Journal of Contemporary Management
Volume 15: Special Edition: Fourth Industrial Revolution presented by UKZN

The determinants of start-up awareness to improve access to bank financing for start-up entrepreneurs

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Abstract

This study aims to empirically investigate the determinants of start-up awareness to improve access to bank financing by start-up entrepreneurs in Pietermaritzburg, the capital city of KwaZulu-Natal province in South Africa. Despite the availability of external finance, access to finance from banks has been identified as the main challenge to the establishment and growth of SME start-up in South Africa. Data is collected through self-administrated questionnaires from a random sample of 253 respondents. The results from the descriptive and inferential statistical analyses of the responses reveal that the determinants of start-up awareness factors such as conducting a feasibility study, finding a good location, knowing the amount of seed capital needed, selecting the source of seed capital, and developing a business strategy, a business plan and a business model are significant determinants of access to bank financing by start-up entrepreneurs. Thus, entrepreneurs need to understand the determinants of start-up awareness in order to improve their ability to access bank finance.

Key phrases

Start-up awareness and start-up entrepreneur

1. INTRODUCTION

Mmako, Shambare, Radipere and Dhliwayo (2017:5) state that any countries' economic development is attributed to the level of entrepreneurial activity in the country. Hence, entrepreneurs are the primary source of the well-being of communities and nations (Mariotti & Glackin 2014).

Van Aardt (2016) defines the entrepreneur as an individual who creates a new business by taking a risk. The entrepreneur faces a number of uncertainties such as the need to identify and exploit opportunities and to determine the relevant resources for attaining an economic profit. It is essential that start-up entrepreneurs pull together the scarce resources that fuel the successful running of a business (Chell 2013:10).

Although there are no clear definitions of start-ups, various criteria, for example the number of employees of a business and its annual sale or net profit help to differentiate between large and small start-up firms (Tariq 2013:3). Of the two main types of start-up, the first is concerned with an entrepreneur who converts ideas into commercial opportunities to create value (Leach & Melicher 2012). The second type includes start-up firms which are already operating but have yet to achieve the status of a developed - be it small - and functioning firm (Van Aardt 2016). Most South African start-up businesses do not grow and their failure rate of 75% is one of the highest in the world (Bisseker 2014; Wagner 2015). The aforementioned authors highlight, that start-up entrepreneurs in South Africa do often not advance from their early focus on mere existence and survival to reach the stage of take-off, success and growth to maturity. For start-up businesses to develop a competitive edge, they need to grow, not just beyond the survival stage but to keep on growing (Ayandibu & Houghton 2017).

Despite the importance of start-up businesses in national economies, Bongini, Ferrando, Rossi, and Rossolin (2017:2) found that start-up entrepreneurs are financially more constrained than large firm entrepreneurs and, in addition, less likely to have access to external finance. Mazanai and Fatokis' study (2012:58) indicates that, as compared to German, Italian and Spanish firms, South African Small and Medium Enterprises (SMEs) face particular difficulties in obtaining external finance. The constraint appears to have an especially severe effect in the case of start-up businesses because of their limited choice of financing institutions (Daskalakis, Jarvis & Schizas 2013).

It is against the above outlined background that the present study has chosen to investigate the relationship between the determinants of start-up awareness and access to bank finance by SMEs in South Africa. More specifically, the relationship between the start-up awareness of entrepreneurs and their access to bank financing for start-ups will be empirically explored, using descriptive and inferential statistical techniques to analyse survey data. In order to evaluate the link between the determinants of business success and access to external finance by SME start-ups, it is hypothesised that there is a positive relationship between start-up awareness and the choice of bank as a source of finance.

2. ACCESS TO BANK FINANCING

Sambajee and Dhomun (2015) argue that access to finance is a very important factor for the establishment and growth of a business and that such access is expanded by a variety of bank financial services that become available to the start-up firm, such as savings, insurance, credit, and payment facilities. Research conducted by Nkundabanyanga, Kasozi, Nalukenge and Tauringana (2014) ascertains that, although in general SMEs continue to borrow less often from commercial banks, these banks remain the most essential source of external finance for SME start-ups.

As the credit-risk profile of start-ups may be too high, banks can risk only a relatively small percentage of their depositors’ money in start-ups (Simpasa 2013:793, Ringim 2013:289). However, among the many important debt products provided by banks, are, for example, supplier credit, trade credit, overdrafts, loans, factoring and invoice discounting, leasing, asset finance, and equity finance. Domeher, Abdulai and Yeboah (2016) suggest that the issue is not so much that start-ups lack access to capital, but rather the stringent process of obtaining access to external funding. There is generally little awareness of what is involved in gaining equity funding and entrepreneurs are mostly under-prepared for the lengthy procedures. The application process tends to be bureaucratic and is slowed down by protocols and red tape as funders endeavour to gain the confidence and assurance needed to grant funding to entrepreneurs (Domeher *et al*. 2016).

Obtaining a business loan in South Africa involves a drawn-out application process as lenders have to supply extensive information and a range of supporting documents (Ahmad & Arif 2015). In addition, banks and other companies providing business finance are traditionally risk averse. They grant finance only to businesses which have an extremely low risk of not being able to repay the loan. Since most SMEs do not fall into the low-risk category, it is practically impossible to obtain finance (Smit & Watkins 2012).

