credit amount	1	2	3	4	5
18.24	No collateral means that no credit is granted	1	2	3	4	5
18.25	Collateral does not matter as long as other requirements are met	1	2	3	4	5

19. Factors to improve the access of finance by SMEs

This is the final research objective for this study. The existence of this research objective is mainly because there seems to be a gap in terms of knowledge of factors that affect the access of finance for SMEs. Therefore, the following factors are suggested to improve the access of finance amongst the SMEs. (Please tick as many as are applicable options).

Factors to improve access to finance.

An improvement in financial statement quality☐

A firm which has a longer trading history☐

A firm which has a longer trading history☐

The possession of collateral☐

A lower effective lending rate (i.e., borrowing rate) ☐

Other (Please specify)___________________________

Please add any comments you would like to make which you think are relevant to the access of finance:

……………………………………………………………………………………………………
……………………………………………………………………………………………………

……………………………………………………………………………………………………
……………………………………………………………………………………………………

What suggestions can you make which could help improve SMEs' access to finance.

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

Thank you very much for your time. Your responses are valued.

Appendix B: IREC letter of information and consent

LETTER OF INFORMATION

Title of the Research Study: The impact of financial statement quality and firm characteristics on the access to finance by small and medium-sized enterprises in eThekwini.

Principal Investigator/s/researcher: Qiniso Prince Mayendisa, BTech in Financial Information Systems

Co-Investigator/s/supervisor/s: Prof L J Stainbank D COM and Mrs Anchal Ramsarghey, M COM

Brief Introduction and Purpose of the Study:

SMEs play a significant role in the country's economy. However, certain factors may prevent the progress of these SMEs that will also affect the country's economy. Although, some of the owners of these SMEs may have innovative ideas of different operations that could be done, they may be facing challenges with regard to the access of finance from the financial institutions. These challenges can prevent these businesses from expanding and growing. It may even result in some of these businesses closing down. Researchers have indicated that certain factors or challenges may influence the access of finance by SMEs from financial institutions Therefore, SME business owners need to have a greater awareness of what needs to be done to improve their access to finance from financial institutions.

The purpose of this study is to investigate the impact of financial statement quality and firm characteristics on the access to finance by SMEs in eThekwini.

Outline of the Procedures: The questionnaires will be administered to all the targeted participants in their business environments. The targeted participants are the business finance managers, and supervisors of staff while other workers are excluded. A participant will be asked to volunteer and fill out the questionnaire by selecting his/her best option and give suggestions where requested. A follow-up will be made weekly after the questionnaire has been administered. The time required of each participant is about 10- 15 minutes to fill in the questionnaire. This study will make use of stratified random selection. Because this study is subdivided into different types of manufacturing sectors, utilizing a stratified sampling technique will ensure that all categories are included. The data for this study will first be captured on EXCEL and thereafter imported into the latest version of SPSS. Descriptive and inferential statistics will be used to analyse and interpret the data.

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

Benefits: Participant may have a better awareness of access to finance.

Reason/s why the Participant May Be Withdrawn from the Study: Should any participant be withdrawn or choose to be withdrawn from the study due to any reason, there will be no adverse consequences for the participant.

Remuneration: No remuneration will be provided to the participant which is why the participation is voluntary.

Costs of the Study: The costs of the study are covered by the research stakeholders.

Confidentiality: Data will not be shared with any third parties for confidentiality purposes. No names will be mentioned in the dissertation. Furthermore, the data will be stored on cloud/online storage. All data encrypted while being stored for 5 years and then securely destroyed.

Research-related Injury: There are no hazardous activities in this process.

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

Please contact the researcher (071 945 7974), my supervisor (Prof L J Stainbank lesleys@dut.ac.za 031 373 5836) or the Institutional Research Ethics Administrator on 031 373 2375. Complaints can be reported to the DVC: TIP, Prof F. Otieno on 031 373 2382 or dvctip@dut.ac.za.

CONSENT

Statement of Agreement to Participate in the Research Study:

☐ I hereby confirm that I have been informed by the researcher, Qiniso Prince Mayendisa 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.

Qiniso Prince Mayendisa ____ 30/11/2020 ____ 10pm ____ ____________________

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

I, herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Qiniso Prince Mayendisa ____ 30/11/2020 ____ ____________________

Full Name of Researcher **Date** **Signature**

____________________ ____________ ____________________

Full Name of Witness (If applicable) **Date** **Signature**

____________________ ____________ ____________________

Full Name of Legal Guardian (If applicable) **Date** **Signature**

Appendix C: Ethics approval

DUT
DURBAN UNIVERSITY OF TECHNOLOGY
INYUVESI YASETHEKWINI YEZOBUCHWEPHESHE

FACULTY OF ACCOUNTING & INFORMATICS

Faculty Research Office
Durban University of Technology
Date 30 April 2021

Student Qiniso Prince Mayendisa
Student Number: 20932719
Degree: MSc in Financial Accounting
Email: 20932719@dut4life.ac.za
Supervisor: Prof L.Stainbank
Supervisor email: lesleys@dut.ac.za

Dear Mr Mayendisa

ETHICAL APPROVAL: LEVEL 2

I am pleased to inform you that the Faculty Research Ethics Committee (FREC) following feedback from two reviewers, has granted preliminary permission for you to conduct your research 'The impact of financial statement quality and firm characteristics on the access to finance by small and medium-sized enterprises in EThekwini'

When ethics approval is granted:
You are required to present the letter at your research site(s) for permission to gather data. Please also note that your research instruments must be accompanied by the letter of information and the letter of consent for each participant, as per your research proposal.