Another reason for banks to be cautious is that many start-up entrepreneurs have difficulty to separate their personal finances from their business finances. Appropriate financial support remains a critical issue for these emerging entrepreneurs (Domeher *et al*. 2016). These negative aspects contribute to the banks' need to carefully assess loan applications, getting a clear picture of the risks involved and seeking ways to alleviate those risks (Benkraiem & Gurau 2013:150).

A summary of the main requirements for accessing finance from major commercial banks in South Africa, namely ABSA, Standard Bank, Nedbank and First National Bank (ABSA 2017; First National Bank 2017; Nedbank 2017; Standard Bank 2017) is presented in Table 1.

Table 1: Requirements for accessing business finance

Requirement	Description
Black owned business	The applicant must be a previously disadvantaged individual (PDI) and the business must be 100% black owned. The applicant must be a South African citizen or permanently residing in South Africa.
Start-up business	The business must be a small to medium-sized enterprise (SME) as defined by the Department of Trade and Industry (DTI).
Management skills	The owner-manager must have the skills and/or expertise relevant to the business and/or the industry or sector.
Financial statements	The business must show profitability through historical financials or a realistic cash flow forecast.
Business plan	The business plan is an opportunity to lay out financial goals, sales, profits, income, cash flow, etc., and qualitative business goals. A business plan has to demonstrate the viability and sustainability of the business.
Credit history	The credit history reassures lenders that the business' owners are responsibly managing their personal finances. If the personal credit score shows that the business owner is a trustworthy borrower, the odds are he will be a trustworthy borrower as a business owner too.
Statement of assets and liabilities	Statement of assets and liabilities of all members/directors/owners of the business.
Collateral information	Details of collateral held by existing bankers.

Source: Researchers' compilation

The above Table 1 confirms that obtaining a business loan in South Africa is not a simple process. The Table is also an indication that the banks are geared towards risk avoidance and grant finance only to businesses that pose an extremely low risk of defaulting.

3. RESOURCE-BASED THEORY

This research study relies on the resource-based theory (RBT) whereby the firm functions as a basis for identifying the specific determinants of a start-up awareness that are likely to improve the access to bank financing of start-up entrepreneurs. The RBT suggests that exploited assets which are valuable, rare, and imperfectly imitable, will lead to the sustainable competitive advantage that a firm needs to earn above-normal returns in the long term (Norhasni, Sofri & Harashid 2014; Yu 2016).

The RBT traditionally focused on the relationship between resources and competitive advantage (Chiu 2015). Resources that are valuable, relatively scarce and difficult to imitate, are described as strategic assets that can deliver competitive advantage (Gillis, Combs & Ketchen 2014). Having strategic assets at ones' disposal is, however, on its own not sufficient (Acar & Polin 2015), because resources have to be actively assembled, organised, and deployed in order to create valuable products and services. The RBT has thus organisational implications, since different ways of organising resources affect the ability of managers to leverage different strategic assets (Gillis *et al*. 2014).

Rashidirad, Soltani and Salimian (2015) state that resources and capabilities are important for understanding the sources of sustained competitive advantage of firms. The authors define resources and capabilities as bundles of tangible and intangible assets, including a firms' management skills, its organisational processes and routines, and information that help in the choice and implementation of strategies (Hongzhi, Tate, Hongxia, Shijiao & Bing 2018).

Uhm, Sung and Park (2018) suggest that SME start-ups may be considered as a special case of RBT because a SME start-up has a limited, if any, stock of resources, other than the knowledge of the entrepreneur(s) involved. This knowledge is used in the acquisition, development, and application of other resources that may lead to a competitive advantage and to a superior performance (Louw & Venter 2013). In other words, the critical task of the entrepreneur is to determine the flow of resources that will create 'costly-to-duplicate' stocks of resources (Louw & Venter 2013). On the basis of his or her successful performance of this task, the entrepreneur predicts the expected returns from the start-up business. These returns are, similarly, by potential external finance providers assessed according to their perceptions of the entrepreneurs' ability to develop unique resources that can be applied to a particular market or markets (Liao & Duy 2017).

Tabares, Alvarez and Urbano (2015) argue that knowledge is the foundation for the rent-earning potential of all resources and that knowledge is created by individuals. They reason that, for the purpose of building a competitive advantage, 'tacit knowledge' (knowing how which can be applied to a particular situation and is difficult to exchange, is more useful than 'explicit knowledge' (facts or theories) that can be readily exchanged (Tabares *et al*. 2015).

The early development of RBT focused on establishing theoretical and empirical relationships between the presence of resources and the creation of sustained competitive advantage. Barney, Ketchen and Write (2011) suggest, attention has turned to the issue of where resources come from. Wernerfelt (2013), considering the processes through which a firm can acquire resources, remarks that a firms' current stock of resources creates asymmetries in the competition for new resources.

Wernerfelt (2013) has developed two simple models to illustrate how this asymmetry occurs as a result of linkages on the demand and/or cost side. The normative implication is that firms should expand their resource portfolios by building on their existing resources. Different firms then will acquire different new resources and small initial heterogeneities will amplify over time (Liao & Duy 2017).

The implications of RBT for strategic management are unclear because of the apparent gap between what the strategic management literature suggests and what actually happens. Little effort has been made to develop the practical implication of this theory (Acar & Polin 2015). Contrary to the traditional view, the RBT emphasizes the "heterogeneity of firms" or the "idiosyncratic firm attributes" (Tabares *et al*. 2015).

Hitt, Carnes and Xu (2016) applicably identified two assumptions implicit in the traditional school of strategic management that are in conflict with contemporary RBT:

- all firms within an industry are identical in terms of the resources they control and the strategies they pursue; and
- should resource heterogeneity arise in an industry, it will be short-lived, due to the accessibility and mobility of resources.

Because of its more robust explanations of differential performance, the RBT has largely supplanted the traditional strategic management school in the scholarly management literature (Hitt *et al*. 2016). Despite the broad agreement on the acceptability of the term RBT, there seems to a great deal of disagreement on what the *R* portion of the RBT actually entails. In addition to its infatuation with the term “resources”, the contemporary literature is also rife with references to “assets”, “competencies” and “capabilities” (Tabares *et al*. 2015). In some cases, these terms are used interchangeably; in others, hierarchically; while in still others, they are entirely independently of one another.

As a case in point, intangible resources include items such as intellectual property and employee know-how, which fall into two categories: company-based and people-based (Liao & Duy 2017). Sustainable competitive advantage is not achieved through resource differentials, but rather through capability differentials, themselves enabled by the resources (Uhm *et al*. 2018).

In applying the resource-based theoretical foundation to the current study, the key determinants of the success of SME start-ups that influence their ability to access external finance, are considered as key resources and capabilities that entrepreneurs should develop in order to establish a sustainable business competitive advantage.

4. DETERMINANTS OF START-UP AWARENESS

Tariq (2013) states that the inability of entrepreneurs to meet the banks’ requirements remains one of the principal challenges a start-up entrepreneur experiences when applying for bank financing. These requirements include business plans, management systems and other liability issues linked to business risks. According to Ahmad and Cuenca (2013), the determinants of start-up awareness - also called key success factors (KSFs) or key result areas (KRAs) - have to be taken into account by the entrepreneur in order to ensure the success of a business. The determinants characterise, condition, and determine variables that have a direct and serious impact on the effectiveness, efficiency and viability of an organisation, programme or project (Skrinjar & Trkman 2013:50). The entrepreneur should carefully consider the determinants of start-up awareness to achieve an intended goal and overall objectives. If these determinants are identified in relation to a general population of entrepreneurs and then applied to start-up businesses, it is highly probable that the business failure rate will be considerably reduced and that a good level of organisational performance will be achieved (Ahmad & Cuenca 2013).

4.1 Awareness of the business opportunity

Awareness of business opportunity is a starting point and is defined by Van Aardt (2016) as a set of exploitable circumstances necessitating the involvement of commitment and resources with unknown risky result. The business is likely to fail if there is a lack of opportunity since a good idea is in itself not enough to make profit in an existing market (Chell 2013:11).

4.2 Market research

After defining the opportunity, the start-up entrepreneur needs to determine how the business can gain a competitive advantage in the market. Mariotti and Glackin (2014:144) claim that a new firm which is no market leader should make the effort of doing market research in order to be able to advance. Katz and Green (2014) propose that a new business will gain market competitive advantage by applying three strategies, dealing with cost leadership, niche markets and differentiation. SMEs are unlikely to become market leaders by applying cost leadership alone, but they may gain market share through differentiation or by targeting niche markets (Mariotti & Glackin 2014:144. Van Aardt 2016).

4.3 Business model

According to Blackburn, Hart and Wainwright (2013), the reason for a business model is to define how the business delivers value to customers, lures customers to pay for value and from these payments profits will be made. Basically, a business model reflects organisational and financial planning of a business. The minimum standard requirement that the business model has to meet is to reflect its competency by projecting the cash flow and profit for a certain period. The entrepreneur will consider drawing a business plan given the context of the industrial sector in which the company will trade (Blackburn *et al.* 2013). For a start-up business, the business model will reflect a tentative thought on how the company will deliver "what value", "to whom". For an established company, the business model will be changed to become more competitive, and when it is necessary to change the business model profoundly, it will be called business model innovation, in which the consequences of such innovation will be reflected (Philipson 2016).

4.4 Business strategy

According to Ghezzi (2013:1327), the assumption that "strategy is conceived as think out in advance, is valid only in some cases, in which the business model is a complex system that has been conceived in advance." The fundamental question is how a start-up entrepreneur does build a sustainable competitive advantage and make abnormal profit? Because of ease of imitation of products and services, developing a successful business model is not enough. Wu, Gao and Gu (2015) suggest that the start-up entrepreneur should outperform his/her rivals by establishing a difference that his firm can maintain. Competitors are only able to profit from imitating, if they can match the entire activities system (Wu *et al*. 2015).

Philipson (2016:2) differentiates between business model and business strategy as follows. A business model creates value for customers. The model is developed around that value and the emphasis is on capturing the created value whereas emphasizing the value captured and its sustainability belongs more in the realm of strategy. Therefore, a business strategy requires more analyses, calculations and choices that provide reliable information to the entrepreneur (Philipson 2016:2). Additionally, Abraham (2013:31) opines that, while the business model determines who the firms' customers are and how to make a profit by providing value, the business strategy looks at how the firm can beat its competitors through differentiation.