This ethics clearance is valid from the date of provisional approval on this letter for one year. A student must apply for recertification 3 months before the date of this expiry.

Recertification is required every year until after corrections are made, after examination, and the thesis is submitted to the Faculty Registrar.

A summary of your key research findings must be submitted to the FRC on completion of your studies.

Kindest regards.

Yours sincerely

[redacted]

Dr Mogiveny Rajkoomar
FREC Chair
Faculty of Accounting and Informatics
Durban University of Technology
Ritson Campus
Durban, South Africa
4001

Appendix D: Email correspondence with DCCI

From: Lesley June Stainbank
Sent: Friday, April 23, 2021 9:26 AM
To: nagoory@durbanchamber.co.za
Cc: mayendisa08; [email addresses and names of second student and co-supervisor redacted]; Anchal Ramsarghey
Subject: Durban Chamber of Commerce SME data base

Dear Mr Nagoor,

My name is Lesley Stainbank. I am a professor at Durban University of Technology (DUT) responsible for supervising students for the Master of Accounting degree.

I have two students who would like to conduct research using SMEs in Durban as their population. At the most, each would need to email +/- 500 SMEs (which would be a sample of the entire population) with a link to an online questionnaire.

Their topics are:
QP Mayendisa - The impact of financial statement quality and firm characteristics on small and medium-sized businesses in eThekwini
[name and title of second student redacted]

DUT follows strict ethical protocols.

1. The participants are first invited to take part in the research. They are informed that their participation is voluntary and that they can withdraw at any stage from the process.
2. They are then asked to sign a letter of consent if they are agreeable. After this, a link will be sent to them directing them to an online questionnaire. There will be no physical contact between the student and the participant.
3. Anonymity and confidentiality are assured. No names are mentioned in the dissertation. There is no link between the signed letter of consent and the completed questionnaire.
4. All data is encrypted and destroyed securely.

I have cc-ed both the students and the co-supervisors to my email. Should you require to see their research proposals, they will be able to email them to you.

I can also make sure that there will be no duplications of the invitations to take part in the research. i.e. an SME will only be invited to partake in one of the surveys and not both.

If the directory is in a hardcopy format, I am happy to purchase it. I would just need your banking details and I can do an EFT. I would then arrange with one of the students for collection.

Please let me know if you require any more information.

I look forward to a favourable response from you.

Kind regards
Lesley Stainbank

From: Yolan Nagoor
Sent: Monday, May 3, 2021 10:45 AM
To: Lesley June Stainbank
Subject: RE: Durban Chamber of Commerce SME data base

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.
Good Morning Prof Lesley

Kindly note we do not sell or share our database due to the POPIA.

We can assist by circulating the survey link on their behalf.

Kind Regards,

DURBAN CHAMBER OF COMMERCE AND INDUSTRY NPC
EST 1856

Yolan Nagoor
Manager: Policy and Advocacy
Tel: 031 335 1000
| www.durbanchamber.co.za
101 Isaiah Ntshangase Road, Stamford Hill, Durban 4001

Members Code of Conduct | POPI Policy
Privacy Policy | Emailer Disclaimer

#InBusinessForABetterWorld

To: Durban Chamber of Commerce SME data base

Q Mayendisa (20932719) <20932719@dut4life.ac.za>

Fri 25/06/2021 01:16

To:

- selela@durbanchamber.co.za <selela@durbanchamber.co.za>

3 attachments (864 KB)

Survey to SMEs..docx; ethicsApprovalLetter_Mayendisa_20932719.pdf; QP Mayendisa Appendix B- Letter of information[19759].docx;

Dear Yolan,

I hope this email finds you well and safe.

Please assist by sharing this email with SME data base.

Thank you.

Kind regards,
Qiniso.

Appendix E: Turnitin results

Qiniso Prince Mayendisa Dissertation

ORIGINALITY REPORT

14%	11%	6%	6%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

eprints•bournemouth.ac.uk
Internet Source

1 docplayer.net
Internet Source

core.ac.uk
Internet Source

2 Submitted to University of KwaZulu-Natal
Student Paper

vital.seals.ac.za:8080
Internet Source

3 Ashiqur Rahman, M. Twyeafur Rahman, Jaroslav Belas. "Determinants of SME Finance: Evidence from Three Central European Countries", Review of Economic Perspectives, 2017
Publication