4.5 Business plan

According to Jones and Penaluna (2013:805), a business plan is a tool that serves to identify and analyse uncertainty in the process of investment, and through which the start-up entrepreneur determines both internal and external benefits. Van Aardt (2016) states that, from an external point of view, a business plan is a synopsis of the potential business and the blueprint to exploit it. The business plan is provided to potential investors. From the internal point of view, the business plan is a roadmap to be followed. In combination these two perspectives, internal and external, highlight why a start-up entrepreneur should write and analyse a business plan before starting a business (Jones & Penaluna 2013:805).

Schiraldi and Silva (2012:7) point out that a business plan is a compulsory requirement when applying for loans or to attract co-investors. It is, however, at the same time, an important instrument for internal management. In writing a business plan, the start-up entrepreneur has to clearly indicate the firms' mission, goals, objectives, strategies, core competencies, the action plan that links resources and core competencies, feedback and monitoring systems (Schiraldi & Silva 2012:7).

4.6 Amount and source of seed capital

After establishing the plan and strategy of the start-up business, the entrepreneur has to decide on the source of seed capital and the amount required which are crucial issues for the start-up of any business. The incorrect choice of a source of seed capital may lead to the inability to raise finance and, consequently, business start-up failure (Mmako *et al*. 2017).

4.7 Location

Saunders, Gray and Goregaokar (2014) note that market potential and growth opportunities are also influenced by the location of a new business. A business that operates in the proximity of potential buyers and/or suppliers, has, by virtue of its geographical locality, created an enabling environment and is ready to exploit the growth opportunities in the local market (Freeman & Styles 2014:182).

4.8 Summary

The basic ideology behind is to logically integrate all the relevant aspects of a concept to arrive at a process that can provide the best possible explanation of the problem stated (Kumar & Rao 2016). Uyar and Guzelyurt (2015) suggested that the lack of finance is one of the major issues influencing the establishment and development of SME start-ups in South Africa. Thus, this indicates the presence of a significant gap between the existing bank financing option and start-up entrepreneurs.

The above scenarios justify the need for identifying the determinants of start-up awareness for start-up entrepreneurs to access bank financing, which relationship must be built on a combination of the determinants of an entrepreneurs' business awareness with bank requirements that lead to an improved access to bank financing. Therefore, to evaluate the relationship between the key determinants of start-up awareness and access to bank financing by start-up entrepreneurs, it is hypothesised that there is a positive relationship between the determinants of start-up awareness and the bank financing.

Start-up awareness as key determinants of the success of start-ups are related to external issues, which the start-up entrepreneur cannot control, but in the context of which he needs to make choices and decisions. Although they relate to external issues, they are still dependent on the entrepreneur making the correct decisions. Through this literature review, the key determinants of the success of SME start-ups are identified and analysed with objective of developing a Financing Framework, which when implemented by SME start-up owner-managers, could positively improve their access to external finance.

5. METHODOLOGY

According to Olsen (2012:3) research methodology is a systematic manner to solve the research problem. It is a science that studies how research is done scientifically. In it the researcher will study different steps adopted to logically solve research problems. It is necessary for the researcher to know the methodology as well as to know methods and techniques of the research project. There are three main research approaches which can be used by the researcher: quantitative, qualitative and mixed methods research approaches (Babin & Zikmund 2015). Quantitative approach creates data in a quantitative form that can be subject to rigorous quantitative and rigid analyses. Qualitative approach involves the using of a qualitative variety of data collection techniques and analytical procedures to develop a conceptual framework. Mixed methods research represents research that involves collecting, analysing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon (Cameron 2015).

The objective of the present research is to examine the relationship between the determinants of start-up awareness and access to bank financing. A quantitative research design has been adopted, since the research has been systematically conducted in such a way that the determinants of start-up awareness are described and tested in the context of the resource-based theory. Also, the influence of these determinants on bank financing accessibility in South Africa has been measured. The influence of the determinants of start-up awareness on bank financing access by start-up entrepreneurs was measured for a period of one year. Respondents were requested to evaluate the short term impact of the bank financing on their businesses. A specifically developed questionnaire was used to survey a sample of 253 SME start-ups in Pietermaritzburg over a two-month period.

The targeted population of this study has been identified from business owners and of different Start-ups located in Pietermaritzburg. The list of businesses that formed the population of SME start-ups in the empirical study has been drawn from within the members of Pietermaritzburg Chamber of Business (PCB). The PCB is a registered Non-profit Organisation affiliated to the South African Chamber of Commerce and Industry (SACCI). Through this chamber, the PCB is associated to the International Chamber of Commerce (ICC) and the World Chambers Federation (WCF). The PCB is made of 832 companies and is known as the fourth largest chamber of commerce in South Africa (PCB 2017). This universum of 832 SMME members specifically within Pietermaritzburg areas is large enough to provide useful information that can be statistically analysed. From the universum of 832, the government companies, non-government organisations, schools and honorary members of PCB have been excluded for they do not fall into the objectives of this research. That brings the population to 678.

A random sample technique has been used to select the sample within the PCB database that includes 678 businesses. The survey sample covered the number of Start-up businesses calculated at a 95 percent level of certainty at a confidence level of 5 percent. The sample size is equivalent to 252. The questionnaire has been finalised and e-mailed to the random sample selected from the Pietermaritzburg Chamber of Business, Start-up population. The following formula details the sampling calculation.

Sampling size formula: $n = N/ [1+ (N (e)^2)]$

N = population; e = precision = 5%; Confidence level = 95%; $P = 5$

	Database	Large	N	e = 0.05	n
PCB	832	154	678	0.05	252

Pre-testing of questions has been done to ascertain that the respondents understood the questionnaire and furnished the right responses. Pretesting ensured relevance, effectiveness and clarity of the questionnaire. Data collection has been informed by self-completion surveys. The researcher used structured questionnaires comprising of a predetermined set of questions designed to capture respondent data. Primary data have been collected from Start-up entrepreneurs located in the Pietermaritzburg areas of the KwaZulu-Natal Province. The data collection procedure was completed by faxing and e-mailing questionnaires to the different firms randomly selected for study purposes. Those without access to faxes and the Internet have been given the questionnaires physically by the researcher.

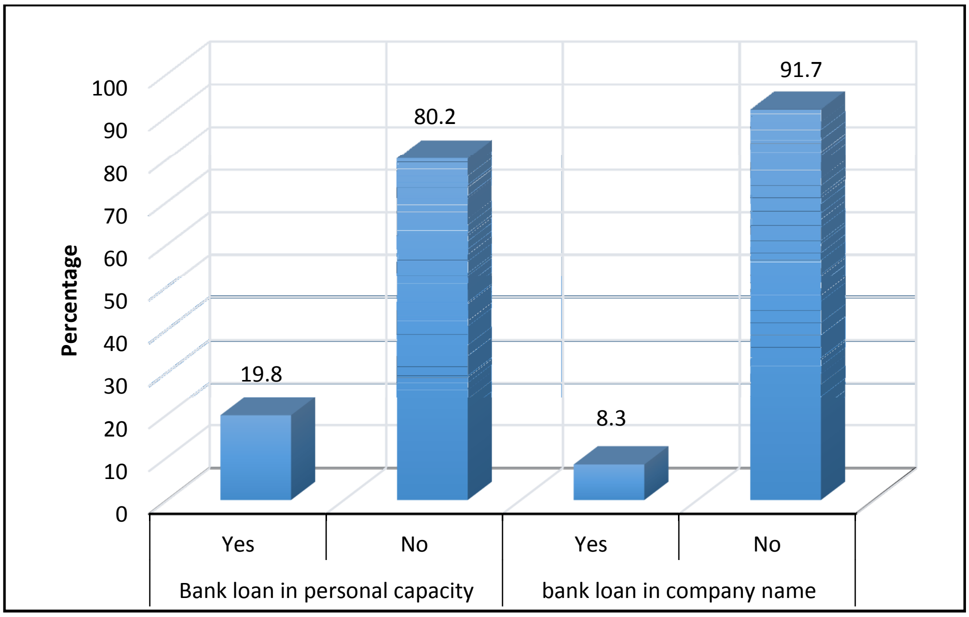
The Statistical Package for the Social Sciences (SPSS) version 24 was used to analyse the coded responses to the various questions The primary data has then been used to apply appropriate statistical techniques such as descriptive and inferential statistical analyses in order to address the research problem and measure the influence of the determinants of start-up awareness on bank financing for start-up entrepreneurs. While descriptive statistics facilitated initial data analysis, inferential statistics allowed the researcher to draw extrapolations about the population, from the sample. Inferential statistics include inter-alia, correlations, Chi-Square tests, ANOVA, regressions. Correlation analysis was used to assess the relationship between the variables. ANOVA analysed the variations (differences) within and between groups of data by comparing their means; these differences are represented by the F ratio. If the means are significantly different between the groups, this difference will be represented by a large F ratio, with a probability of less than 0.05. Data analysis was also performed using the structural equation modelling (SEM), which is a popular statistical technique to test theory in several fields of knowledge

The findings have been consequently summarised and discussed. In the final instance, recommendations have been made where possible, caveats have been pointed out and suggestions for further research have been made. Secondary data collection involved a systematic review of the appropriate information from journal articles, textbooks, e-books, databases, policy documents, newspaper and magazine reports, publications from government and non-governmental organisations and other relevant sources. Secondary data was helpful as it provided the necessary background and guidelines to the research.

6. RESULTS AND DISCUSSION

The study included one group of respondents, consisting of 253 SME Start-ups located in Pietermaritzburg. Only 28.1% of the respondents accessed finance from banks, either in their personal capacity or in the names of their company names. This finding indicates that financing from banks is potentially a major source of funds for start-up entrepreneurs, but that its access is a serious challenge. The results are consistent with the findings of Smit and Watkins (2012) and Domeher *et al*. (2016), who identify access to bank financing as highly problematic in the case of start-up firms in South Africa.

Figure 1: Bank financing to SME start-ups



Source: Researchers' compilation

Figure 1 shows that bank loan in the start-up entrepreneurs' personal capacity was utilised for those respondents who, in most cases, simply stated bank as their source of financing. A significant number of respondents 80.2% did not receive finance from bank in their personal capacity to start their businesses; only 19.8% did.

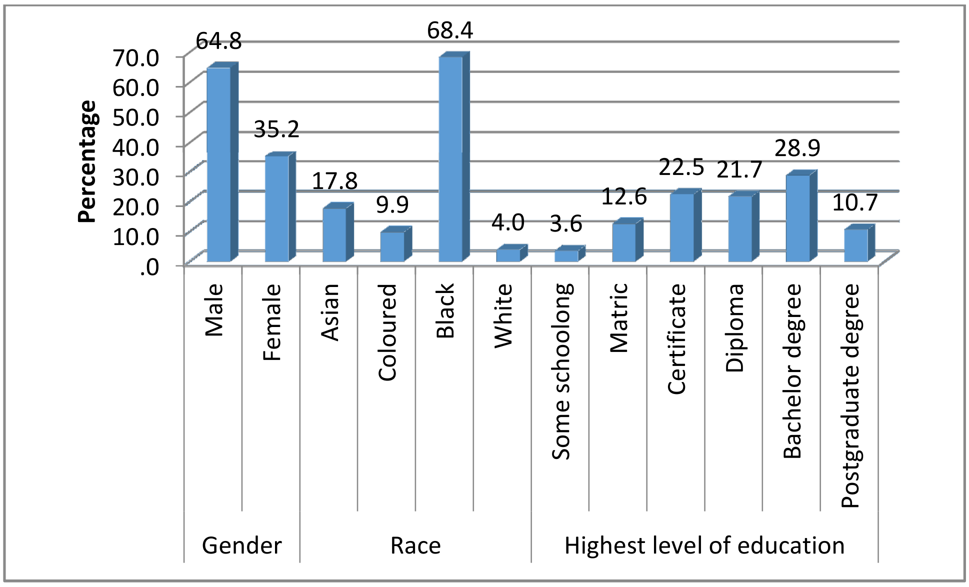
Figure 1 also shows that bank loan in the start-up entrepreneurs' company names was utilised for those respondents who, in most cases, simply stated loan from a bank in their start-up company name as their source of financing. A significant number of respondents

91.7% did not receive finance from bank in their company names to start their businesses; only 8.3% did.

6.1 Demographic and Characteristics of Business

The demographic characteristics of start-up entrepreneurs in Pietermaritzburg were ascertained to establish the current profile of the respondents as well as to correlate certain findings with specific demographic characteristics of start-up entrepreneurs in order to determine whether any trends exist. Figure 2 shows that the vast majority (64.8%) of respondents were male, implying that the level of female involvement in entrepreneurial activity seems to be significantly lower than men.

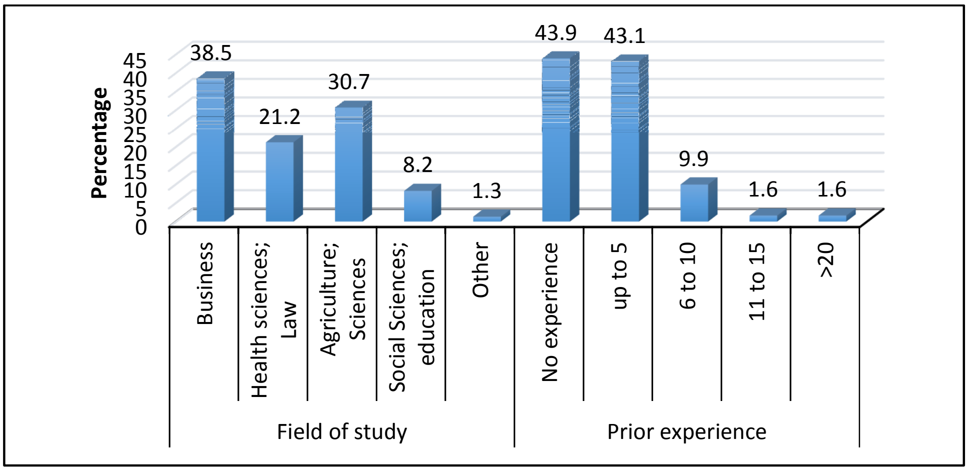
Figure 2: Gender, Race and Education level



Source: Researchers' compilation

As reflected in Figure 2, the majority of respondents (68.4%) were black, followed by Asian then Coloured and White. The present indication is proportionate to the South African population, which is predominated black. Also, as explained in Table 1, in the literature, the Blacks were given priority if they applied for bank financing. It is evident from Figure 2 that 10.7% of respondents had a postgraduate degree, 28.9% Bachelor degree, 21.7% diploma, 22.5% certificate and 12.6% matric. Figure 3 shows that the majority (61.5%) of the respondents had not studied business or human resource management.

Figure 3: Field of study and years of experience



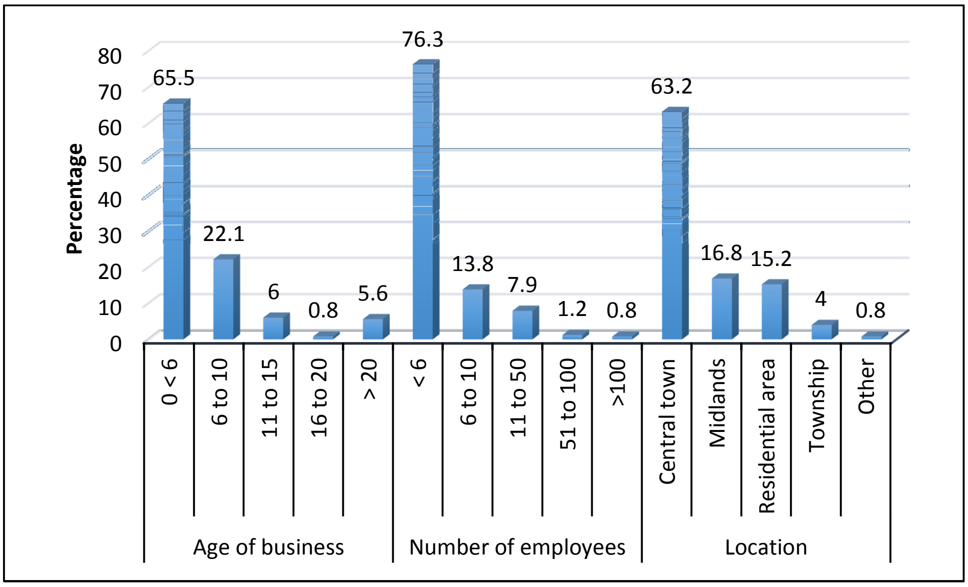
Source: Researchers' compilation

Therefore, it is suggested that entrepreneurship training should upgrade their skill levels, bringing the business productivity-related efficiency gains

Figure 3 reveals that 56.1% of respondents had prior business experience before starting their own businesses. This information is important since prior management experience may impact the success of a business in obtaining bank financing.

These findings are supported by the research conducted by Poposka, Nanevski and Mihajlovska (2014) who stated that the lack of prior business experience is one of the challenges faced by start-up entrepreneurs in obtaining funds. See Figure 4 for details on age of business, employees and location.

Figure 4: Age of business, number of employees and location of the business



Source: Researchers' compilation

Figure 4 indicates that 76.3% of all the SME start-ups surveyed were very small businesses, employing less than 6 people, and the remaining (21.7%) were small businesses employing 6 to 50 workers, and a minority (2%) were medium-sized businesses, employing 50 to 200 workers. The results show that 99.2% of respondents' businesses could be defined as start-ups. The study conducted by Xiang and Worthington (2015) highlights the relationship between access to finance by enterprises and characteristics, such as age, size and propriety structure, and they found that young small businesses face greater obstacles when they seek bank financing.

Figure 4 shows as well the locations of different SME start-ups that were surveyed in Pietermaritzburg as location is a determinant of business awareness. The majority of respondents' businesses 63.2% are located in central town, followed by 16.8% of respondents' businesses located in Midlands areas, 15.2% are located in the residential areas of Pietermaritzburg and 4% of businesses are located in the Pietermaritzburg townships. Two businesses (0.8%) that were surveyed did not specify the location of their businesses. See Table 2 and 3 for more detail.

Table 2: Age of business and loan from a bank

			Loan from a bank in my start-up company name		Total
			Yes	No	
Age of Business	0-5	Count	11	152	163
		Expected Count	13.7	149.3	163.0
		% within 8 Age of Business:	6.7%	93.3%	100.0%
		Std. Residual	-.7	.2	
	6-10	Count	3	52	55
		Expected Count	4.6	50.4	55.0
		% within 8 Age of Business:	5.5%	94.5%	100.0%
		Std. Residual	-.8	.2	
	11-15	Count	4	11	15
		Expected Count	1.3	13.7	15.0
		% within 8 Age of Business:	26.7%	73.3%	100.0%
		Std. Residual	2.4	-.7	
	16-20	Count	0	2	2
		Expected Count	.2	1.8	2.0
		% within 8 Age of Business:	.0%	100.0%	100.0%
		Std. Residual	-.4	.1	
	>20	Count	3	11	14
		Expected Count	1.2	12.8	14.0
		% within 8 Age of Business:	21.4%	78.6%	100.0%
		Std. Residual	1.7	-.5	
Total		Count	21	228	249
		Expected Count	21.0	228.0	249.0
		% within 8 Age of Business:	8.4%	91.6%	100.0%

Source: Researchers' compilation

Table 3: Chi-square - Age of business versus Loan from a bank

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	10.934[a]	4	.027	.032		
Likelihood Ratio	8.259	4	.083	.064		

Fishers' Exact Test	9.557			.037		
Linear-by-Linear Association	5.365[b]	1	.021	.022	.022	.008
N of Valid Cases	249					

Source: Researchers' compilation

Tables 2 and 3 show that there is a significant relationship between age of business and success in having obtained a Loan from a bank in the entrepreneurs' personal capacity. A significant number of respondents whose businesses were in existence between 11 to 15 years successfully accessed funds from the banks to develop their businesses (Fishers' exact = 9.557, p=.037).The

6.2 Influence of start-up awareness (SUA) on access to bank financing

As shown in Tables 4 and 5, the influence of the determinants of start-up awareness on bank financing is analysed by the statistical tests, such as ANOVA and Robust Test of equality of means. These tests helped the researcher determine if start-up entrepreneurs that achieve these determinants have greater success in raising bank financing. It has been tested whether agreement scores for determinants of start-up awareness are significantly different for those who do get bank funding. The result as shown in Table 4 and 5 ascertained that there is a significant difference in the level of agreement that start-up awareness was applied for those who received full or partial funding from banks.

Table 4: ANOVA output

	Df	F	p-value
Feasibility study	2, 82	6.875	.002
Location	2, 83	3.419	.037
Amount of seed capital	2, 83	4.458	.014

Source: Researchers' compilation

The results presented in Table 4 show that:

- There is a significant difference in the level of agreement among the respondents that a feasibility study was done for those who received full or partial funding or no funding from banks (F (2, 82) = 6.875, p=.002). Specifically, agreement was greater for those who received full funding compared to those who received no funding.
- There is a significant difference in the level of agreement that a good choice of 'Location' was done for those who received full or partial funding or no funding from banks (F (2, 83) = 3.419, p=.037). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding.
- There is a significant difference in the level of agreement that an 'Amount of seed capital' was done for those who received full or partial funding or no funding from banks (F (2, 83) = 4.458, p=.014). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding.

Table 5: Robust test of equality of means - Welch output

	Df	Welch	p-value
Business model	2, 29.046	8.943	.001
Business strategy	2, 30.303	15.516	.000
Business plan	2, 27.614	4.957	.014
Source of seed capital	2, 21.889	13.446	.000

Source: Researchers' compilation

The results as shown in Table 5.24 reflect that:

- There is a significant difference in the level of agreement that a business model was done for those who received full or partial funding or no funding from banks (Welch (2, 29.046) = 8.943, p=.001). Specifically, agreement was greater for those who received full funding or partial funding compared to those who received no funding
- There is a significant difference in the level of agreement that a 'Business strategy' was done for those who received full or partial funding or no funding from banks (Welch (2, 30.303) = 15.516, p=.000). Specifically, agreement was greater for those who received

full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding

- There is a significant difference in the level of agreement that a ‘Business plan’ was done for those who received full or partial funding or no funding from banks (Welch (2, 27.614) = 4.957, p=.014). Specifically, agreement was greater for those who received full funding compared to those who received no funding; in addition, those who received partial funding agreed more than those who received full or no funding
- There is a significant difference in the level of agreement that a ‘Source of seed capital’ was done for those who received full or partial funding or no funding from banks (Welch (2, 21.889) = 13.446, p=.000). Specifically, agreement was greater for those who received full funding compared to those who received no funding; also, those who received partial funding agreed more than those who received full or no funding

The findings reported in Tables 4 and 5 indicate that certain determinants of start-up awareness, namely feasibility study, good business location, knowing the amount of seed capital needed for business, business strategy, business plan, business model and source of seed capital, are significant determinants of access to finance from banks by start-up entrepreneurs. The results are supported by previous studies of Katz and Green (2014); Blackburn *et al*. (2013) and Glackin (2014:144), which found that prior market research and related factors have a significant and positive impact on the accessibility to different types of bank funding by start-up entrepreneurs.

The perceived meaningfulness of the relationship between start-up awareness (SUA) and access to bank finance (BF) is shown in Table 6 below.

Table 6: Relationship between SUA and BF

Proposed relationship	Path coefficients	T-Statistics	P-values	Rejected/ supported
SUA → BF	0.145	1.167	0.246	Supported but insignificant

Source: Researchers’ compilation

Table 6 shows that start-up awareness has a relatively weak influence and an insignificant effect on the desire of entrepreneurs to choose the banks as a source of finance (β= 0.145;

t=1.167; p-value = 0.246). This finding means that the determinants of start-up awareness in South Africa can possibly explain about 14.5% of entrepreneurs' considered choice of the banks as a source of finance. The result is supported by Uhm *et al*. (2018); Louw and Venter (2013); and Liao and Duy (2017) who found that the determinants of start-up awareness that form part of intangible resources of the firm do, to a significantly degree, impact positively on the accessibility to different types of bank funding to SME start-ups.

6. CONCLUSION AND MANAGERIAL IMPLICATIONS

The purpose of this study is to assess, based on a literature review and through an empirical investigation, the start-up entrepreneurs' access to bank financing in South Africa. The results indicate that feasibility study, good business location, knowing the amount of seed capital needed for business, business strategy, business plan, business model and the source of seed capital are important determinants of start-up awareness to improve access to bank financing by start-up entrepreneurs. In the light of these findings, the study recommends that the entrepreneur should exhibit opportunity awareness as, without opportunity, there is no sustainable business potential. In efforts to gain competitive advantage, the feasibility determinants for the business concerned must have been well defined, the business model formulated and the strategy clearly determined. A business plan pulling these determinants together must have been completed in order to understand, among other things, the amount of seed capital required as a critical resource, and where to source it. The favourable geographic location for the business also needs to be selected during this process.

A further recommendation is for start-up entrepreneurs in South Africa to engage in entrepreneurship training programmes, such as a business coaching programme. The programme should include business administration training as well as various other organisational behavioural strategies concerning, for example, human resources, contingency leadership and strategic management. Such one-to-one programmes are presented according to the individuals' own schedule, speed and time scale. It entails working with an experienced coach who has a high level of understanding of business and commerce operating systems.

This type of leadership coaching could, by and large, prove to be of considerable advantage to South African start-up entrepreneurs increasing their skills and capabilities. The findings of this research study present the basics of the relationship between banks and entrepreneurs. Banks should develop balanced relationships with start-up businesses and increase the availability of finance to SMEs. Banks have to be able to assess start-up financing applications on the basis of the determinants of start-up awareness exhibited by start-up entrepreneurs.

The study focuses on bank financing. Other sources of start-up finance such as government grants, personal savings and private equity may also be considered. Moreover, the sample used for the present study represents the start-up businesses located in Pietermaritzburg. This population is not representative for South Africa. Consequently, the primary research findings from the study cannot be accurately extrapolated for the general start-up population of South Africa. Further research is needed to extend the sample size and evaluate the contribution of the determinants of start-up awareness to the financing of start-up entrepreneurs in other regions.

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